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A New Issue Brief from The Century Foundation Shows How Privatization Would Sting Young Adults

Advocates of Social Security privatization are selling the idea of private accounts to young people as the best way to secure their future retirement. However, a new issue brief from The Century Foundation points out that proposals being floated would, in fact, be a bad deal for young workers—leaving them with lower guaranteed benefits and trillions of dollars of federal debt.

According to **'False Promise: How Social Security Privatization Would Sting Young Adults,'** under the plan outlined in President Bush's State of the Union address, sustaining promised benefits for those age fifty-five and over would require the government to borrow nearly \$5 trillion over twenty years. By 2036, the additional federal debt arising from a similar privatization plan put forward by the President's Commission to Strengthen Social Security would amount to a financial burden equal to \$32,000 for every man, woman, and child.

The brief also shows that young people would be further burdened by deep benefit cuts. If privatization proposals were adopted, young people would lose in three significant ways:

- **Reduction of Benefits**—The Commission's privatization proposal would, over the next 47 years, reduce benefit levels by as much as 44 percent below current Social Security benefits, and 28 percent lower than the benefits that would be provided even after the trust funds become depleted.
- **A Change in How Benefits Are Calculated**—The reduction in benefits is tied to a Commission proposal to change the way that Social Security benefits are calculated. This plan would end the policy of linking Social Security benefits to wage growth, a practice that has been in effect since the 1970s. Instead, starting benefits would be tied to the inflation of prices (a practice known as 'price indexing'). The result of the change, if it had been in effect in the past, would be to pay today's retirees according to the economy that existed at the end of the Eisenhower administration.
- **Performance and Administrative Costs of Private Accounts**—Returns on private accounts are not likely to be as high as some privatization advocates predict. Some will do better than the averages quoted and some worse. No matter how the stocks perform, workers who elect to create investment accounts would receive even deeper cuts in their guaranteed benefits in order to pay back the money borrowed to finance the account. Furthermore, administrative costs for private accounts could be steep—varying from 5 percent to 30 percent, depending on the number of services offered, asset choice, and size of the plan.

While polls have show that young people like the idea of private accounts, they rethink their preference when these accounts are put into context. The brief quotes a recent poll that showed that support for private accounts among young adults dropped from 67 percent to 45 percent when they were told that such accounts could add \$2 trillion to the federal debt.

'False Promise: How Social Security Privatization Would Sting Young Adults' was prepared by Libby Perl, a program officer at The Century Foundation. It is the latest publication from The Century Foundation's Social Security project. The project is designed to inform the debate over Social Security reform by providing straightforward and accurate information, research, and analysis to legislators, journalists, and the general public. This brief and other informative publications on this subject can be found online at The Century Foundation's Social Security Network, www.socsec.org, or the foundation's main site, www.tcf.org. For more information, contact Christy Hicks at hicks@tcf.org or (212) 452-7723.

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