Privatizing Social Security Has Proven a Tough Pill to Swallow – What Are the Pros and Cons?

Vance Cariaga

June 27th, 2022

Proposals to privatize Social Security are not new. They've been around for at least 30 years, when politicians and think tanks suggested private investment accounts as an option to address the program's financial problems. Those problems are still around — and so are calls in some quarters to privatize it.

Arizona Republican Senate candidate Blake Masters is the latest politician to press the issue, Business Insider reported. At a recent primary debate, Masters voiced doubts that he would ever receive Social Security himself, being a millennial.

"We need fresh and innovative thinking, maybe we should privatize Social Security," he said. "Private retirement accounts, get the government out of it."

His concerns likely stem from a 2021 report from the Social Security board of trustees saying that the program's cash reserves will be fully depleted by 2034. Annual taxes are expected to cover only about 78% of the benefits each year after that.

But previous efforts to privatize Social Security have run into a wall of opposition — especially from retirees who depend on the benefits. In 2004, then-President George W. Bush unveiled a plan for people to open their own private retirement accounts and provide the option to redirect payroll taxes into them. But the plan was doomed by resistance by both Democrats and some Republicans.

Nearly two decades years later, the debate still hasn't gone away. As the Britannica Pro/Con website noted, proponents and opponents of privatization can both trot out several reasons to support their positions.

Pros

Here are three reasons why privatizing Social Security might be a good idea.

1. The current Social Security program will become insolvent by 2035, so a better system is needed. The CATO Institute's Project on Social Security stated that moving to personal retirement accounts can "reduce Social Security's debt and bring the system back into solvency."

2. With private personal accounts, retirees will get higher returns on their investments because of consistent growth in the stock market (the current bear market notwithstanding). The year-over-

year growth rate for private investments has historically been much higher than the return gained by retired workers in the current Social Security program, according to research cited by Britannica Pro/Con.

3. Private accounts give people more control over their retirement decisions because they can choose their own investments instead of having the money sit in a government-controlled entity.

Cons

Privatizing Social Security could also have adverse consequences.

1. Privatizing Social Security will actually do nothing to address its impending insolvency — and maybe even make it worse. The reason Social Security trust funds are running out of money is because the program's cost is increasing at a faster rate than its revenue from payroll taxes. That will only worsen if a portion of payroll taxes are diverted away from the Social Security trust funds and into private retirement accounts. A 1997 Brookings Institution analysis found that if just 1% of payroll taxes had been diverted to private accounts in 1998, the trust funds would have been insolvent by 2015.

2. Americans' retirement money will be vulnerable to stock market volatility. Because of the normal up-and-down stock market cycles, those who retire during a selloff would be a lot worse off than those who retire during a boom. Even diversified mutual and bond funds carry risk and are not guaranteed or insured by the government. Economist Dean Baker estimated that average 15-year-olds in 2005 who retire in 2055 would lose more than $160,000 of their scheduled benefits under Bush's plan and gain less than a third of that back from private account investments.

3. Privatizing Social Security would dramatically increase the national debt by transitioning to private accounts while also continuing to provide benefits to current Social Security beneficiaries. MIT economist Peter A. Diamond estimated that such a transfer of funds would add $1 trillion to $2 trillion to the country's national debt and potentially trigger an economic crisis.