MarketWatch

Do workers really want to gamble their Social Security benefits on Wall Street?

Max Richtman

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This month's dramatic losses on Wall Street in the midst of the coronavirus crisis are a reminder of why Social Security is so important — and why privatization of Americans' earned benefits remains such a bad idea.

In a few short weeks, workers nearing retirement have seen their 401(k) accounts crater. They may not have time to recover those losses before retiring. Too many nest eggs will be hollowed-out if not destroyed altogether.

Amid this market volatility, retirees can still count on Social Security for basic retirement income. Those benefits — about $1,500 a month for the average worker — are far from lavish. But they are reliable. A recent survey by the National Institute on Retirement Security (NIRS) indicated that more than 40% of retirees depend on Social Security for most or all of their income. That's one reason why Social Security is the bedrock of America's working and middle classes.

Unfortunately, entitlement reformers have long sought to privatize the program by allowing workers' payroll contributions to be invested in private accounts. These "reformers" would encourage Americans to gamble their hard-earned Social Security funds on Wall Street. If markets tumble, retirees' Social Security checks would be reduced. The distinction between 401(k) plans and guaranteed Social Security benefits would begin to blur — and likely disappear altogether if the program were completely privatized.

President George W. Bush tried to privatize Social Security in 2005, believing that he'd earned enough "political capital" from his 2004 re-election to transform the program. We and other seniors' advocacy groups fought with everything we had — and ultimately defeated — President Bush's privatization campaign. In the aftermath, privatizes softened their rhetoric, shifting their focus to Medicare and calling instead for Social Security "reforms" — including raising the retirement age and adopting a stingy cost-of-living adjustment formula. But privatization remains a cherished goal of some "fiscal hawks" who pay lip service to strengthening Social Security, while seeking to undermine it in the long-run.

Diverting workers' payroll contributions into private accounts would exacerbate Social Security's financial challenges by reducing revenue flowing into the trust fund — ultimately leading to benefit cuts. With the trust fund projected to become insolvent in 2035, Congress should be boosting, not reducing, revenue for the Social Security system — as Rep. John Larson's Social Security 2100 Act would do (in addition to increasing benefits). But "entitlement reformers" simply want to slash benefits. In his 2010 Roadmap for America's Future, soon-to-be House Speaker Paul Ryan proposed cutting future Social Security benefits by 16% and diverting the savings into funding private accounts.

Let's be clear. Privatization is not a plan to save Social Security. It is a plan to dismantle Social Security without explicitly saying so. The push for privatization began with the libertarian Cato Institute in the 1970s. As the Washington Post reported in 2005, "Cato's privatization effort was aimed…not just at dismantling Social Security but also at making major inroads against what it considered an overweening central government." Cato's executive vice president called Social Security "the linchpin of the welfare state."

The privatization movement deploys several myths to make its case.

The most prominent myth is that returns from private accounts would make up for inevitable cuts in Social Security benefits — a hard sell after the stock market crashes of 2008 and 2020.

Another myth is that private accounts would be voluntary. But benefits would have to be cut for those who opt out of the private system, forcing workers who are unwilling to risk their Social Security funds on Wall Street to subsidize those who are willing to gamble with their retirement.

A third myth holds that younger workers would receive a higher rate of return under a privatized system. But the Congressional Budget Office concluded that the costs of transitioning to a privatized system would reduce the rate of return for today's young people by the time they retire.

Social Security was founded on the principal of worker-funded benefits. Workers pay into the system today, knowing they will receive guaranteed benefits later. That's why we call them earned benefits instead of "entitlements." The system has worked extremely well for nearly 85 years to provide workers with basic financial security upon retirement, disability, or the death of a providing family member. Americans should be extremely wary of any proposal to alter the fundamental nature of Social Security, including — and especially — privatizing their earned benefits. For proof, look no further than the turmoil on Wall Street.