Partial Privatization of Social Security: A Suggested Policy

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Introduction

In recent years, the public has come to the realization that Social Security is a completely unsustainable program. Social Security in the US provides benefits to retirees at the age of 65 to help support their lives financially when they are incapable of working anymore. The way it is funded is through the payroll tax of those who are currently employed and trust fund IOUs. However, with this current structure of financing, the IOUs are projected to run out by 2035 (Gokhale, 2013). There is definitely a need for reform in the program if the future retirees in our country want any form of benefits. Because of this problem, we are presenting this policy brief to the U.S Department of Treasury as an Amended Budget Analyst, focused on economic stability in the long run. Our proposal supports an implementation of partial privatization of social security through the creation of retirement accounts through private financial organizations. This idea is structured from a 2019 study, "Social Security Expectations and Realities" written by John Turner and others which reveals pessimism amongst the general workforce, especially the younger population. This is because they believe they will not receive any benefits at all. This study also highlights the lack of public confidence (across different ages, education, income, and more), low expectations, and more regarding the social security policies. Turner argues that there needs to be clearer and better communication from the social security administration to alight with the general public's expectations and the reality of the economy. In the 2013 article, "Social Security Reform: Does Privatization Still Make Sense?" written by Jagadeesh Gokhale, the problems with the current structure and funding of Social Security are laid out, as well as potential solutions. Privatization was the main method of reform discussed, and Gokhale elaborated on the pros and cons of both "Add Ons" and "Carve Outs." His solutions and conclusions were drawn based on theoretical analysis on the respective program's potential future effect on the economy and private savings. To put this in perspective in our plans, we would ideally like to follow the traditional legislative route. This is us proposing a bill to the U.S Treasury, Congress then proposes this bill which then undergoes review from bureaucratic committees. After this, both chambers of congress debate and vote and if passed, the president signs the bill and it is implemented into federal policy. The Social Security Administration would enact this policy and create change within society. By enacting these policies for social security, individuals would gain greater control over personal retirement funds, obtain higher returns on investments, and have higher transparency/literacy on retirement. In class, we have learned more about the structural details of social security, the problem with the way it is currently structured, and potential solutions to the program with reform. Essentially early on the program was beneficial, now we see a struggle of the younger generation carrying the burden financially, despite the amount of retirees decreasing. As well as having implicit taxation that Social Security may levy on workers at older ages by reducing the value of Social Security benefits as retirement is delayed. We found partial privatization the most effective. The effectiveness of our proposed reform can be measured through a variety of methods. In our proposal, we have decided to focus on personal savings, the longevity of staying employed into old age, the average Social Security payouts, and the elderly poverty rate.

Article Reference

There are two articles that have given the most insight to the topic at hand. The first article we will be referencing is written by Jagadeesh Gokhale, titled “Social Security Reform: Does Privatization Still Make Sense?” As we have previously acknowledged, with the way Social Security is currently funded and structured, it is known to be a ticking time bomb. First, I believe it is important to explain how Social Security is theoretically supposed to function before explaining the intricacies and realities to the program. Social Security is a monthly check paid by the government if you are over the retirement age and have worked for a certain amount of years. There are differences between payments and eligibility that I won't dive into in this paper, because the main focus is how it is financed. It comes from a surplus of your payroll taxes that are invested in Treasury Securities. These treasury securities are basically a way the government borrows money from themselves, and they put this money in IOUs. They promise these securities will earn interest, and they will pay back these securities to you at a later date, I.E. in the form of Social Security checks.

However, all this being said, in its current form, this program is a "pay as you go" financing structure. The reality is that young people are technically paying directly towards current retirees, and this becomes very problematic as the age demographic in America is now skewing much older, with more people than ever opting to not have children. Mathematically, it has been proven that under the current economic trajectory of the United States, trust fund IOUS will run out by the year of 2035. Only 75% of Social Security benefactors will be able to receive their current benefits at the current level of funding. Not only this, but IOUS are used to fund other government programs as well. Not only then do we have a Social Security crisis, many other programs are going to be under financial stress as well.

