STRENGTHEN SOCIAL SECURITY
...don't cut it.

Rep. Ryan's "Roadmap for America" Will Ruin Social Security

Rep. Paul Ryan (R-WI) will become chairman of the Budget Committee if Republicans are the majority party in the House of Representatives in the next Congress. His "Roadmap for America," [i] a budget blueprint, demonstrates the problems with introducing personal retirement accounts under Social Security.

Personal retirement accounts are the equivalent of privatizing Social Security. They would allow workers to divert a portion of their payroll tax contributions (for example, 2% of the 6.2% a worker contributes in payroll taxes) away from Social Security into the risky stock market. Because Social Security is primarily current-funded – that is, current contributions are used to pay current benefits – transferring those contributions away from Social Security into personal accounts will make Social Security's projected shortfall larger. To avoid this, Ryan's plan would make up for the losses by dramatically reducing guaranteed benefits, as explained below.

- **Privatization is not free.** To create personal retirement accounts, Ryan's plan would result in the transfer of $1.2 trillion from the rest of the budget to Social Security between 2037 and 2056, according to estimates made by the Social Security actuary.[ii] To make up for this loss of revenue to Social Security, Ryan's plan proposes deep cuts in Social Security benefits.

- **Ryan's privatization plan would force Americans to work longer.** Ryan's plan would save considerable sums by raising the normal retirement age from age 67 to age 70, which would result in a 19% benefit cut according to the Social Security Administration.[iii] Ryan's plan would also index the normal retirement age to increased longevity thereafter, which will result in even larger benefit cuts and create uncertainty for people as to what will be the Social Security retirement age.

- **Ryan's plan would cut benefits deeply.** An even larger reduction in benefits under the Ryan plan would come from instituting "progressive price indexing," which would significantly lower the benefit formula for all but the bottom 30% of wage earners. It is estimated that for medium earner retirees (those making about $43,000 in 2010), benefits would be cut by 17% in 2050 and by 28% in 2080 (on top of the 19% benefit cut due to the retirement age increase). For Social Security recipients making about $107,000 a year today the cut would be up to 50% when Ryan's plan is fully phased in.[iv] Progressive price indexing dramatically alters Social Security into a program where benefits are increasingly unconnected to prior earnings and contributions, as everyone would eventually get a relatively flat lower benefit. This will make Social Security look more like a welfare program, where benefits are unrelated to someone's contributions.

- **Ryan's plan would cut the COLA, further reducing benefits.** Social Security's cost-of-living-allowance (COLA) in intended to ensure that benefits keep pace with inflation. Ryan's plan would reduce the COLA by 0.3% a year on average, according to the Social Security Administration.[v] Instead, the COLA formula should be *improved* to reflect the much higher share of income that retirees and people with disabilities spend on health care costs.[vi]

- **Ryan's plan would turn Social Security's guaranteed benefit on its head.** It would require the U.S. government to *guarantee* personal accounts against any stock market losses. If personal account values have declined upon retirement, the Treasury would have to make up the losses by covering what had been contributed, plus inflation.[vii] Washington bailed out Wall Street once; it shouldn't do it again.

- **Private accounts substitute Social Security's guaranteed benefits with a risky gamble in the stock market.** Social Security is so attractive to retirees in part because it provides a benefit that is guaranteed to maintain its purchasing power no matter how long someone lives. Personal accounts concentrate the risk solely on the individual. Benefits from personal accounts are much less reliable and certain, as they are tied to investment performance, which can fluctuate wildly. For instance: IRAs and 401(k) plans lost $2.7 trillion – 32% of their value – when the stock market collapsed from 2007 to 2009.[viii] And, unlike Social Security, income from these sources is not protected against inflation.

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[i] Rep. Paul Ryan, "A Roadmap for America's Future," available at http://www.roadmap.republicans.budget.house.gov/plan/#retirementsecurity

[ii] Paul N. Van de Water, "The Ryan Budget's Radical Priorities," Center on Budget and Policy Priorities, http://www.cbpp.org/files/3-10-10bud-rev7-7-10.pdf

[iii] Stephen C. Goss, Chief Actuary, Social Security Administration, letter to the Honorable Earl Pomeroy, October 18, 2010, Table 2.

[iv] Ibid., Table 1. See also, Paul N. Van de Water, "Ryan Plan Makes Deep Cuts in Social Security," Center on Budget and Policy Priorities, October 20, 2010. Available at http://www.cbpp.org/cms/index.cfm?fa=view&id=3308

[v] Op cit, Goss letter to Pomeroy, p. 3.

[vi] CPI-W is used to adjust the COLA for Social Security benefits. Another inflation calculation, the CPI-E, measures the consumer price index for elderly consumers and gives greater weight to health care costs. From December, 1982 through December, 2007, the CPI-E increased 126.5% while the CPI-W rose just 110%. See Kenneth J. Stewart, "The experimental consumer price index for elderly Americans (CPI-E): 1982-2007," Monthly Labor Review Online, May, 2008. Available at http://www.bls.gov/opub/mlr/2008/04/art2exc.htm

[vii] Op cit., Rep. Paul Ryan Roadmap.

[viii] Economic Policy Institute calculation based on Federal Reserve Flow of Funds data, September 17, 2010, Tables L.118.c, L. 213, L.225.i, prepared October 7, 2010.