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The Bush Social Security privatization plan could take $33 to $55 billion out of the state's economy. It could also plunge at least 332,000 New York seniors into poverty or destroy Social Security as the broad-based social insurance program on which millions of New Yorkers rely.

Social Security provides vital guaranteed economic security to more than 47 million people, including grandparents, parents and children nationwide. In New York, more than 3 million people count on this earned benefit every month, including 2.5 million retirees, 371,000 disabled workers and 196,000 children who are survivors of workers who died.

Before Social Security, almost 50% of American seniors lived in poverty. Today, only 10% of seniors spend their "golden years" below the poverty line because nearly all American workers and their families have earned an inflation adjusted retirement benefit each month, for as long as they live.[1]

In addition to the benefits that Social Security provides to New York families – it also fuels New York's economy. Fully $32.4 billion in individual income flows into New York's economy from Social Security each year – about $2.7 billion every month.[2]

Although President Bush has not yet provided the details of his Social Security reform plan, he and other administration officials have spoken most positively about Option 2 from the report of the President's Commission to Strengthen Social Security.

This "Option II" plan included a proposal to change from "wage indexing" to "price indexing" in calculating recipient's initial Social Security retirement benefit. This change would dramatically reduce Social Security's guaranteed benefit for all beneficiaries, regardless of whether or not he or she chooses a private account.[3]

In addition, those who choose to participate in the private accounts would be subject to a reduction in their Social Security benefits at retirement by an amount equal to the amount diverted if it had earned interest at the rate paid on Treasury bonds. The person choosing a private account comes out with a greater benefit than the worker who did not elect a private account, only if the rate of return on their account exceeds the Treasury bond rate. If the rate of return on his/her investment were lower than the Treasury bond rate, the worker would receive a second cut in benefits.[4]

Because Social Security is so important to the economic wellbeing of older Americans, these reductions in benefits could increase senior poverty dramatically or increase significantly the magnitude of government safety net expenditures. A generation of impoverished seniors would place unprecedented demands on already stretched federal, state and local budgets – squeezing out funds for other priorities. This would likely lead to higher state and local taxes to pay the price of providing seniors with the healthcare, nutrition and housing that they would no longer be able to afford themselves. If, on the other hand, a Social Security privatization plan provides a minimum benefit that would keep low-income workers out of poverty, without increasing Social Security revenues or taking other steps to ensure the solvency of the fund, it is very likely that the benefits going to middle-income retirees will be reduced through "price indexing" or other cutbacks. This would destroy Social Security's effectiveness as the broad-based Social Insurance program on which millions of New Yorkers rely.

A $33 Billion to $55 Billion "Hit" on the New York Economy

Social Security now replaces about 42.5 percent of the income a worker earned during a typical year of his or her work life.[5] This income is vital to helping maintain an adequate standard of living for seniors. In a recent study, economist Christian Weller of the Center for American Progress finds that if a privatization plan like the Commission to Strengthen Social Security's " Option 2" plan had been in place since 1940, the privatized Social Security system would have done much worse by American workers and their families.[6]

Fluctuations in the stock market would have yielded income replacement rates of as low as 18 percent for people retiring in 1978 to as high as 39 percent for people retiring in 1999 at the height of the dot com bubble.

In not a single year would such a privatized system have replaced more of a worker's earnings than the current Social Security system. Weller estimates that the national cost of maintaining the income replacement levels for seniors under the current Social Security system would have been some $1.1 trillion over the past 30 years.

Looking forward, Weller argues that if a privatization plan like "Option 2" is enacted, either seniors will have to endure a dramatic reduction in their living standards or federal and state governments will have to somehow help tomorrow's seniors to replace the income that would have come from Social Security. Weller estimates that the present value of the cost of bailing out Social Security beneficiaries would be some $601 billion nationwide over the Social Security planning horizon of 75 years. Weller estimates that if the states were to bear 80 percent of those costs, the states would have to come up with $480 billion. However, given historical data on stock market performance, Weller estimates there is a 20% chance that the costs of such a bailout would actually be 67% higher.