Social Security was originally intended to protect people unable to work from financial crises in their later years of life after they had spent an adequate amount of years of their capable life contributing to the success of the United States Economy. However, the age expectancy of the US has increased dramatically, but the program has not adapted in order to reflect that change. People are living longer, and capable of working longer, but like a rational person would, they're claiming those retirement benefits as soon as they can. Capable, but older people are leaving the workforce faster than young people are entering it, and the incoming working class are the ones who are going to suffer. Consider the program's intentionality in reference to consumption smoothing. This program, theoretically, should want to incentivise people to work to become eligible for these benefits. Their hard work will encourage current consumption, but also allow for equal amounts of consumption later in their lives when they don't have a working source of income anymore. However, in reality, this program seems to have a worse effect on savings than it does a positive one on consumption. The overall wellbeing of the economy is both based on levels of consumption AND savings, but many people do not save in their early years because of their promised Social Security benefits upon retirement. But now with the reality that these people may potentially not be receiving their benefits, the older generation's lack of savings is going to stunt economic growth dramatically. Greater savings and longer years of work must be incentivized and mandated under a new form of this program for it to adapt to the current demographic of the United States.

The article presents a couple of solutions to consider when looking at options of reform, and acknowledges the pros and cons of each proposed method of reform. One is to simply increase the payroll tax to allow for the same level of benefits. When running the numbers, it would look like an increase from about 10.6% to 12.77%. However, this proposed solution would just further kick the primary issue at hand down the road. This level of funding would only prolong the program until 2086, in which we would run into the exact same problem again. We can't just keep raising payroll taxes forever, and looking for other sources of income to fund Social Security will only get us so far. This then leads us to a common proposed solution: the privatization of the governmental program.

Studies and economic analyses have been conducted on the privatization of Social Security, and it has shown that through these private accounts, returns could actually be as high as 9% of GDP. This is significantly higher than the system that is currently in place. However, this system doesn't come without its difficulties and drawbacks. One issue that must be addressed immediately is what the new minimum years of work required for eligibility must be, what the minimum retirement age will be, and how accommodations will be added for the mentally and physically disabled. There is truly not a one size fits all answer to this problem, and the government is going to have a difficult time finding a solution that will not only appease the voting population, but that will also be economically beneficial and practical. Privatization would not directly cure Social Security in its current form, and would not be an immediate replacement. There would be a huge financial gap left in people who didn't have years of savings in these private accounts that the government would somehow have to find room in the budget to compensate them. All these people were recently promised Social Security benefits that they technically did pay for in the form of payroll taxes, but if the program is completely nuked and there is no compensation, almost the entire elderly population would be impoverished. Absolutely no one would be receptive to passing this bill, so there must be additional adjustments made with a reform bill that includes privatization. Lastly, you have to take into consideration inequality of income sources. High income earners may receive high, early returns that could potentially lead to a very early retirement. They have been disincentivized to work, which is exactly the opposite of what this program is attempting to do. There needs to be some form of redistribution to help subsidize low income families and workers, while still incentivizing everyone to work longer and save more, in order to be able to consumption smooth adequately.

With all of these facts being stated, our company is proposing the partial privatization of Social Security to the US government. We see here that full privatization on its face will never work on its own, and "carving-out" personal accounts is the solution we are proposing for the problems that have been presented. The carve-out approach basically diverts part of the payroll taxes in their current form towards private personal accounts, while the rest goes towards Social Security as it is currently structured. This private investment will yield greater returns than that of the current Social Security program, which would fix the problem of the program's unsustainability. Over the course of time, people will rely less on the benefits provided by the government, and more on the increased return of their private accounts. This also relieves government debt to future retirees, which under the current system, is accumulating at staggering rates, and only increasing in its current state. While this still wouldn't completely solve the problem for current retirees not having enough funding for their current retirement, that is a problem that is inevitable, and the government will have to increase spending to treat the problem one way or the other. However, rather than full privatization, which would immediately cause immediate need for government spending towards current retirees by trillions, carve-outs significantly decrease that number owed by the government by making current workers still pay a portion of it in their payroll taxes. The compensation for previously paid payroll taxes will be much less under partial privatization than full privatization, or any other proposed solution that may completely uproot and dissolve Social Security in its entirety. In the meantime, they are investing in a private portfolio of their own that will have greater returns than the government could have ever promised or provided. This would also encourage increased savings and working capital of workers. The more they save in their Social Security accounts, the more return they will yield later in retirement, which is incredibly helpful in stimulating the United States economy.

