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Social Security Reform and Union Households in Iowa

Today Public Interest Institute released a study entitled "Social Security Reform and Union Households in Iowa." This study demonstrates that workers in union households have a great deal to gain from a Social Security system that offers them the option of a personal retirement account (PRA).

The study examines three different reform plans, all of which return the Social Security system to solvency in the long term. The three plans are the 4% Plan, which allows workers to invest 4% of payroll up to $1,000 in a PRA; the 2.5% Plan, which allows workers to invest 2.5% of payroll in a PRA with additional funds being put in PRAs of low-income workers; and the 3%-Bond Plan, which allows workers to invest 3% of payroll in their PRAs with an additional 2% being invested in government bonds.

The study found that a couple age 25 making the median income ($37,950) for a union household in Iowa would have an average, over what Social Security promises, of $1,717 more per month in retirement income under the 4% Plan, an average of $870 more under the 2.5% Plan, and $1,152 more the under the 3%-Bond Plan.

A low-income union household in Iowa also fares much better; it would have an average, over what Social Security promises, of $377 per month in retirement income under the 4% Plan, an average of $423 under 2.5% Plan, and $256 under the 3%-Bond Plan.

The study has other strengths as well. Critics of reform often contend that greater administrative expenses, called expense ratios, would be incurred under a reformed system. Other critics contend that the stock-market decline of the last three years show that personal retirement accounts are too risky. Yet the numbers mentioned above reflect the fact that the study included expense ratios and included the stock market returns from the last three years. Ultimately, the study shows that such criticisms ring hollow.

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For a copy of the study, visit PII's website at www.limitedgovernment.org

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