

Privatization Proposals and Disability Insurance Benefits

March 2005

As advocates for people with disabilities, we know the importance of Social Security disability benefits in their lives. We know that the Social Security system is far more than a retirement program. Its disability and survivors insurance benefits, for workers and their dependents, have given these families the means to stay afloat financially. Every worker, with every FICA tax payment, is purchasing an extensive package of financial protection against wage loss, whether that wage loss is due to disability, death, or retirement. This package of protection must not be compromised.

To focus solely on how a worker's benefits fare at retirement under a privatization plan ignores benefits provided by the disability and survivors insurance programs. More than one-third of all monthly Social Security checks go to over 17 million people who are not retired. They include over 7 million people with disabilities and their families:

- Almost 6 million disabled workers
- About 1.6 million minor children of disabled workers
- About 759,000 disabled adult children
- Over 200,000 disabled widow(er)s

Families who depend on Social Security disability benefits struggle financially but their situations would be far worse without them. The poverty rate among disabled beneficiaries is twice as high as other Social Security beneficiaries. Social Security benefits are half or more of the total family income for about one in two disabled worker beneficiaries.

Diverting a portion of that FICA tax payment away from the trust fund and into a private account is the core component of privatization. The result is to drastically erode the protection provided by the trust fund. It will not be possible for a disabled worker who draws upon a private account before retirement age to match the protection provided by today's disability program; the current value of Social Security is equal to a disability insurance policy worth \$353,000 for a young worker who has a spouse and two young children. Most will never need it, but for those who do, Social Security disability benefits are crucially important.

Disability can affect anyone, anytime. About 3 in 10 men and 1 in 4 women become disabled before reaching normal retirement age. A worker who becomes disabled faces an immediate loss of income. This is where disability benefits step in. Under a system of private accounts, that worker's disability benefit amount would be decreased. In addition, since that worker could no longer put FICA tax payments into a private account, the benefit amount available for that worker at retirement age would also be significantly reduced.