

EDITORIAL

Some Inheritance

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As he stumps for Social Security privatization, President Bush always gets a big round of applause for promising that the money in a private account could be passed on to one's heirs.

If those happy clappers only knew the details.

Under the president's proposal, when you retired you would not be able to start spending the money in your private account until after you bought an annuity, a financial contract in which you hand over a lump-sum payment and, in return, get a monthly stream of income for life. The upside of buying such an annuity would be that you'd be protected against outliving all of your money. The downside is that even if you died immediately after retirement, the most your heirs would inherit would be the amount that remained in your private account after you had paid for the mandatory annuity. (If you lived longer, of course, you might well need to spend the remainder to supplement the annuity's low monthly payout.)

The idea of making the private accounts part of one's estate is particularly appealing to low- and middle-income earners, who may not have all that much to leave to their heirs under normal circumstances. But those are exactly the people who would have to use the largest share of their accounts to buy annuities.

The government would require that annuities be large enough to keep recipients above the poverty line for life. The less you had to start with, the less you'd have left over after buying the mandatory annuity.

What if you died before you retired? As with many claims Mr. Bush makes about Social Security privatization, the fate of your private account in the event of your untimely death is unclear. But one issue that raises big doubts about whether that money could be inherited is the question of how the trillions of dollars the government would have to borrow to set up a privatized system would be repaid.

Under the president's proposal, when you retired, your traditional Social Security retirement benefit would be cut by an amount equal to all the deposits you had made into your private account plus interest. (The interest would be three percentage points higher than the rate of inflation.) The benefit cut would be each person's contribution to repaying the huge debt the Bush administration would take on to "pay for" privatization.

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But if you died before you retired, you would have already used some of that borrowed money to set up the private account and yet would never have made any contribution to repaying the debt. So in that case, how would the government recoup your share of the amount it had borrowed? Well, it could let your share of the debt go unpaid - in effect bequeathing to your heirs and their fellow citizens ever-higher deficits. Or your spouse could inherit your private account and the benefit cut that went with it. Or the government could take its cut from your private account before the money went to your survivors - a grab that could wipe out your stash.

The White House would hotly deny that the last alternative could happen. Nothing freaks out the Bush administration more than the suggestion that the government would ever tap someone's private account - even for money that is owed to the government. It doesn't, however, seem too bothered about gutting your traditional benefits. Go figure.

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