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February 4, 2005

NEW WHITE HOUSE DETAILS SHOW THE PROPOSED PRIVATE ACCOUNTS WOULD WORSEN SOCIAL SECURITY'S FINANCES

by Jason Furman

A fact sheet released by the White House on February 3 acknowledged that retirees who receive a real rate of return on their private accounts equal to three percent above inflation (which is the Congressional Budget Office's projected rate of return on such accounts, with risk adjustment) would *not* benefit from the accounts. Their private account balances would be offset in full by the Social Security benefit reductions to which they would be subject in return for electing the private accounts.

But the White House fact sheet also stated that, "Even if the worker were only to break even financially, he would be better off because of his ownership rights: If he were to die before retirement age, he would have an asset to pass on to his loved ones; If he were to divorce, his account would be marital property."

The White House is indicating that no offset would apply to private accounts in the case of divorce or death prior to retirement. But this also means that all of the private account contributions for such workers would represent a *net loss* for Social Security and a net cost for the budget. By itself, *this proposal thus would worsen the solvency of Social Security*. As a result, even deeper cuts in Social Security benefits would be required to restore solvency.

It also may be noted that the existing Social Security system provides survivors benefits and benefits for divorced spouses. If we wanted to make those benefits more generous, we could add a lump-sum payout to the exiting Social Security system that would be equivalent to what such individuals would receive from private accounts under the President's proposal, and we could do so at similar cost. But most analysts would view such a change in Social Security as unwise, because it would entail adding new benefits to Social Security before proposing any steps to restore the program's long-term solvency.

The White House proposal has the same shortcoming: it would make Social Security's shortfall larger. It is not accompanied at this time by any by proposal to make up for this worsening of Social Security's financial condition. And, as noted, the end result would be larger Social Security benefit reductions.