Weller argues that one way for a state to prudently plan for such a scenario would be to establish a state trust fund. He estimates that New York would have to put away at least $32.8 billion immediately to be able to provide retirees with a level of income that replaces the same amount of their typical working paycheck that Social Security does today and a staggering $54.8 billion in order to be able to pay for the one in five chance that the stock market will perform somewhat poorly.

At Least 332,000 New York Seniors May be Forced Into Poverty

Social Security is widely acclaimed as the nation's most effective anti-poverty program. Income from Social Security keeps more than 800,000 elderly New Yorkers out of poverty. This reduces the elderly poverty rate in New York from 49.3% to 15.4%. Without Social Security, over one million elderly New Yorkers would have incomes below the official poverty line. With

Social Security benefits added to income the number of elderly poor in New York is reduced to just over 373,000. When other governmental cash programs are taken into account, the number of poor elderly New Yorkers falls even further to about 304,000.[7]

Currently, 1.1 million elderly individuals and couples in New York State rely on Social Security checks for at least half of their total income. 571,000 of these elderly households depend on these benefits for almost all – 90 percent or more – of their total income.[8] Privatization would cut benefits for all New York beneficiaries, including those teetering at the edge of poverty.

Today, the typical Social Security check for retirees in New York State is about $977 per month.[9] Data available from the Census Bureau shows that there were 332,000 New Yorkers over the age of 65 living between 100 percent and 150 percent of the poverty line in 2003.[10] If a privatization plan similar to the Bush Commission's "Option 2," but without a minimum benefit, were fully phased in today, many of these individuals would find themselves with incomes below the poverty line. [11] If the federal and state governments continued to provide Supplemental Security Income (SSI) benefits to all these individuals, program outlays for these programs would soar. On the other hand, if the government reneges on its commitment to provide this safety net, thousands would be forced to live in poverty.

Privatization Could Create a New Budget Crisis for New York

In aftermath of the Great Depression, New York's state constitution was amended to require that the state provide for the aid, care and support of the needy. If the privatization plan pushes many more New Yorkers into poverty, increasing the number of residents who need to depend on state programs for survival, it would put considerable new pressures on both state and local budgets.

One example of a program which could become overburdened in this manner is Medicaid which provides essential healthcare to the poor, including many elderly poor. In the 2005-2006 state fiscal year, New York will spend an estimated $46 to $47 billion to provide essential health care services to poor New Yorkers through Medicaid.[12] Though half of this expense is covered by the federal government, half comes from New York state and local governments. In 2003 - 2004, the state of New York spent more than $14.2 billion on Medicaid while county governments spent another $6.3 billion.[13]

A dramatic increase in the number of poor New Yorkers eligible for this program would add a significant budgetary burden to an already stressed system and impact the ability of state and local governments to fund other priorities such as roads, nutrition, education and housing.

The Growing Trend of Unfunded Mandates on New York

New York is also suffering from the disturbing trend of unfunded mandates imposed on the states by the federal government. Since 2002, New York has been confronted with a gap of $13 billion for programs and services mandated by the federal government, but not adequately funded by the federal government. This hardship on the states spans the range of government programs. For example, the Individuals with Disabilities Education Act is under-funded by $2.8 billion, and the No Child Left Behind Act remains under-funded by almost $3 billion. [14]

This problem of “passing the buck” continues to get worse each year. In his 2006 budget, the president proposes cuts of $6.1 billion from federally funded portion of total Medicaid costs for New York over the next 10 years, which would leave the state with the difficult choice of either denying healthcare to its most vulnerable citizens or adding to the billions it already spends on the program.[15]

In addition to Medicaid, the President’s 2006 budget proposes cuts over the next four years in many program areas. According to the Center on Budget and Policy Priorities analysis of what these cuts would mean for New York, the president’s budget includes a $29 million cut to the Low-Income Home Energy Assistance program, cuts of $44 million to the Women, Infant & Children Supplemental Nutrition program, and cuts to Children and Family Services (including Head Start and Services for Abused & Neglected children) programs of almost $216 million.[16]

