Conclusion

A privatized system destroys the social insurance nature of Social Security—that of shared commitment and mutual gain—and would jeopardize women's already tenuous retirement security. Privatization is not a risk worth taking. Women of all ages must be vocal, visible participants in this debate. If we aren't, we run the very real risk of losing the one system that offers America's women, men, and children a financial bedrock in times of disability, death, and old age.

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[1] OWL, *The State of Older Women in America*, 2001.
[2] *Ibid.*
[3] National Council of Women's Organizations, Task Force on Women and Social Security, *Strengthening Social Security for Women*, 1999.
[4] National Committee to Preserve Social Security and Medicare, "Social Security and You: Talking Points," http://www.ncpssm.org.
[5] U.S. Census Bureau, *Current Population Survey*, March 2001.
[6] National Committee on Pay Equity, "Little Progress on Closing Wage Gap in 2000," http://www.feminist.com/fairpay/.
[7] Social Security Administration, *2001 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, March 19, 2001.

OWL
666 11th Street, NW, Suite 700
Washington, DC 20001
202-783-6686 or 800-825-3695
Fax: 202-638-2356
www.owl-national.org
owlinfo@owl-national.org

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More in *The Color of Money* primer series . . .

- For an overview of women and Social Security, see Primer I: Women's Realities and Retirement Consequences.
- For more information on the retirement security of African American, Latina, and Asian American women, see Primer II: Retirement Security and Women of Diverse Communities.
- For tips on preparing for your own retirement, see Primer IV: Strategies for a Secure Retirement.

The Color of Money

Primer III

Women's Stake in the Social Security Debate

The Color of Money "Primer I: Women's Realities and Retirement Consequences" explains why women's experience of growing old in America is different from men's. Women's lower wages, time out of the paid workforce for caregiving, and lower rates of pension coverage translate into a poverty rate in old age that is twice that of men's.[1] Not only do women enter retirement with fewer assets and less income than men, but they live an average of six years longer, so their money has to stretch further for longer.[2] For these reasons, women depend on Social Security.

Social Security provides a social insurance safety net for workers and their families at every stage of life: survivors benefits paid to children after the death of a parent; disability benefits paid to workers and their children; widows' benefits paid to women after the death of their higher-earning spouse; and the retirement benefits upon which so many older women depend. While there are many improvements that could make the system more responsive to women's realities, the program still represents women's only truly dependable source of retirement income. Without Social Security's lifetime, guaranteed, inflation-adjusted benefits, it's estimated that half of women over age 65 would fall into poverty. (For more statistics, see Primers I and II.)

This means that women have an irrefutable interest in the future of Social Security and must ensure that any reforms of the system do not undermine its support for women at all stages of life, especially in their later years.

OWL
THE VOICE OF MIDLIFE AND OLDER WOMEN

Privatization–A False Promise

In the past few years, the idea of "reforming" Social Security by fully or partially privatizing the system has gained attention. Some people who support this notion tout their plans as a way to "shore up" what they see as a faltering financial picture for Social Security. Others are more ideological in their approach and believe that workers would do better handling all their own insurance and savings needs, and that the government should not be involved in such practices.

Privatization plans differ depending on who is offering them, but they range from full privatization of Social Security (in other words, removing the federal government from its successful role as manager of the program), to private accounts, whereby one or two percent of a worker's salary is diverted from Social Security and placed in a private account. Some version of the latter was supported by President Bush during his 2000 campaign, as well as by his Commission to Strengthen Social Security, which released a report in December 2001.

OWL believes that neither privatization of Social Security nor private accounts will work for women. When considering any plan to privatize Social Security, women must ask the following questions.

Does the reform proposal:[3]

1) continue to help those with lower lifetime earnings, who are disproportionately women?
2) maintain full cost-of-living adjustments?
3) protect and strengthen benefits for wives, widows, and divorced women?
4) preserve disability and survivors benefits?
5) ensure that women's guaranteed benefits are not subject to the uncertainties of the stock market?
6) address the unique caregiving and labor force experience of women?
7) further reduce the number of older women living in poverty?

Here are just some of OWL's concerns with private account plans being discussed today:

♦ Private accounts don't offer insurance against unexpected events

How would a privatized system provide a safety net for divorced women, widows, survivors with young children, women with disabilities, and others? Social Security is just that: a social insurance policy to provide security when life takes tragic or unexpected turns. Social Security is not just for retirees—it's for the 28-year-old widow who must now provide for her children on her own; for the 35-year-old single woman who becomes disabled after an accident or illness; for the children of a working 40-year-old mother who dies, and for so many more. In fact, one-third of all Social Security beneficiaries are children, widows, and people with disabilities.[4]

This system of social insurance allows families to count on a minimum floor of financial support should they lose their primary or sole breadwinner. A 27-year-old stay-at-home mother would probably not have enough saved in her or her husband's private accounts to help her keep her family from financial ruin, but Social Security's rock-solid guarantee would protect her.