With a follow up to the first article, we want to also mention the 2019 article written by Josh A. Turner and David Rajnes, titled: “Worker's Expectations About Their Future Social Security Benefits: How Realistic Are They?” This article is a large part of the reason we are certain this will be a successful proposal, and why we are coming to the government with our reform policy in the first place. This article was a summary of several different studies and polls on the American people and their confidence in Social Security, and how that has changed over the years. There are a few important statistics we believe are important to point out. In early years, confidence in the retirement program were much higher. 32% of people polled in 1979 were confident Social Security would be enough for them to retire. 63% in 1976 were somewhat confident in the program, with only 10% expressing scepticism. In 1971, those polled on their expected Social Security payout had a prediction that was on average, 10% lower than what they actually received. However, in recent years, these numbers have become much more cynical and bleak. In 2007, 25% of people 52 or older said that there was less than a 60% chance of receiving their benefits, and 21% said there was less than a 50% chance. By 2015, only 4% of those polled were very confident they would get social security, 19% thought there would be zero benefits at all by the time they reached retirement, with 32% confident it would be less than what was promised to them.

This is a staggeringly large amount of the American public that knows Social Security is not a safe system, and it is obviously in need of reform. The United States Government must hear the voice of their people, and this should, by all means, be a bipartisan issue. As shown in all of these studies, the program will inevitably meet its end by 2035, and nobody wants to bear the consequences of it blowing up suddenly in everyone's faces when we don't have methods prepared and in place to fix it. If the government isn't prepared and loaded with solutions and reform bills when the time comes, the country will lose trillions in lost time and resources. Economic security into our future is something that everybody wants, and while the methods to reach that may differ from party to party, these articles present solutions that will certainly be incredibly beneficial to the government and all of the American people.

Application

Currently the U.S Social Security system functions on a pay as you go basis, (PAYGO) model. This is where payroll taxes are collected from today's workers and are used to fund the benefits of current retirees. Although this system worked well in the beginning when there were more workers than retirees, demographic shifts and rising life expectancy have made the program increasingly unsustainable. As referenced in the Gokhale's article, the Social Security Trust Fund is projected to be depleted by 2035, after which the program will only be able to fund about 75% of promised benefits unless a reform is enacted. This has raised serious concerns about the system's longevity and fairness across generations.

In response to this issue, we are proposing a partial privatization of Social Security through a carve-out system. Under this policy, a portion of each worker's payroll would be redirected into personal retirement accounts managed by private financial institutions. The remainder would still go into the traditional Social Security program to fulfill its original intended purpose. This approach allows individuals to take more control over their retirement savings while still maintaining support for everyone, specifically those close to retirement or with lower lifetime earnings. The idea behind this suggested policy stems directly from the two academic articles we have analyzed. Gokhales 2013 article, “Social Security Reform: Does Privatization Still Make Sense?”, explores both the problem with the PAYGO system and benefits of privatization. It highlights that while raising payroll taxes might temporarily keep the system at bay, it still doesn't solve the core issue. Which is that there are simply not enough workers to support the increasing number of retirees. Gokhale discusses the potential of privatized accounts to yield high long-term returns (estimated up to 9% annually) and decrease the federal government’s future financial obligations. By investing in well-managed, diversified funds, people can increase their savings beyond what the traditional Social Security currently offers.

