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# Here's What Could Happen If Social Security Invested in Stocks

Jeff Bukhari

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Social Security faces a potential fiscal crisis because the number of retirement age Americans is growing so fast. The politics around the issue usually focus on two painful choices for fixing it—either raising taxes or cutting benefits. But there's another option that some reformers have proposed: Letting Social Security play the stock market.

Under current law, the assets in the Social Security trust fund are invested in Treasury bonds, notes and bills. That means they're safe—but it also means they generally earn fairly meager returns, and aren't growing fast enough with the program's increasing expenses. Some reformers advocate putting up to 40% of those assets into the stock market, with its potential for higher rewards.

Would it work? In a piece this week in the Wall Street Journal, advocates on either side debated the pros and cons.

Alicia H. Munnell, who is the director of the Center for Retirement Research at Boston College, argues that shifting away from low-return Treasury bonds toward stocks with high-expected returns would sharply reduce the need to increase tax burdens or cut benefits.

Had Social Security started investing in stocks in the early 1980s or late 1990s, she argues, the trust fund would be significantly more flush than it is now, even taking into account the bursting of the tech bubble in 2000 and the meltdown in 2008. She relies on a database of 1,000 simulations of future returns to conclude that, 75 years from now, a Social Security trust fund portfolio that includes stocks will produce a healthy ratio of assets to benefits, while a trust fund consisting of only bonds will be completely exhausted.

On the other side of the issue is Michael D. Tanner, who works with the Cato Institute. It's worth noting that one issue Tanner doesn't bring up is the volatility of the stock market. (There's no guarantee the market will continue to go higher, and the solvency of the system could be compromised if the market had a prolonged crash.) Instead, he argues that investing Social

Security assets in stocks would place way too much market authority in the hands of those in Washington.

The $2.9 trillion currently in the Social Security trust fund represents about 14% of the value of all the stocks on the New York Stock Exchange. Tanner argues investing even just a portion of it would allow for the government to purchase a commanding share of almost every major company in the U.S. Even if that money were invested in index funds (which is the approach Munnell supports), the way the government managed its voting rights could effectively allow it to "pick winners" among corporate entities.

Tanner also raises a practical obstacle. The bonds in the Social Security trust fund aren't real assets: Instead, they are claims against future revenue. In order to invest those funds into stocks, Social Security would have to redeem those bonds for cash. Given that the government is currently running a deficit and is $20 trillion in debt, scratching up the money to redeem those bonds would require either higher taxes or more government borrowing.

Of course, in today's political climate, it's hard to know when or if such a radical change could make it to the legislative phase. In the meantime, the uncertain long-term future of Social Security makes it all the more important that savers build substantial nest eggs of their own. Interestingly enough, a growing number of financial advisers believe that the best way to keep those nest eggs growing is to keep more assets invested in the stock market—exactly the kind of risk that policymakers are wary of when it comes to Social Security.