THE COLOR OF MONEY: RETIREMENT FOR WOMEN OF DIVERSE COMMUNITIES is a public education and media campaign designed to build greater understanding of America's retirement system and women's stake in the discussion to reform it.

The campaign specifically encourages dialogues with African American women and Latinas about their significant vulnerability to retirement insecurity. Funded by the Retirement Research Foundation, this project will work with OWL chapters to hold community conversations across the country to address retirement security issues facing African American women and Latinas, with a special emphasis on younger women.

♦ Private accounts don't provide an inflation-adjusted guarantee

Private accounts cannot offer what Social Security does: guaranteed benefits that never decrease, benefits that are adjusted upwards for inflation, and benefits that you can never outlive. For all the reasons listed above—lower wages, lower pension coverage, more time out of workforce for caregiving, longer lifespans—women must have Social Security as a solid financial base they can depend upon.

If Social Security were converted to private accounts, retirees would turn to annuities to convert their cash account into equal monthly payments. But the private annuity market does not offer inflation-adjusted policies that are reasonable in cost and do not further decrease women's monthly income. The fact that women have smaller accounts to start with and are likely to live many years longer than men means that annuity policies offer women a reduced benefit from the start. Finding a rare inflation-adjusted policy, if she could even afford it, would mean a further dramatic reduction in a woman's monthly benefit.

♦ Private accounts increase risk

A woman's retirement security should not depend on the year she is born, the year she starts working, or the year she retires. Averages in stock market growth are just that—averages. They don't tell us how an individual woman will fare, nor do they protect her against the inevitable ups and downs of a risky market. Further, private accounts will most likely be subject to processing fees for Wall Street brokers, which could eat a larger proportion of women's already smaller accounts.

Remember the three-legged stool theory of retirement? The three legs (Social Security, pensions, and personal savings) were supposed to not only give a worker three types of retirement income, but to create a balance of risk, so that the employer, the worker, and the government all bore a share of the risk. Women have been balancing on a one-legged stool for some time now. Women have low rates of pension coverage, so they can't rely on that leg. The wage gap (73 cents to a man's dollar in 2001[5]) means women cannot save their way to parity with men, because you simply can't save what you don't earn. Contrary to popular opinion, this situation is not improving for women. The wage gap remains a chronic problem: It has hovered between 70 and 74 percent throughout the 1990s.[6] And old-fashioned, defined benefits pensions are growing increasingly rare. The newer forms of employer-based pension plans are called "defined contribution" plans (for example, 401(k), 403(b), SEP-IRA, etc.), and while women have greater access to these plans, they must also bear all the risk.

Incorporating private accounts into Social Security means workers have to take on even more risk and give up the protection from the one risk-free leg of the stool. It's wise to save on your own and to contribute to a retirement plan at work, but that means you take on all the risk—the risk of investment performance, the risk that your savings will erode over time, the risk that you will outlive your assets. This new reality of increased worker responsibility for risk makes it all the more critical that Social Security's social insurance nature, with its guaranteed lifetime benefits, is preserved.

♦ Private accounts drive benefit cuts

Privatization would divert a massive amount of money—approximately $1 trillion over only the next 10 years—out of the Social Security program. To pay for this expense, there would have to be sharp benefit cuts in the guaranteed portion of the program, or steep increases in payroll (FICA) taxes to cover the loss and pay transition costs. The private accounts are supposed to make up for these cuts, but they could fail to do so and leave beneficiaries, especially future beneficiaries, short of where they would be under current law. Women will also pay more for privatization down the road. Not only will their accounts be smaller, but because of their longevity it will also cost women more to annuitize their private accounts—which they will have to do in order to withdraw the funds—when they do retire.

♦ Private accounts can't offer Social Security's unmatchable set of protections

Privatization proponents are pitching such reforms with the lure of a "better rate of return" on the dollar, an argument that can be especially appealing to younger people. This is a misleading and dangerous argument, not just for the reasons outlined above but also because it simply compares apples and oranges. You can't compare the social insurance nature of Social Security's guaranteed, inflation-protected, lifetime benefits that include disability and life insurance with an individual account that carries no such protections and many more risks. Given its reliability and efficiency, Social Security remains a wise investment.

♦ Private accounts hurt solvency

The first question that is thrown at opponents of privatization is usually, "What would you do to 'fix' Social Security?" This implies that privatization is somehow a solution to any potential solvency issue, when in fact it actually hastens insolvency (using current predictions) by approximately 10 years!

According to the 2001 report from the Social Security trustees, with no changes to the system, the trust fund's surplus will end in 2038, leaving a gap between incoming payroll taxes and outgoing benefit payments.[7] We must remember that estimates are just that, and they can vary widely from year to year. A few years ago, Social Security was expected to run out of money in 2032. If the economy grows faster than the trustees' conservative estimates, then Social Security faces no solvency threat in the next 75 years. While OWL wants to address long-term solvency issues to ensure the longevity and health of this critical program, we must reject alarmist proposals that play off unfounded fears and threaten Social Security's guarantees.

Women have been balancing on a one-legged stool . . .