The article by Turner and Rjanes (2019) further supports our proposal by overviewing the declining trust in Social Security amongst American workers. Their research shows that only 4% of individuals surveyed in 2015 were confident they would receive full benefits, and the younger generations are more skeptical. This lack of trust reduces public engagement with the program which then leads to poor retirement planning. Our carve out proposal aims to rebuild that trust by offering flexibility, transparency, and improved financial results. Individuals would have access to personal retirement accounts they can track and manage, increasing both confidence and awareness in the system again.

This policy would be presented to the U.S Department of the Treasury, where our position as Amended Budget Analysts focuses on long-term fiscal stability. The Treasury would take the lead in developing and proposing legislation for the reform, which would then follow the normal legislative process. This would go through a committee review, Congressional debate, and finally through the approval by the President. Once passed, the Social Security

Administration would coordinate the implementation, working alongside approved financial institutions to manage the new retirement accounts.

To guarantee the transition is smooth and fair, we propose that the policy first apply to younger workers under the age of 30. This gives them sufficient time to build retirement funds before deciding to retire. The rollout would start with a pilot program over 3-5 years, allowing time to analyze performance and refine any technicalities. Based on the result in the beginning the program could gradually expand to include additional age groups and income levels. Current retirees and those close to retirement would stay completely under the traditional system to avoid disruptions in benefits and reduce transition related resistance. When referring to implementation, participating financial institutions would be selected through a transparent application and vetting process overseen by a federal advisory committee. In order to qualify, firms must meet a strict criteria related to financial stewardship, risk management , and consumer transparency. Approved institutions would be required to offer low-fee, diversified investment portfolios, similar to options in the federal Thrift Savings Plan. This shows that all individuals have access to safe, and high performing investment choices regardless of financial background. We also understand that transition costs, including the temporary need to fund both the old and new systems will require careful fiscal planning. These short-term challenges however are worth the long-term stability and growth the reform can provide. In addressing equity concerns during the transition, the government could introduce federal matching contributions for low income workers, making certain that everyone can benefit from the new system, not just those with financial resources or literacy.

Furthermore, having strong regulatory oversight will be necessary to protect individuals' investments and ensure program integrity. We propose the establishment of a federal oversight board, composed of representatives from the SSA, Treasury, financial regulators, and consumer advocacy organizations. This board would establish account management guidelines, oversee fund performance, and provide complete transparency, and cpa administrative fees to protect account holders from exploitation. Public trust in the system can also be rebuilt through clear communication and access to real time retirement account dashboards. Individuals will be able to log in and view their contributions, growth and projected retirement income unlike the system currently which feels distant and vague to most Americans. Transparency tools such as personalized annual statements, investment breakdowns, and government-backed projections will help people better plan for their futures.

To address more concerns raised by Turner and Rajnes, we recommend expanded financial literacy initiatives. These could include workshops, mobile apps, and partnership with schools and employers which guarantees all participants including those from underserved communities, to understand how to manage their accounts and plan for retirement effectively. As research shows, empowering people with financial knowledge leads to more realistic expectations and smarter long-term decisions.

Overall, this carve-out approach gives a balanced solution that addresses the flaws in the current system while avoiding the risks of full privatization. It encourages individuals, strengthens public trust, reduces fiscal burden on the government, and sets the next generation for greater financial security in retirement. By learning from international examples and grounding our reform in solid economic research, we believe this policy can modernize Social Security in a way that is both sustainable and inclusive.

<u>Measure</u>

We plan to measure the success of our policy implementation by a number of different variables. These variables include fiscal impact, market return on individuals who participate in privatization within social security, budget deficit impact, retirement satisfaction amongst adults older than 65, and levels of spending amongst the same population. We will be delivering a difference in differences study to highlight the effects that privatization amongst social security savings makes on a country's economic welfare and retirement for individuals who are involved. We will analyze this study using countries who are completely public with their social security policy such as Italy and use Australia as a country who is more private with their social security savings policy. In econometric terms, Italy will be established as our control group and Australia will be our treatment group. This will allow us to better understand how privatization of social security spending impacts the different variables listed previously and how our suggested policy can thrive within the United States. We will also analyze what limitations could come to measuring this suggested policy being implemented into our economy and how we could get around that.

