

The privatization of social security



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Is privatization of Social Security the long-term solution to "saving Social Security"? Will you be willing to pay more taxes and give up benefits to save Social Security? "Social Security is a social insurance program officially called "Old-Age, Survivors, and Disability Insurance" (OASDI)," It is funded through a payroll tax that workers pay today for workers who have paid in the past; during their working years. In 2008, total benefits of \$625 billion were paid out versus income (taxes and interest) of \$805 billion, a \$180 billion annual surplus.

An estimated 162 million people paid into the program and 51 million received benefits, roughly 3.2 workers per beneficiary (Social Security / Trustees, 2008). The problem with Social Security is that with the "Baby Boom" generation reaching retirement age the current workers to beneficiary ratio is dropping so that by 2016 program expenses will begin to exceed revenues. During 2008, the fund held \$2.4 trillion in government bonds, IOUs backed by the government's general fund. These borrowed funds are part of the national debt that we keep hearing about these days. "By 2016, the government is expected to have borrowed nearly \$3. trillion against the Social Security Trust fund" (Social Security / Trust Fund, 2008). Something needs to be done. The problem with privatizing Social Security is that it in no way address these funding issues, it only takes the onus off of the government. It also creates instability to the beneficiaries and increased costs to manage the monies, not dissimilar to the health insurance debate. The fees that would be charged to privately manage these monies would undoubtedly be greater than the costs today via the government run system as is indicated by other government run programs such as Medicaid.

I understand the argument that we the people should have more control over our monies, and we do, but I see no problem with having a small portion of those monies, Social Security Payments, regulated by the government in a way that creates stability. If we were to have control over investing our monies then current workers would pay for current workers, hence what the account is paying today is what you will receive. The problem with this is that the monthly payments would fluctuate with the market. Understanding that more than 40% of the Social Security beneficiaries live on only their Social Security payments any onthly fluctuations would be deadly. There is also the argument that other countries like The United Kingdom, Sweden, and Chile all have privatized funds and they seem to work. I submit the argument that these countries of much fewer beneficiaries and have considerable more control over their markets and banking systems in the form of government oversight and regulation. This is why the markets of these countries when graphed against the USA have a less dramatic downs and in return ups; the trade off is more stability.

I believe that the only way to truly fix Social Security and keep it performing its original function is to increase the taxation rate over time and/or distribut the costs differently over the tax paying base. Also there needs to be, better control of management costs, better control over fraud, and a “ sump fund” that is directly responsible for Social Security removing commingling funds.

References: Social Security (2008), Social Security - Trustees Report
Summary Press Release Social Security (2008), Trust Fund Report - Table VI.
C6 Intermediate Assumptions