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## **Privatization Targets the Heart of the Middle-Class People Who Rely on Social Security for More Than Half Their Retirement Resources Would Suffer Huge Benefit Cuts**

President Bush is pressing Congress to enact a privatization plan which would create private accounts and impose huge cuts in Social Security benefits on middle-class Americans. While the President has said his privatization plan would “protect those who depend on Social Security,” nothing could be further from the truth. For Americans in the very middle of the middle-class, Social Security makes up over half their retirement resources. The President’s plan to create private accounts and enact so-called “progressive price-indexing” would result in significant cuts in Social Security benefits for middle-class Americans who rely heavily on Social Security.

### **Middle-Class Americans Depend on Social Security**

Social Security represents over half the retirement resources of middle-class Americans who are nearing retirement. These are people at the heart of the middle class – households in the median 10 percent of all households ranked by wealth. Social Security makes up slightly more than 50 percent of their resources; employer-sponsored pension benefits make up about one-quarter; and financial wealth, including savings accounts and investments, make up the other quarter.

Distribution of Retirement Resources

Position in Distribution	Social Security	Pensions	Financial Wealth	Total*
Bottom 10%	94%	3%	3%	100%
Median 10%	50%	26%	25%	100%
Top 10%	10%	25%	65%	100%

Source: James F. Moore and Olivia S. Mitchell, *Projected Wealth and Savings Adequacy in the Health and Retirement Study*, National Bureau of Economic Research Working Paper 6240. Cambridge, MA: October 1997, p. 34; Olivia Mitchell, P. Brett Hammond, and Anna M Rappaport, eds., *Forecasting Retirement Needs and Retirement Wealth*, Philadelphia: University of Pennsylvania Press, 2000, p. 72.

Note: This chart excludes net housing wealth, which represents a negative value for those in the bottom 10 percent of households.  
\* Percentages may not add to 100 percent due to rounding.

The middle class is becoming increasingly dependent on Social Security for a basic floor of retirement income. In the last decade, investment savings and 401(k) pension balances have fluctuated dramatically as markets have experienced wide swings. Between 1999 and 2002, the S&P 500 total return index fell 38 percent and the value of employer-provided 401(k) accounts for people nearing retirement dropped more than 25 percent. Over the last several decades, an increasing number of employer-sponsored pension plans have been converted from the traditional fixed-benefit plans to market-based 401(k) accounts. Moreover, many of the fixed-benefit pension plans that have remained have become more unstable. Just recently, United Airlines handed over its pension plan to the federal Pension Benefit Guarantee Corporation raising the likelihood that thousands of current and former employees will receive significantly smaller benefits than they had planned. As pension and other retirement resources have become more

susceptible to the risks of the markets, middle-class Americans have become more dependent than ever on the sound, basic benefit provided by Social Security.

A look at the top and the bottom of the wealth scale does not provide an accurate picture of how much middle-class Americans rely on Social Security. Individuals in the lowest 10 percent of households ranked by wealth are more dependent on Social Security as a source of income than those in the heart of the middle class. For individuals in the bottom decile, the nearly total lack of pensions and savings means that Social Security makes up a very large portion of their retirement resources – nearly 94 percent. Certainly, most of those individuals, though not necessarily all<sup>1</sup>, will be afforded protection under “progressive price-indexing.” However, millions of middle-class people will not.

Individuals in the highest 10 percent of households ranked by wealth have substantial financial resources and do not need to rely on Social Security for their retirement security. It has been reported<sup>2</sup> that, during the May 12, 2005 hearing of the Committee on Ways and Means, Chairman Thomas looked at the data on wealthiest Americans and said, “It’s clear that if we’re going to put together a solution to Social Security, there are a lot of people who are concerned about retirement who are not particularly impacted by Social Security.” That may be true of these very wealthy Americans, but millions of middle-class people who rely on Social Security for more than half of their income will suffer devastating cuts in Social Security benefits under the “progressive wage-indexing” plan.

### **Middle-Class Americans Will Suffer a Significant Cut in Social Security Benefits**

The President proposes combining private accounts with Social Security benefit cuts under a plan known as “progressive price-indexing.” The President’s plan would divert four percent of wages out of Social Security and into a private account. For those people opting for the accounts, Social Security benefits would be reduced for every dollar placed into the account plus 3 percent interest above inflation. In addition, future retirees, whether or not they opted to participate in a private account, would have their benefits reduced by the progressive price-indexing plan.