It can be hard to measure the effectiveness of privatization within social security policy for a number of reasons. To start off, there is a lot of uncertainty involved within private savings and investment with social security. Private accounts that would be created within financial institutions heavily depend on market performance. The business cycle of the economy on a long term basis causes the economy to fluctuate and can be considered unpredictable about what is going on in the future on a macro level. This would mean that when the economy is doing great, individuals will be able to earn a higher return on their savings and investments but when the market is not doing so good, it can be hard to stick with the market compared to guaranteed fiscal return if it was private. This fluctuation of return can bias the results and measure that we are trying to analyze to perfect our policy implementation. Another limitation of our study is that there are a lot of transition costs that are involved within switching from public to private spending for social security. The public label for this currently is called PAYGO (pay as you go system) and switching to privatization can create a lot of short term funding gaps. This means that when transitioning to something like this, it is kind of hard to measure all of the different costs associated with it such as debt issuance and government studies that is very sensitive on a political basis and hard to follow. Comparing these across different countries within our study can be hard. For example, Italy and Australia can have very different results and introducing the United States and how we can implement this can make it very complex and difficult to track the different data as it can be very different and sensitive for situation by situation based on the status of the economy. On the private side of the economy, there are also a lot of administrative costs associated with this such as management fees for private institutions that can be hard to follow as they will become more prevalent compared to fiscal management like before. One other limitation that can come from researching the effects of privatization amongst different countries and how it can relate to the United States is the idea of financial literacy in different countries. The success of privatization within social security heavily depends on the individuals financial decisions in what to save and invest in and across different countries, especially countries that do not have the same access to efficient resources, cannot necessarily make the same educated decisions to create success within their private financing of social security. We believe the United States has a good amount of resources that can be used to help the literacy of finances for this policy such as education, financial institutions, online resources, and more but countries like Italy or Australia in our study might not have the same things. This can be hard and bias some results in whether or not this policy of ours can work. On a more behavioral side of this implementation, it is hard to understand how people will behave financially. We believe this aspect fluctuates heavily based on the state of the economy and the irrationality of humans can bias the results based on how individuals in this international case study can differ from general behavior within the United States. The last limitation we would like to highlight in this study is the difference of demographic between countries around the world. In our study, Australia, the United States, and Italy are very different countries demographically. As they are all across the globe, they have some differences in economic structure, fundamental wealth levels, ideals of spending, and so much more. Understanding these differences, it can be hard to measure the impact that privatization can make on the economy overall. These demographic differences can create a lot of bias within our study as we are not necessarily analyzing the financial impact of the same types of people. They are all different in some sort of way which can lead to different results than what we are looking for. With that being said, although there are some limitations of our study and how this impact and be significant for the United States, we believe that we can get around that through an efficient differences in differences study that can lead to a good idea on what impact privatization of spending can have on the United States and their social security policies.

