

# Unraveling the Social Contract: The Privatization of Social Security and Medicare

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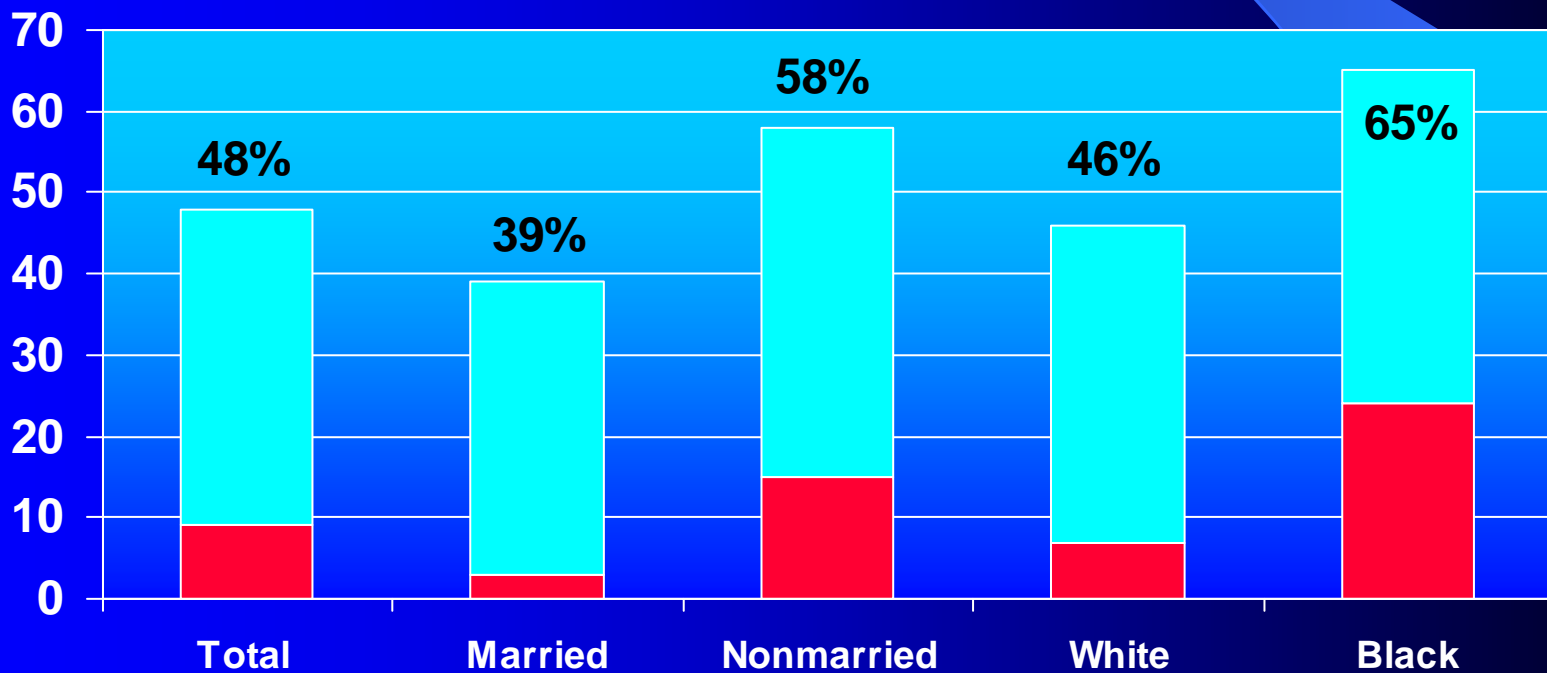
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# Social Security Prevents Poverty

■ Poor even with Social Security ■ Kept out of Poverty with Social Security



# SOCIAL SECURITY Beneficiaries

62% Retirees

38% Disabled & Survivors

# SOCIAL SECURITY

## Principles

- Universal
- Earned Right
- Wage Related
- Contributory and Self-Financed
- Redistributive
- Not Means Tested

# HISTORIC PRINCIPLES

- Social Insurance Protection
  - Retirement
  - Disability
  - Survivors (Children and Spouses)
- Benefit Adequacy

