The Washington Post

Distorting Social Security privatization proposals

Tuesday, November 30, 2010; 8:12 PM

Allan Sloan's Nov. 25 Business column, "Let's talk turkey about privatizing Social Security," was an unfair indictment of that idea.

Sure, investing retirement funds in stocks and bonds carries the risk of a market collapse as one is about to retire. But future retirees are facing high political risks under an exclusively government-operated system: the possibility of lawmakers raising statutory retirement ages or otherwise reducing benefits to close the system's prospective shortfall.

The uncertainty is reflected in the fact that the timing of when the trust funds will be exhausted has been brought closer to the present by more than 20 years since the system's last overhaul in 1983. Spreading, at the margin, financial risks across market-based and government-run systems seems like a desirable change.

Most Social Security privatization proposals do not presume that one must liquidate and annuitize 100 percent of one's retirement wealth immediately upon retirement. Most make participation optional and most specify a minimum guaranteed benefit. Such reforms could also be designed to include progressive protections against market downturns.

Jagadeesh Gokhale, Rockville

The writer is a senior fellow at the Cato Institute and a member of the Social Security Advisory Board.