



Ideas Changing the World

Still a Better Deal: Private Investment vs. Social Security

February 15, 2012

Opponents of allowing younger workers to privately invest a portion of their Social Security taxes through personal accounts have long pointed to the supposed riskiness of private investment. The volatility of private capital markets over the past several years, and especially recent declines in the stock market, have seemed to bolster their argument, says Michael Tanner, a senior fellow with the Cato Institute.

However, private capital investment remains remarkably safe over the long term.

- Despite recent declines in the stock market, a worker who had invested privately over the past 40 years would have still earned an average yearly return of 6.85 percent investing in the S&P 500, 3.46 percent from corporate bonds and 2.44 percent from government bonds.
- If workers who retired in 2011 had been allowed to invest the employee half of the Social Security payroll tax over their working lifetime, they would retire with more income than if they relied on Social Security.
- Indeed, even in the worst-case scenario -- a low-wage worker who invested entirely in bonds -- the benefits from private investment would equal those from traditional Social Security.

While there are limits and caveats to this type of analysis, it clearly shows that the argument that private investment is too risky compared with Social Security does not hold up. With Social Security already running a cash flow deficit today -- and facing a \$21 trillion shortfall in the future that will make it impossible to pay promised benefits -- private investment and personal accounts should be part of any discussion about reforming the troubled system.

Source: Michael Tanner, "Still a Better Deal: Private Investment vs. Social Security," Cato Institute, February 13, 2012.

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