Social Security privatization could create a massive new demand for state services by creating a new generation of poor New York seniors. If, on the other hand, a Social Security privatization plan provides a minimum benefit that would keep low-income workers out of poverty, without increasing Social Security revenues or taking other steps to ensure the solvency of the fund, there will be a tremendous squeeze on the benefits going to middle-income retirees. Such a development would do great damage to the state’s economy and destroy Social Security’s effectiveness as the broad-based social insurance program on which millions of New Yorkers rely.

Christian Weller, PhD., Senior Economist, Center for American Progress, provided technical assistance for this report. Trudi Renwick and Frank Mauro of the Fiscal Policy Institute contributed to this report.

ENDNOTES

[1] U.S. Census Bureau, Income, Poverty and Health Insurance Status in the United States: 2003 (P60-226), Table 3. http://www.census.gov/hhes/www/poverty.html

[2] Social Security Administration, OASDI Beneficiaries by State and County, 2003. Table 3: Amount of Benefits in current-payment status, by state or other area, type of benefit, and sex of beneficiaries aged 65 or older, December 2003 (in thousands of dollars); http://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2003/table3.html

[3] For estimates of guaranteed benefit cuts due this change in indexing, see Jason Furman, “An Analysis of Using “Progressive Price Indexing to Set Social Security Benefits, Center for Budget and Policy Priorities, March 21, 2005.

[4] For a description of how private accounts would work, *see* Jason Furman, “How the Individual Accounts in the President’s New Plan Would Work,“ Center on Budget and Policy Priorities, February 4,2005. http://www.cbpp.org/2-3-05socsec2.htm

[5] Social Security Administration (2004). Annual Report of the Trustees of the Federal Old-Age, Survivorship, and Disability Insurance Programs. Washington, DC: SSA.

[6] Center for American Progress, “Social Security Privatization: The Mother of All Unfunded Mandates,” 2005.

[7] Fiscal Policy Institute, "Social Security, the Nation's Most Effective Safety Net Program, Keeps More than 800,000 Elderly New Yorkers out of Poverty", November, 2004. http://www.fiscalpolicy.org/downloads/SocialSecurity.pdf

[8] Economic Policy Institute, "Social Security and the Income of the Elderly," Issue Brief #206; March 23, 2005. www.epinet.org.

[9] Social Security Online, State Statistics, December 2003; http://www.ssa.gov/policy/docs/quickfacts/state_stats/index.html

[10] U.S. Census Bureau's Current Population Survey, Annual Demographic Survey, March Supplement; http://pubdb3.census.gov/macro/032004/pov/new46_135150_06.htm.

[11] Author's analysis based on estimated 50% cut in guaranteed benefits as per the Center on Budget and Policy Priorities estimates. An income of 150 percent of the poverty line is approximately $13,590 per year. If a 50 percent cut to the typical guaranteed Social Security benefit were taken from that level of income, individuals would be left with incomes of approximately $7,700 per year – well below the federal poverty level of $9,060.

[12] New York State, 2005-06 Executive Budget, Overview Volume, January 18, 2005, page 147. Note: the State Legislature has adopted some but not all of the benefit reductions and other cost savings recommended by the Governor in conjunction with this Executive Budget.

[13] New York State Division of the Budget, as cited in "No quick cure for what ails," Albany Times Union, April 10, 2005, p. 1.

[14] Center on Budget and Policy Priorities, "Passing Down the Deficit: Federal Policies Contribute to the Severity of the State Fiscal Crisis," August 18, 2004.

[15] Families USA, Federal Dollars Cut Over 10 Years Under the President's Plan, by State," February 7, 2005. http://www.familiesusa.org/site/DocServer/BudgetStatementAttachment_1-dollars_cut.pdf?docID=7601

[16] Center on Budget and Policy Priorities, "Where Would the Cuts Be Made Under the President's Budget?" February 28, 2005.