



Social Security: The Case for Partial-Privatization

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The Current Situation

- ◆ Workers pay a 12.4% Social Security tax on all wages up to \$87,900.
- ◆ The Social Security Trust Fund is the surplus workers are paying over what is needed to pay retirees today. Due to demographic shifts, the trust fund will go bankrupt in 2018 and there will be a deficit. The Social Security Administration estimates a tax hike to 18% by 2032.



(Partial)-Privatization

- ◆ Workers contribute a part of the 12.4% into an account they own.
- ◆ The account consists of conservative stock and bond mutual funds.
- ◆ Workers over age 45 or 50 (depending on proposal) would not experience a change in their plans.

Benefits of Personal Retirement Accounts



(source: Cato Institute)

- ◆ Projected returns much higher than the government system.
- ◆ Individuals own their own accounts and can pass them down to their children if they wish.
- ◆ Low-wage workers create wealth.
- ◆ Improved economy as more workers invest in American business.





Do workers need to understand investing to participate?

- ◆ Investment knowledge is helpful, but would not be required. Options would be limited and conservative.



Wouldn't privatization be risky?

- ◆ Yes, but only to a point. Since 1926 the average real rate of return on the stock market has been 7.56%. The worst 20-year period during that time included the 1929 crash and the Great Depression and still resulted in a 3.36% rate of return.
- ◆ Social Security's rate of return is 1-2%.
- ◆ The government could offer a safety net if unforeseen market declines occurred.



Will privatization cost anything in the short run?

- ◆ Yes. The trust fund assumes that all of today's social security contributions pay current recipients or accrue in the trust fund. Allowing workers to control a part of their contributions would deplete the fund earlier without some changes.



How can a shift toward private accounts be financed?

- ◆ Raise the retirement age (a reasonable option considering life expectancies)
- ◆ Raise the amount of wages on which social security taxes will be paid (Bush might consider)
- ◆ Increase the social security tax rate (Bush opposes)
- ◆ Lower benefits (Bush opposes)
- ◆ Some combination of the above.



Closing Thoughts

- ◆ Don't believe everything you hear about social security reform. Consider the source.
- ◆ Social Security will run a deficit by 2018 if nothing is done. The longer we wait to solve the problem, the worse it will be.
- ◆ Allowing workers to control a part of their contributions is not only the right thing to do, but it can also create wealth for low-wage earners.
- ◆ Partial privatization is only part of the solution.