Bush Privatization Plan Would Devastate Michigan's Economy

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The Bush Social Security privatization plan creates a new $31 billion unfunded federal mandate on the state of Michigan and would plunge at least 126,000 Michigan seniors into poverty.

Social Security provides vital guaranteed economic security to more than 47 million grandparents, parents and children nationwide. In Michigan, 1,699,342 count on this earned benefit every month.

Before Social Security, almost half of American seniors lived in poverty. Today, fewer than 9 percent of seniors spend their "golden years" below the poverty line because nearly every American worker and their family 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 Michigan families – it also provides a stable level of individual income that fuels Michigan's economy. Thousands of businesses, and the state government, also depend on the Social Security guarantee. Fully $18 billion in individual income flows into Michigan's economy from Social Security each year – more than $1.5 billion every month.[2]

The president's Social Security privatization plan dramatically reduces Social Security's guaranteed benefit for all Americans, regardless of whether or not an individual chooses a private account.[3] Because Social Security is such an important part of the economic wellbeing of older Americans, reductions in benefits would increase senior poverty dramatically. A new generation of poor seniors in Michigan would place unprecedented demands on an already stretched state budget – squeezing out funds for top state priorities. This would likely lead to higher state taxes to pay the price of providing Michigan's new poor seniors with the healthcare, nutrition and housing that they can no longer afford themselves.

With privatization, Michigan would bear the burden of compensating for the federal government's broken promise to American seniors.

A New $31 Billion Unfunded Federal Mandate for Michigan

According to data from the U.S. Bureau of Economic Analysis, state governments shoulder the lion's share of costs related to social programs in America and that share is increasing. State governments now spend 3.5 times what the federal government does on social programs.[4] And about 80 percent of social programs are state and local government programs. A massive new poor population in need of assistance would cripple Michigan's budget.

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. Economist Christian Weller of the Center for American Progress finds that if the president's privatization plan had been in place since 1940, the privatized Social Security system would have done much worse by American workers and their families. Fluctuations in the stock market would have yielded income replacement rates of as low as 18 percent in 1978 to as high as 39 percent in 1999 at the height of the dot com bubble.[6] In not a single year, would a privatized system have been able to replace more of a worker's earnings than the Social Security system we have today.

This means that federal and state governments would have to otherwise help tomorrow's seniors with income that would have come from Social Security. Weller estimates that the cost of helping seniors maintain the income replacement levels that Social Security provides today to be some $1.1 trillion over the past 30 years.[7]

States will be faced with the choice of either reneging on their commitment to provide critical anti-poverty assistance or paying an enormous price to accommodate the new poor. Weller finds that the costs of social programs for state and local governments would have increased some 40 percent over the last 30 years if the president's privatization plan had been in place.[8]

Looking forward, Weller estimates that the total cost of bailing out Social Security beneficiaries to be some $601 billion over the Social Security planning horizon of 75 years. Assuming that the states will bear 80 percent of those costs, this would leave a $480 billion shortfall that state governments would have to cover. However, given historical data on stock market performance, there is a one in five chance that the costs of the bailout would be 67 percent higher.

In order to prudently plan for such a scenario, Michigan would have to save a staggering $31 billion immediately in order to pay for the one in five chance that the stock market performs somewhat poorly. Regardless of how the market performs, Michigan would have to put away at least $18.6 billion immediately to provide retirees with a level of income that replaces the same amount of their typical working paycheck that Social Security did.[9] Because privatization would end the Social Security guarantee, Michigan State will have to plan for the worst.

At Least 126,000 Michigan Seniors Forced Into Poverty

According to the U.S. Census Bureau, the number of Michiganders living in poverty in 2003 was 1,125,000.[10]

Currently, 581,000 Michigan seniors rely on Social Security checks for at least half of their total income. 240,000 of these individuals depend on these benefits for almost all – 90 percent or more – of their total income.[11] Privatization would cut benefits for all Michigan beneficiaries, including those teetering at the edge of poverty.

Today, the typical Social Security check for retirees in Michigan State is about $933 per month.[12] Data available from the Census Bureau shows that there were 126,000 Michiganders over the age of 65 living between 100 percent and 150 percent of the poverty line in 2003.[13] If the president's privatization plan were in place today, all of these individuals would find themselves living below the poverty line.[14] It should be understood that this figure actually under represents the true number of individuals who would be made poor with significant cuts to the guaranteed benefit – income data available by the Census Bureau is limited to the number of Michiganders living at 150 percent of poverty.