# Three Legged Stool



# Three Legged Stool

- Social Security
- Private Pensions
- Savings/ Private Assets

# PRIVATIZATION

- Individual Private Accounts Invested in Stock Market
- Risk Borne by the Individual

(Smeeding, Estes and Glasse, 1999)

# TWO FRAMES

- Generational Accounting
- Generational Interdependence

(Williamson, Watts-Roy and Kingson, 1999)

# GENERATIONAL ACCOUNTING FRAME

- Each generation should provide for itself
- One generation should not be asked to support another
- The elderly are getting more than their fair share

# GENERATIONAL INTERDEPENDENCE FRAME

- Mutual responsibility between generations
- Interdependence of young and old
- Intergenerational solidarity and reciprocity
- Age-generation equity balanced with other dimensions of equity: race, class and gender

# WHAT'S AT STAKE?

## Principles

Family Security and Solidarity

*versus*

Lone Wolf Individualism

# Path Dependent Policy Choices

## Critical Juncture

# The Divided Welfare State: The Battle over Public and Private

“Private benefits create powerful vested interests and widespread public expectations [and] enrich and strengthen private third party intermediaries and service providers.”

# The Divided Welfare State: The Battle over Public and Private

“The very division of labor between public and private sectors in social provision makes public officials extremely sensitive to the potential dislocations that might be caused by major government interventions.”

# RISKS

- Risk Transfer From System To Individual
- Risk of Market Volatility and Loss
- Risk of Transition & Administration Costs
- Risk of Lost Political Capital & Solidarity
- Risk of Benefit Cuts & Outliving Resources
- Risk of Massive Deficits/Burdening Youth

(Smeeding, Estes and Glasse, 1999)

# IMPORTANT NOTE

## Privatization

Government Costs  
*Increase*  
Rather Than *Decrease*

*Individual Retirement Accounts*  
*Financially Drain Trust Fund*

# CHANGES

## Individual Retirement Accounts Under Social Security

- Transfers risk from system to individual.
- Trades off defined benefit (with security) for defined contribution (with insecurity of market risk).
- Cuts guaranteed base retirement benefits.
- Damages safety net for disabled and survivors.

# CHANGES

## Individual Retirement Accounts Under Social Security

- Produces *new costs* of \$2-\$15 trillion for transition.
- Raises yearly program administration expenses from less than one percent (current SSA cost) up to 25%.
- Unresolved problems for SS disabled and survivors.
- Not a good deal for most women, ethnic minorities, and lower income workers.
- Exacerbates solvency issue for Trust Fund.