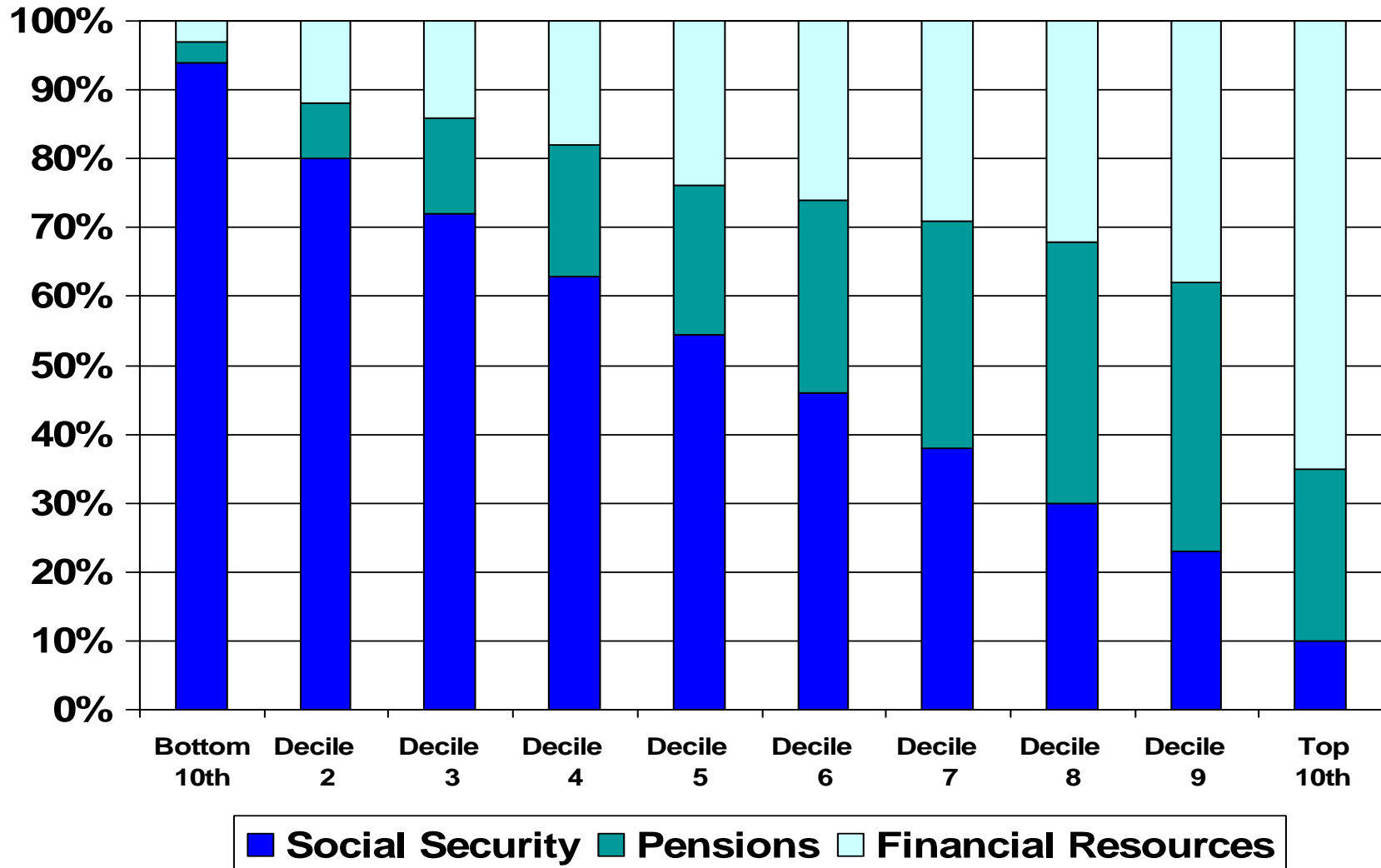
When combined, the two reductions in benefits would have a substantial impact on future middle-class retirees. According to the Center on Budget and Policy Priorities, a median earner who is 15 years old today would have a reduction in guaranteed Social Security benefits of 66 percent – from \$22,100 a year to \$7,510 a year. This is a dramatic cut in Social Security benefits for middle-class retirees who rely heavily on Social Security.

