BENEFIT CUTS

Social Security operates largely on a "pay-as-you-go basis". That is, the vast majority of the payroll taxes paid by current workers are used to make payments to current beneficiaries, whether retirees, survivors, or the disabled. Consequently, if less money were to go into Social Security, there would be less money to pay benefits. The three plans in the December 2001 report of the President's Commission to Strengthen Social Security and a June 2000 report by The Century Foundation (TCF) both reveal that even partial privatization of Social Security means substantial benefit cuts.

- Over the next 75 years, Social Security faces a projected financing shortfall equal to roughly two percent of taxable payroll. Diverting just 2 percentage points of the payroll tax into individual retirement accounts would necessarily increase that shortfall to nearly 4 percent of taxable payroll.

- TCF calculated that closing this gap of nearly 4 percent of taxable payroll would necessitate benefit cuts of 41 percent if such cuts were imposed uniformly for all beneficiaries aged 55 and younger in 2002. Older workers would experience smaller reductions if the cuts were phased-in, but workers aged 30 and younger in 2002 would see cuts of up to 54 percent. Workers between the ages of 55 and 35 would suffer benefit reductions of 25 to 46 percent under a phased-in scenario. (See appendix for additional details.)

- Among the commission plans, Plan Two calls for diverting an average of 2.4 percentage points of the current 12.4 percent payroll tax from the Social Security Trust Funds into individual accounts, reducing the amount of money available to pay for Social Security benefits by $1.8 trillion from 2003-2012. Even the commission's smallest plan – Plan Three – which diverts an average of 2.0 percentage points, would drain the Trust Funds of $1.5 trillion over the next 10 years.

- In order to pay for privatizing Social Security, the commission proposed cutting benefits for future retirees by 30-46 percent, reducing disability and survivor benefits, raising the retirement age, and drawing on general revenues. It did not specify which taxes would be raised, or which other spending would be cut, to raise the revenues required by the plans.

- The accounts would be voluntary, but the cuts are mandatory. The President and his commission have emphasized that the accounts would be voluntary. But the benefit cuts the commission proposes to make up for the loss of revenue diverted to the accounts would apply to all future beneficiaries, not just those who had an account.