To start off, we want to create a difference in differences case study between our control group, Italy, and our treatment group, Australia, to see how the impact of privatization can have an impact on the United States within social security policy. This international case study will allow us to analyze the effects of private vs. public savings and eliminate bias from these differences we have between countries. A differences in differences study is a quasi-experimental design that helps estimate the average treatment effect of the intervention of a policy between a control group and treatment group. In our case, the control group is Italy and the treatment group is Australia. The regression equation of the differences in differences model looks like: $Yit=\beta 0+\beta 1 \cdot Post(t)+\beta 2 \cdot Treatment(i)+\beta 3 \cdot (Post \times Treatment[i])+\varepsilon(it)$. The (Post x Treatment) is the most important aspect of this regression equation as this highlights the average effect that our social security policy intervention is going to have on the treatment group. This will allow us to really analyze the success and difference it makes and how it can be established within the United States. In this study we are going to compare the differences in social security policy. To start off, Australia has been considered very successful with their social security policy and has generated good retirement satisfaction within older adults and have seen high market returns with their private savings. These returns have averaged around 6%-7% per year compared to the minimal return that we see in the United States. Australia also has policies that require employers to contribute 11%-12% of earnings (as of 2025-2026) that are invested into diversified portfolios that are market dependent. On top of this, individuals are able to also invest on top of this into private programs to better set themselves up for long term success. This has been seen to be a worldwide success for a number of reasons. To start off, they have extremely high coverage for nearly all Australian citizens. It does not leave some individuals out and creates a high priority for social security savings. Next, it has diversified spending and has been seen to create more levels of savings. As of 2025, This “Superannuation” system holds over 3.5 trillion AUD in assets which creates more domestic investment (investment boosts gdp) and reduces pressure for fiscal public spending on pensions and other retirement services. Lastly, market returns are high and are privately owned meaning it is more accessible and easily transferable from job to job instead of being tied to a single employer. With this being said, aspects of this type of policy have been seen to create dependable results so that retirees can accumulate a significant amount more of wealth. Australia’s social security policy has been seen to rank high in global indexes such as the Mercer CFA Institute Global Index mainly being known for sustainability and adequacy. On the other hand, Italy uses a PAYGO system which is funded by employer and employee payroll taxes (a more public policy). This is very different from Australia as there first off is no market risk. Although it is less volatile and guarantees results, there is less earnings on investment with this aspect. Individuals can only receive a limited amount of returns based on their contribution to social security funds. White Australian citizens are receiving on average, 6%-7% each year, Italian citizens are receiving far less. This policy by Italy is dependent on a public-waged index. Another big difference is that there is more transparency between individuals and their earnings as Australia is less known for how much they are earning on their contributions. Italy's social security policy is all publicly managed. Workers can see a clear connection between what they put into their social security and what they are going to receive out of it. Italy believes that it will reduce fiscal strain over time but it actually has created more dependence on public policy and has created more problems. The only positive benefit from this policy is that it creates less income-equality amongst the general population which can still not be the best thing as youth and younger adults still face troubles from this.. This public policy has created a lot more payroll taxes that employers and employees have to pay which create more costs and less return overall. According to the global index mentioned previously, the global ranking of this policy is ranked lower on the list for countries compared to Australia. This is showing that general research believes that Australia is more successful with their partial privatization for social security. To wrap up these differences, Australia has seen far more success focusing on individual and private savings/investments for social security and other retirement funding. Using more fiscal dependence, Italy uses a universal public funding policy which focuses more on solidarity but has been seen to face demographic and fiscal pressures. Partial Privatization and other aspects of Australia's social security policy is something that we can implement into the United States.

Outcome

The United States would benefit heavily from implementing partial privatization into social security policy for multiple different reasons that would create lange margin in economic growth. To start off, savings and investment return would increase significantly. The traditional social security policy offers modest returns as it is considered a PAYGO funded system. By shifting payroll taxes to funded investment accounts, individuals would be able to create higher returns (ex. via stocks and bonds) if managed well. Over time, individuals would be able to accumulate more over time that would set them up for retirement. Contrasting from traditional benefits, this would increase overall wealth and spending in retirement (more wealth and spending equals higher GDP in economy). Another benefit for privatization is that there will be an increase in national savings and investments. The more private accounts there are holding social security money, the more savings there would be which would help boost the economy. There would be more money for people to fall back on and create stability within the country. On top of this, there would be more capital for businesses. Increased savings translates into more capital that individuals have to invest and grow their business. This leads to higher productivity within the economy and again, more GDP growth. Lastly, and maybe most importantly, there is a reduction in fiscal pressure to administer these benefits. Social Security is a big issue right now that is hard to handle and hard to figure out what to do with. With the implementation of privatization within social security, the government can shift their focus on other aspects of the fiscal budget that can be put somewhere else such as education, social policy, infrastructure, and so much more. This policy would help improve the long run solvency problem within the current system. With this being said, there would be more importance on private financial institutions and overall a higher significance on general finance. As more individuals would have more money to invest and situate themselves, there would be a higher incentive to become literate in financial transactions and general banking. As more people learn these aspects of how money works, there would be higher productivity within the economy which would lead to economic growth and increase in well being. Overall, this implementation would have multiple positive externalities and benefits that would grow the economy in several ways.