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<sup>1</sup> Center on Budget and Policy Priorities, “New White House Document Shows Many Low-Income Beneficiaries Would Face Social Security Benefit Cuts under President’s Plan”, May 10, 2005.

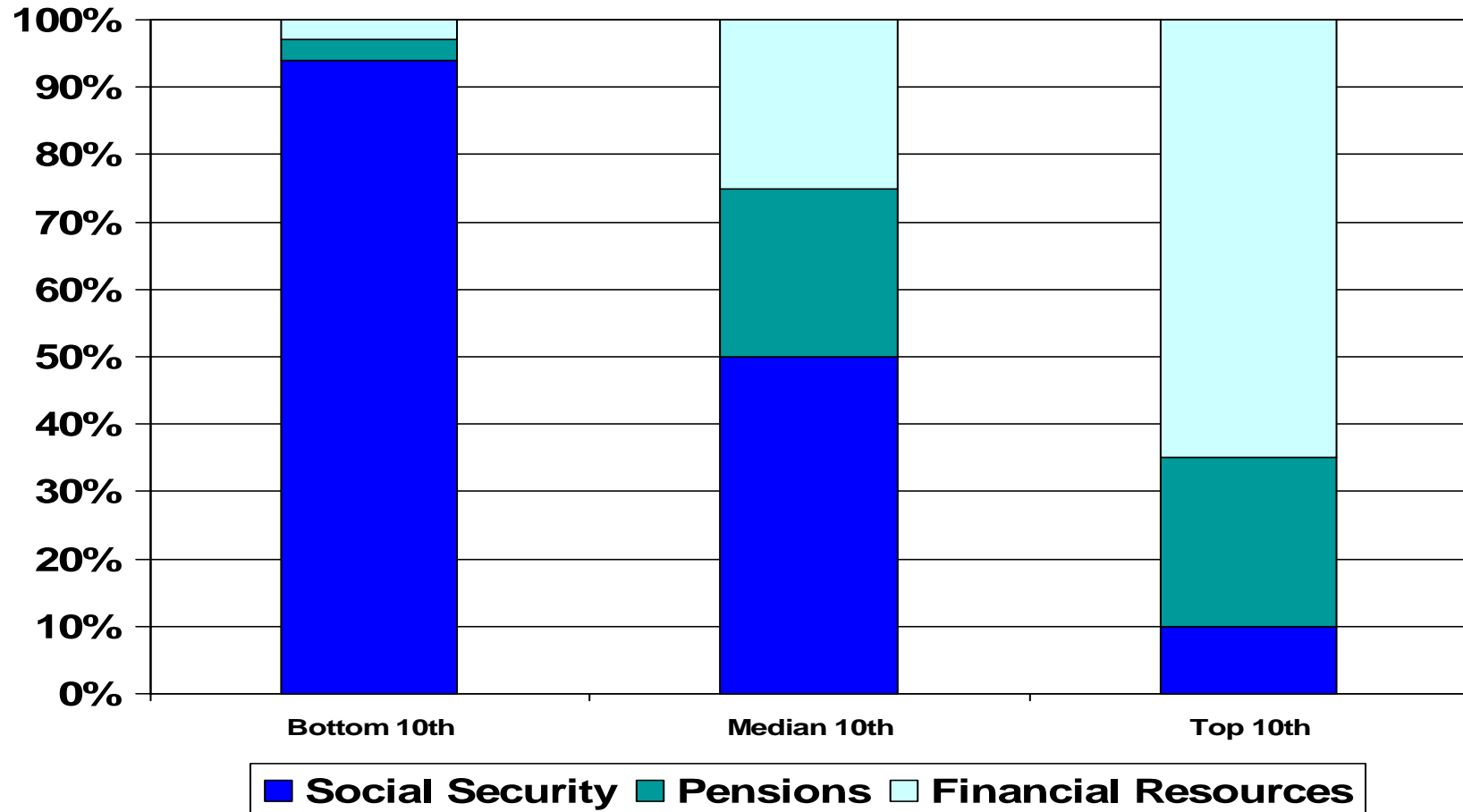
<sup>2</sup> *CQ Today*, “Thomas Sees Evidence That His Idea Would Work Best; Democrats Beg to Differ,” May 12, 2005.

## Distribution of Retirement Resources



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