Privatization Would Create a New Budget Crisis for Michigan

Michigan, like most states, is grappling with a serious budget crisis coupled with a growing list of priorities that need to be met. Since 2002, Michigan has faced combined yearly budget shortfalls totaling almost $3.3 billion.[15] And this year, Michigan faces a projected budget gap of $900 million.[16]

A considerable part of Michigan's annual expenditures are for anti-poverty programs and services to help meet the critical needs of its most vulnerable residents. Michigan has a commitment to prevent hunger and provide shelter and health care for Michiganders in need. The president's privatization plan will push many more Michiganders into poverty, increasing the number of residents who need to depend on these state programs for survival – putting considerable new pressures on Michigan's economy.

A good example of a state program which would become overburdened is Medicaid – which provides essential healthcare to the poor. In 2005, Michigan will spend an estimated $9.4 billion to provide essential health care services to poor Michiganders through Medicaid.[17] Though much of this expense is covered by the federal government, a sizeable portion comes from Michigan State. In 2003, Michigan spent some $1.7 billion on Medicaid from the state's General Fund – nearly 19 percent of the total state general fund expenditures.[18]

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

The Growing Trend of Unfunded Mandates on Michigan

Michigan is also suffering from the disturbing trend of unfunded mandates imposed on the states by the federal government. Since 2002, Michigan has been confronted with a gap of nearly $5.6 billion for programs and services mandated by the federal government, but not adequately funded by the federal government.[19]

This hardship on the states spans the range of government programs. For example, the Individuals with Disabilities Education Act is under-funded by $1.4 billion,[20] and the No Child Left Behind Act remains under-funded by almost $1.1 billion.[21]

This problem of "passing the buck" continues to get more dire with each year. In his 2006 budget, the president included cuts of more than $1.2 billion from federally funded portion of total Medicaid costs for Michigan 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.[22]

In addition to Medicaid, the president's 2006 budget included cuts over the next four years to the Low-Income Home Energy Assistance program, which benefits many Michigan seniors, of some $12.6 million,[23] cuts of $16.7 million to the Women, Infant & Children Supplemental Nutrition program,[24] and cuts to Children and Family Services (including Head Start and Services for Abused & Neglected children) programs of almost $117.3 million.[25]

Social Security Privatization imposes an unprecedented and cruel new unfunded mandate on the states. Rather than cutting funding, privatization would create a massive new demand for state services by creating a new generation of poor Michigan seniors. In order to plan for this wave of new poor retirees, the state of Michigan would be forced to save billions to help Michiganders recoup their losses from the president's privatization plan.

Christian Weller, PhD., Senior Economist, Center for American Progress, provided technical assistance for this report.

ENDNOTES

[1] Social Security Administration. www.ssa.gov.
[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] Estimates of guaranteed benefit cuts due to privatization. Center on Budget and Policy Priorities. www.cbpp.org.
[4] U.S. Bureau of Economic Analysis. www.bea.gov.
[5] Social Security Administration. www.ssa.gov.
[6] Center for American Progress, "Social Security Privatization: The Mother of All Unfunded Mandates," 2005.
[7] Ibid.
[8] Ibid.
[9] Ibid.
[10] U.S. Census Bureau's Current Population Survey, Annual Demographic Survey, March Supplement; www.census.gov.
[11] Economic Policy Institute, "Social Security and the Income of the Elderly," Issue Brief #206; March 23, 2005. www.epinet.org.
[12] Social Security Online, State Statistics, December 2003; http://www.ssa.gov/policy/docs/quickfacts/state_stats/index.html
[13] U.S. Census Bureau's Current Population Survey, Annual Demographic Survey, March Supplement; www.census.gov.
[14] Author's analysis based on estimated guaranteed benefit cuts due to privatization provided by the Center on Budget and Policy Priorities - www.cbpp.org. 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.
[15] American Federation of State, County and Municipal Employees (AFSCME) Legislation Department.
[16] National Conference of State Legislatures, State Budget Update, February 2004.
[17] Families USA, Medicaid State Fact Sheets, http://www.familiesusa.org/site/PageServer?pagename=Medicaid_Action

[18] Kaiser Family Foundation, State Health Facts: Distribution of State General Fund Expenditures (dollar amount in millions), SFY2003; http://www.statehealthfacts.org/cgi-bin/healthfacts.cgi?action=compare&category=Demographics+and+the+Economy&subcategory=State+Budgets&topic=Distribution+of+General+Fund+Spending

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

[20] Ibid.

[21] Ibid.

[22] 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

[23] National Priorities Project, Impact of the President's Budget Proposal on States: Low-Income Home Energy Assistance Program, February 8, 2005; http://www.nationalpriorities.org/impact05/liheap.html

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

[25] Ibid.