There are many points in the article, "Workers' Expectations About Their Future Social Security Benefits: How Realistic Are They?" by Josh Turner and David Rajnes, that are applicable to our implementation of the suggested policy, partial privatization in social security. In this article, it explains a lot about the aspect of understanding of how the social security policy works amongst workers and retirees. It explains the effects of different socioeconomic statuses and the differences of individuals who know more about social security/investment compared to the expectations of those who do not. To start off, the article describes that the implementation of privatization into social security would create larger disparities amongst different demographic groups. It highlights the different socioeconomic statuses in the economy and states that individuals with higher wealth status have higher hopes in the idea of privatization with social security. The reason behind this is that these people tend to have higher access to financial resources and also generally are more financially literate. In the case that our suggested policy were to get implemented, these people would have higher probability of finding success from the public eye. On the other hand, individuals with lower socioeconomic status prefer that it would stay like the traditional PAYGO system. The reason behind this is because they are on the opposite side of things as they do not necessarily have access to these dependable resources and would rather just leave it to the government to handle. The article mentions that they do not 100% trust the current system but if privatization were to be introduced, they believe that it would further complicate things and lead to more problems and a decrease in optimism for retirement success. With this being said, there can be greater inequality amongst different socioeconomic groups and demographics but the introduction and funding of better education to make individuals more financially literate could decrease this problem. The article mentions that at the moment, there is a "widespread misunderstanding of benefits". Many workers have inaccurate expectations about their value in social security services that they will receive in the future. Some underestimate and some overestimate but overall, this will lead to bad retirement planning and less long run success. Most of these common misconceptions come from younger and lower-income families that do not have access to the best resources to assess their retirement planning (as mentioned before). With our suggested policy of privatization, this can help lead to more educational resources and information to help inform these people on the importance of retirement/social security savings. The article suggests that targeting education on these disadvantaged groups would help make them better informed decisions for retirement. This idea of better education can help individuals create more realistic retirement expectations and financial behavior. This would lead to better financial security for those who are more sensitive to economic volatility. This implementation of education on social security for privatization will help decrease the disparity amongst less fortunate groups and create more equality for retirement success. It is a significant policy tool.

Before we get into the positive externalities that partial privatization of social security would have on overall welfare of the economy, I would like to explain that this implementation could result in risk to vulnerable populations and increased pressure on other welfare programs. As mentioned before, savings relating to privatization is very market dependent. This means that benefits for social security are based on investment performance which could be very volatile depending on the current state of the economy. Low income individuals and groups labeled as more sensitive to these disadvantages could end up with lower-than-expected retirement income. This could cause them to depend more heavily on safety net programs such as Supplemental Security Income, SNAP/Food Stamps, and or medicaid. As poverty rates could rise due to the greater separation in income across the general populations, it could lead to more pressure on these supplemental programs being more successful (which is not guaranteed). Because of this, there could be more associative costs for the government and strain on social services and programs. On top of this, as mentioned previously, social security becoming more private causes more dependence on education and the capital development of financial literacy that these more vulnerable groups might not have the most efficient access to. With this being said, there are still many positive benefits for overall welfare that comes from this policy. It first off has more of a chance for higher retirement savings. In some cases, social security wealth accumulation can be considered very minimal. With market dependent investments such as large indexes and other stock related funding, it could generate much higher returns long term that could lead to better retirement satisfaction for involved adults. As more of the population becomes more aware of how to invest their finances properly which is what would come from creating this policy for social security, it can very well become a positive effect for people to see higher returns due to better market understanding and how to properly manage their finances for retirement. According to an article from the GATO Institute, “Social Security vs. Stock Returns: No Contest” written by Alan Reynolds, it compares the general returns of social security and stock returns. It says, “ The S&P 500 index returned 10.9 percent a year over the past 15 years.”. As this is high and most of the time is around a real 6%-7%, it is still higher than social security return. On average, the return for the current PAYGO system is around 1%-3% which is considered very minimal. Another positive aspect that can come from being financially literate from this privatization of social security is that it creates a more diversified income portfolio for a vast majority of people. As more people learn to invest and put their retirement savings in the right place, they have an opportunity to have multiple sets of income and grow diversification for retirement success. They can have investments and savings accounts ranging from 401k, life insurance/annuities, general investment indexes, multiple savings accounts that gain interest, treasury bonds, and so much more. There are many people in the United States that only have 1-2 sources of income and there's no diversification. Many financial advisors believe that diversification is extremely important. This more pertains to risk of investments and sources of income. For retirement purposes, this is extremely important so that you are not vulnerable to recessionary periods of the economy. If more of the population were aware and learned to diversify finances, they would be better off with privatization of social security.