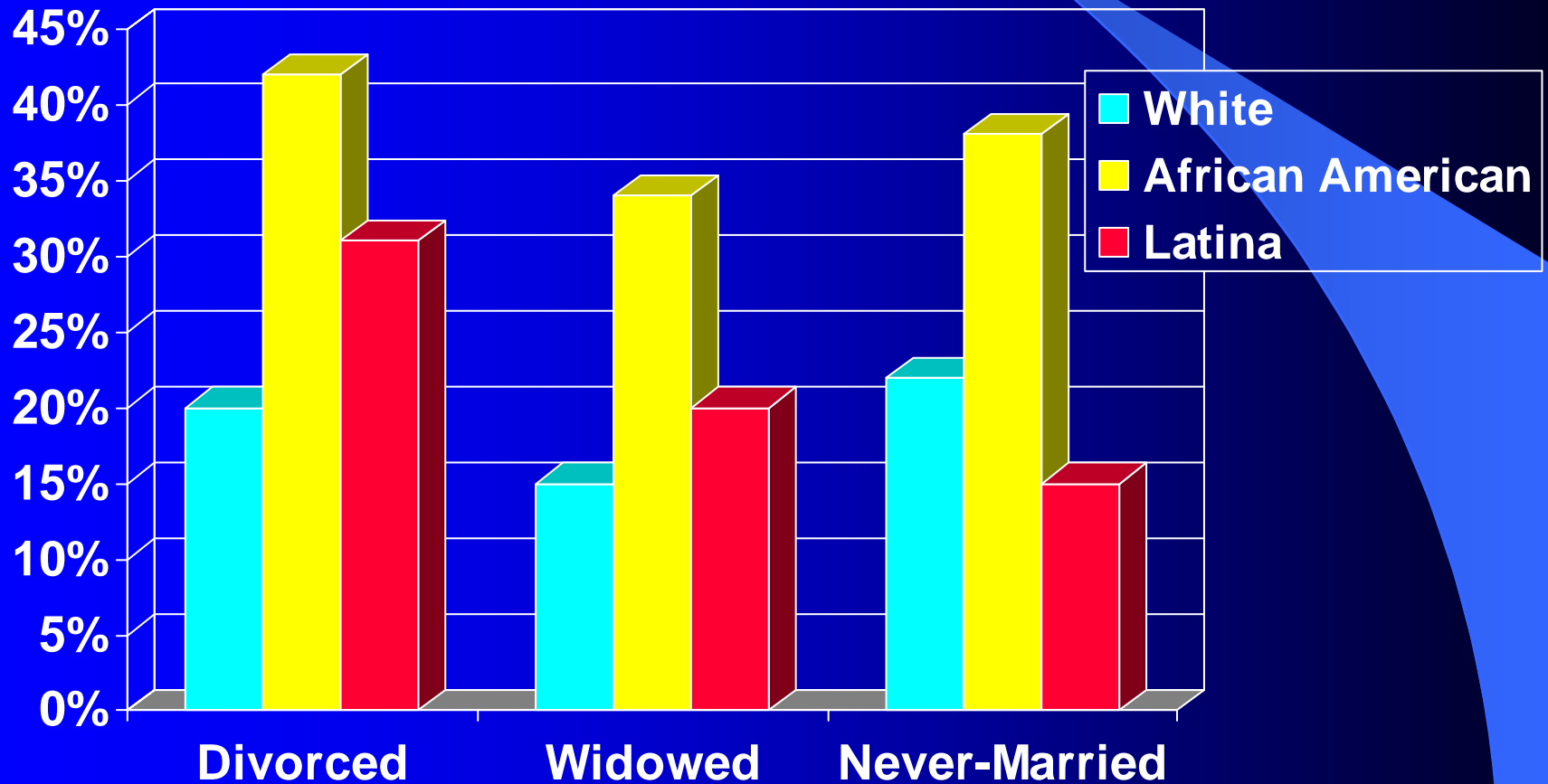
# PRIVATIZATION:

