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Resource Sheet #15

"Privatizing Social Security A Big Boost for the Poor" by Michael Tanner, Cato Institute

Michael Tanner is director of health and welfare studies at the Cato Institute.

Critics of Social Security privatization often warn that such proposals hold serious dangers for the elderly poor. However, a closer examination of the evidence indicates that the poor would be among those who would gain most from the privatization of Social Security.

By providing a much higher rate of return, privatization would raise the incomes of those elderly retirees who are most in need. Although the current Social Security system is ostensibly designed to be progressive, transferring wealth to the elderly poor, the system actually contains many inequities that leave the poor at a disadvantage. For instance, the low-income elderly are much more likely than their wealthy counterparts to be dependent on Social Security benefits for most or all of their retirement income. But despite a progressive benefit structure, Social Security benefits are inadequate for the elderly poor's retirement needs.

In addition, the progressivity of Social Security is undermined by differences in life expectancy. Because the wealthy generally live longer than the poor, they receive more total Social Security payments over the course of their lifetimes. In a privatized system, an individual's benefits would not be dependent on life expectancy. Individuals would have a property right in their benefits. Any benefits remaining at their deaths would become part of their estates, inherited by their heirs.

Finally, Social Security drains capital from the poorest areas of the country, leaving less money available for new investment and job creation. Privatization would increase national savings and provide a new pool of capital for investment that would be particularly beneficial to the poor.

For those reasons, Social Security privatization should be viewed as a big boost to America's poor.

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