

TO: Rep. Richard Neal
FROM: Kevin Caggiano
SUBJECT: Saving Social Security
DATE: September 29, 2021

Executive Summary:

The entire Social Security system is rapidly approaching an inflection point where if drastic action is not taken, the program will all but collapse. According to the Social Security Administration (SSA), benefits are expected to be paid in full and on time until 2037.¹ After that point, the Social Security Trust Fund (SSTF) will be exhausted and only 76% of benefits could be maintained. Many scholars, economists, and politicians suggest some type of combination of tax increases and benefit cuts to sustain the system for the next 75 years. However, that approach is (a) largely politically infeasible, and (b) delaying the inevitable. I suggest that the government does what they should have done 30 years prior – the establishment of the SSTF as a sovereign wealth fund that would create long term sustainability, taking advantage of and bolstering our world class economy.

Just how Problematic is the Problem?

Social Security is becoming stressed at a drastically increasing rate. For example, in the inaugural year of Social Security, the ratio of Social Security covered workers to beneficiaries was 159.4. By 2000, that ratio was at a mere 3.4.² The SSA states that a ratio of at least 2.8 is needed to maintain the pay-as-you go structure. This problem becomes even more dire when you consider the forthcoming demographic changes in the country. Today around 12 percent of the total population is aged 65 or older, but by 2080, it will be 23 percent.³ The SSA estimates that a 1.4% (75-year present value as a percentage of GDP) deficit must be overcome in order to

¹ “The Future Financial Status of the Social Security Program.”

² “Social Security History.”

³ “The Future Financial Status of the Social Security Program.”

maintain the current system.⁴ There are a variety actions to take that can get us to this number. For instance, you can raise the payroll tax rate percentage, cut benefits, raise the wage base, or modify the Primary Insurance Amount percentages. Nevertheless, these solutions provide a short-term solution to a long-term problem. Notwithstanding the immense political capital and cooperation needed from both Democrats and Republicans in order to pass even one of these measures. I propose a solution that can circumvent complicated budgetary and parliamentary matters, while making both sides of the aisle happy, and providing the American people a successful system that will ensure they get the benefits they need for as long as they need them.

A New Vision for Privatization:

Privatization has long been touted as a possible remedy to the Social Security problem. It would eliminate the pay-as-you go framework and substitute it with individual accounts invested privately in the markets.⁵ It is akin to a government set up 401k or traditional retirement plan. Proponents would say it gives people more freedom with what to do with their money, and that people would experience more monetary gains over time. But, those against privatization argue that it significantly increases individual risk, is too complicated, and it will undermine the overall purpose behind the safety-net of Social Security.

Each argument has their own merits. Yet, you simply cannot ignore the numbers surrounding private investment growth compared to SSTF growth. Social Security is and has been one of the worst performing pension funds in financial history. In 2020 the SSTF earned less than 1% on its bond investments. Meanwhile even with the unprecedented events of the Covid-19 pandemic, the S&P 500 index fund and the more diversified Vanguard index fund

⁴ “2021 Social Security Trustees Report Handout”

⁵ “What Would Privatized Social Security Mean for Americans?”

earned 18% and 16% respectively.⁶ If you look at returns over time, it simply is no-contest. A private solution will not only have saved social security, but increased the SSTF dramatically. Some type of privatized system must be implemented with haste.

I propose combining the best of both sides of the argument. A sovereign wealth fund. This private-public solution will do wonders for all Americans and allow Social Security to not only survive, but thrive, while at the same time strengthening our economy. The Social Security Sovereign Wealth Fund (SSSWF) will work by taking a majority of the \$2.3 trillion in the SSTF and investing it in the private sector via a diversified portfolio similar to Vanguard, Blackrock, or Fidelity. A portion of the SSTF will be reserved to continue paying current beneficiaries until the SSSWF realizes sustainable gains. Social Security taxes will be lowered incrementally to also allow necessary funding to support current beneficiaries. Once the SSSWF reaches the necessary gains to become self-sustaining, Social Security taxes will be lowered to a very small percentage (circa 1%) in order to continue providing investment capital to the fund.

Current benefits could stay in place, and as the fund grows benefits can actually be increased without having to raise taxes. Furthermore, benefits to high wage earners will be incrementally cut as the fund grows, allowing for even more benefits to those that need them. This will work because high wage owners in the US are already heavily invested in the markets and will see their own benefits via the SSSWF investing large amounts of capital into the US economy. For example, 89% of households in the US who earn over \$100,000 are invested in the market.⁷ With an increase in benefits, a decrease in taxes, and constant government reinvestment in the US economy, I believe the Social Security Sovereign Wealth Fund will drastically change the well-being of all Americans.

⁶ Arends, "Opinion."

⁷ Inc, "What Percentage of Americans Owns Stock?"

The most obvious rebuke of the SSSWF would be the risk factors involved. Yet, if you look at similar funds like the Norwegian Sovereign Wealth Fund, you can see that they appropriately navigate risk. For example, the Norwegian fund only experienced a 12% loss during the global financial crisis of 2008.⁸ Prudent investing, along with large amounts of capital being invested back into the economy will help circumvent any risk of the fund collapsing. Sovereign wealth funds have been proven to experience long-term consistent growth. From 1990-2021 the world's sovereign wealth funds have grown from about \$300 billion in total assets to over \$9 trillion.⁹

Another area of concern would revolve around the management of these funds. How can we prevent cronyism, corruption, favoritism, or inefficiency? The answer would be to emulate the things we already do with defense, infrastructure, and healthcare spending. Afterall, the government has been allocating trillions of tax dollars to the private sector over the years. The necessary precautions and regulations can be implemented to ensure high levels of accountability, fairness, and trust.

Finally, one would question the political viability of this idea. Although the initial barrier of transforming the entire Social Security system is formidable, once crossed, the long-term effects of a SSSWF could get even the most doubtful member of Congress onboard. Furthermore, this plan leaves both parties happy. The Democrats are able to increase benefits over time, and the Republicans can lower taxes. We must begin this process before it is too late. Every day that passes is another wasted opportunity, and another day closer to a Social Security point of no return.

⁸ "The Fund."

⁹ "Sovereign Wealth Funds Surpass \$9 Trillion in Assets - SWFI."

Sources

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