Not a Good Deal  
for Most Workers, Women,  
and Minorities

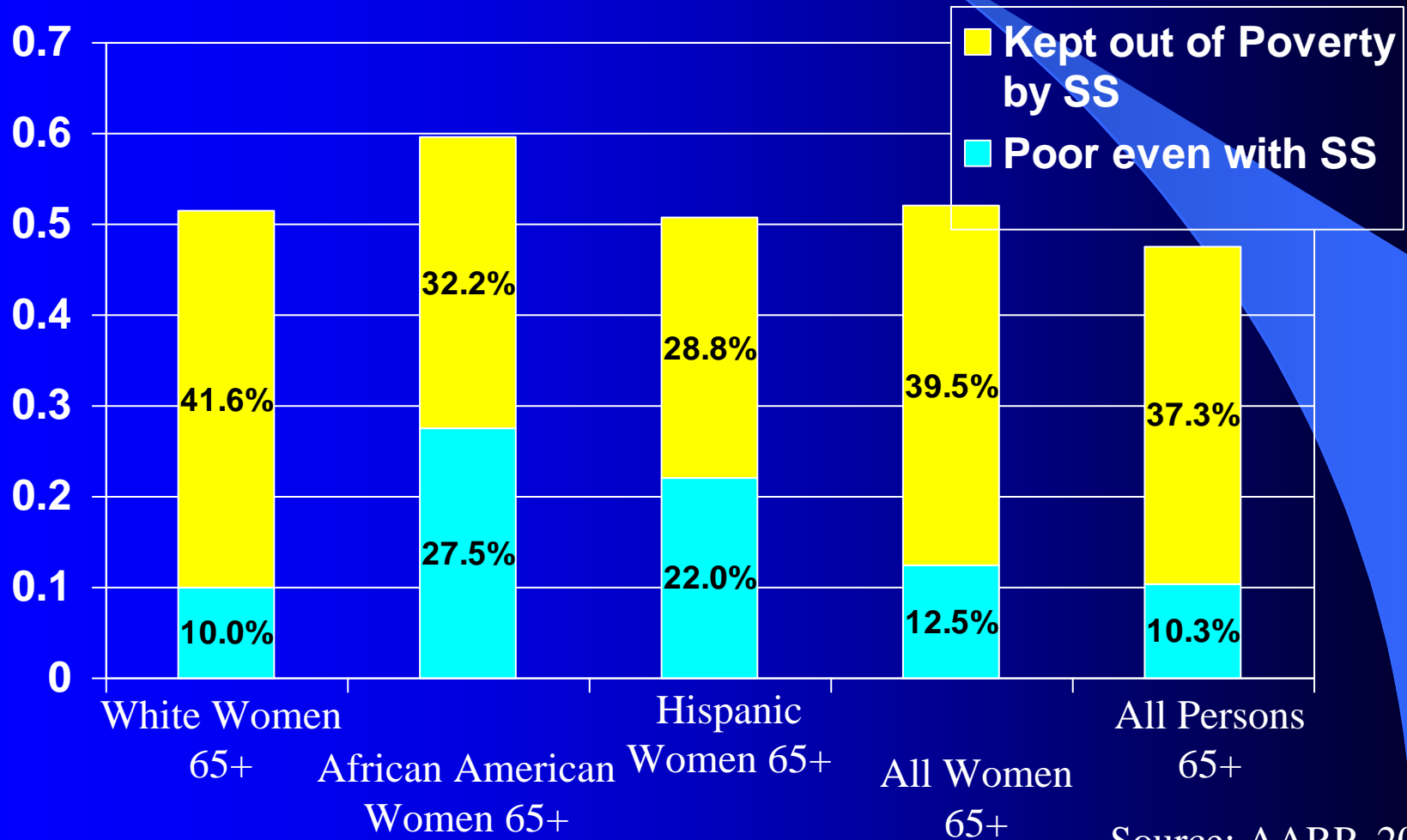
# Women & Social Security

- Women are More Dependent on the State
- Care Penalty Limits Labor Market Access
- Intergenerational Stakes are Very High for Women, especially Minority Women
- The Stakes are Very High for Today's Young Women Who Face Enormous Challenges to a Secure Retirement

# Percentage of Nonmarried Older Women Living in Poverty



# Percent of Women by Race Kept Out of Poverty



Source: AARP, 2005

# Women Need Social Security

- 75% of the Poor Age 65+ are Female
- Social Security Decreases Older Female Poverty Four-Fold; Without It, Would Rise from 13% to 52%
- Older Women's Median Income is Half of Men's
- 71% of Older Female Workers Receive No Private Pension Income (88% and 73% of older Latina and African-American Women Respectively)
- Older Women are Much More Likely to Live Alone
- Women Live Longer, Spending Down More.

## Social Security

- Retirement benefits for as long as you live.
- Guaranteed, predictable retirement benefits.
- Annual cost-of-living adjustments
- Progressive Benefit Formula.
- Disability and Survivors Benefits for families.
- Automatic benefits for spouses/surviving spouses.

## Private Accounts

- Risk of outliving your account balance.
- Risk that returns may go up – or down.
- Inflation erodes purchasing power.
- Those who have less, get less
- No assurances of family insurance benefits.
- All spousal protections unclear.

# Privatization Agenda

- Replace social contract and social insurance with market principles
- Treat beneficiaries as **citizens with property**
- Eliminate defined benefits
- Shift responsibility to the individual

# Privatization Agenda

- Eliminate Social Contract
- Shrink government
- Reduce costs to & contributions of business
- Erich Wall Street & global financial capital
- End Social Security adequacy

# Social Contract Agenda

- Preserve Principles of Social Insurance and Universal Entitlement
- Treat Beneficiaries as  
**Citizens with Rights**
- Maintain and Improve Social Security as a Defined Benefit
- Preserve Benefit Adequacy

# Social Contract Agenda

- Increase Public Responsibility/Fairness
- Maintain Safety Net for Youth, Disabled, Survivors, and Low Income Workers
- Protect Citizens Against Market Failure and Societal Catastrophic Events.