This policy can be scaled to increase exponentially but it depends on a few different aspects. First off, it depends on the trust and engagement in this new system of privatization. The current PAYGO system has been around since 1935. At this time, President Franklin Roosevelt created the Social Security Act by collecting payroll taxes to guarantee retirement funding. As this has been in place for a long time, a new policy will take a long time to get used to. Especially for lower income individuals, it will be hard to learn how to invest better and better manage finances as the dependence on government will decrease. As it will be a lot easier for high income demographics to adjust to, it is still a big change for the other side of people. This is why there will be a big incentive for educational programs and private institutional support. Another aspect that will create scalability for privatization is for there to be a bigger presence of banks and financial institutions. As there will be a mass transfer of retirement savings into private institutions, they will need to create more of a bigger political and social presence within the country. There will be many more individuals looking and depending on support from these financial organizations and they will need to be supporting this change of policy. There is evidence that they will be on board as it can be a profitable opportunity for them to hold more assets to better set individuals up for retirement. On top of this, there will be a lot of transitional/administrative costs. There will need to be a change in bureaucratic and executive agencies to manage this transition of program so that everything is still able to go smoothly and investments are correctly handled. Although this policy change will create a lot of rules and regulations for banks and financial institutions, it still needs to be monitored by these agencies so that this big system does not turn to corruption and chaos. Scalability is a big aspect for privatization to work within the economy but if these aspects mentioned previously are incorporated, it should be a smoother process of transition.

If privatization were to not be as successful as many researchers and economists believe, there are a few things that can be placed as a "back up plan" to keep this program in check. To start off, the government can resort back to the traditional PAYGO program. Although there are many problems and minimal returns, it has been in place for a long time and is what is familiar to the United States. Another plan that can be put in place is government guaranteed retirement accounts. This is something that guarantees an income from retirement for selected individuals. Although this sounds good, it can end up being something not to fully depend on as only selected individuals will probably be able to access these funds. It will very likely not give everyone the same retirement satisfaction that they are looking for in programs such as these. One last retirement plan that could be incorporated into the economy would be universal base income programs. This is very similar to government retirement plans but will only benefit lower socioeconomic individuals. With this being put in place, the government will have to tax higher income individuals and is very inefficient. This is because it will limit socioeconomic inequality and kind of put everyone on the same wealth level. It is kind of an aspect of socialist ideas in an economic sense. With that being said, there are many programs and things that can be put in place but we believe partial privatization is the most effective way to solve the problem of social security issues.

The topic of our suggested policy relates to things we have discussed in class such as social security, fiscal spending, and social insurance. Social security is a huge program that many retirees depend on to be able to create financial stability in their lives. With the implementation of privatization of that social security, it is going to take off the fiscal pressure and allow governments to reallocate their spending to other places. The government could focus on infrastructure, debt reduction, public social programs, and more. Social insurance is important in relation to this topic because it is what the general public depends on for the government to act on in the case of retirement, disability, loss of income (for other reasons), and more. Privatization is a different way of allocating a social insurance program in another way. It is taking the pressure that social insurance places on the government and allowing them to allocate it to other programs. Social Security is not necessarily a social insurance program but is similar as it is funded by the government and helps individuals retire. With privatization, the government can focus more on social insurance programs such as medicaid instead of being pressured by social security issues. Partial privatization in social security relates to many topics that are discussed in public finance and how the government operates in the economy.

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