(Carroll L. Estes, 2003)

# PUBLIC OPINION POLLS

## **Majority of Americans**

- Social Security is one of the most popular and successful programs in American history
- Americans of all ages consistently support Social Security and maintenance of benefits.

# Rock the Vote Poll of 18-39 year olds

63% oppose private accounts  
if it means, “massive new  
federal debt in order to pay  
current benefits”

# Rock the Vote Poll of 18-39 year olds

65% oppose private accounts if it means,  
“changes in the way Social Security  
benefits are calculated would result in  
cuts to guaranteed benefits for  
everyone, not just people who choose  
to participate in the private accounts  
program.”

Source: Roper/ Rock the Vote, 2/03/05

# Social Insurance As A Base

## *Principle:*

- “That the best form of self-protection is mutual aid on a universal scale”
- “when everyone contributes, everyone can be protected”

(Ball, with Bethell, 1989, p70)

**2003 Medicare  
Prescription Drug,  
Improvement, and  
Modernization Act:  
Unraveling Medicare**

# MEDICARE: The Case for Stability and Sustainability

“Because Medicare serves elderly and disabled people, it should be seen as different from private health insurance for younger people. Medicare beneficiaries are far more impaired, and often more socially isolated, than many working Americans.” (NASI, 2003, p. 163)

# Medicare Reform Act: Lousy Economics

- Segments Universal Risk Pool
- Inserts Problems of Adverse Risk Selection of Private Insurance into Medicare
- Cost Control Strengths of Single Payer Medicare Lost (No Price Negotiation)
- Increases Administrative Costs (12-15%)
- Caps Government Costs, Not What Seniors Pay
- No Oversight Limits on Profits of Pharmaceuticals
- Cost Containment Shifts to Private For-Profits

**Undermines  
Uniformity and  
Guarantee of  
Medicare  
Defined Benefit**

# Medicare Reform Politics

- “In Traditional Medicare, all beneficiaries share the same coverage and administrative arrangements ....[They have] a sense of shared experience.”
- “ ...in communities [with] a number of M+C [and Rx] plans, beneficiary experiences may be very different.”
- “With less shared experience, there is less sense of common identity or shared concern for the status of the Medicare program” (NASI, 2003, p. 139).

# 2003 Medicare Modernization Act

*“a step away from the foundations of social insurance embodied in Medicare”*

- Beneficiaries in different plans would have different benefits and costs
- Poorer and sicker beneficiaries may not be able to afford same coverage as others.
- Beneficiary share of premiums will vary based on where person lives [and income]
- Premiums will fluctuate on annual basis
- Beneficiaries will make explicit choice each year [Formularies may change monthly]

(Rice & Desmond on Medicare Vouchers, Kaiser Family Foundation, 2002)

# Big Questions

- Traditional Medicare as just one of many plans for beneficiaries?
- Medicare priced beyond the means of most beneficiaries?
- Beneficiaries segregated in plans based on ability to afford cost?

# Bigger Questions: Citizenship, Democracy and the U.S.

- **Life course inter-dependencies**
  - Generational inter-dependence
  - Solidarity and community
- **Individualism**
  - Independence **from** society
  - Freedom **from** society and the state

# Politics

National Social Movement

versus

Fragmented Politics

# The Social Contract: Social Insurance

## *Unique Advantages:*

- **Coverage**
  - Equitable Protection for Entire Population
  - Poverty Reduction for Beneficiaries
- **Earned Benefit**
  - Beneficiaries Contribute
  - Earned Right to Benefits
- **Equality**
  - Everyone In the Same Boat
  - Broad Support For Program
  - Uniform Benefit

(Ball with Bethel, 1989, p 70-71)

# Beyond Complacency: The Politics of Stealth

- The Social Security Surprise
- The Fight is Not Over
- Moving Beyond Defense
- Back to the Offense: A Citizen's Agenda
- The Intergenerational Social Contract
- Community and Family Solidarity