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# **Social Security Reform**

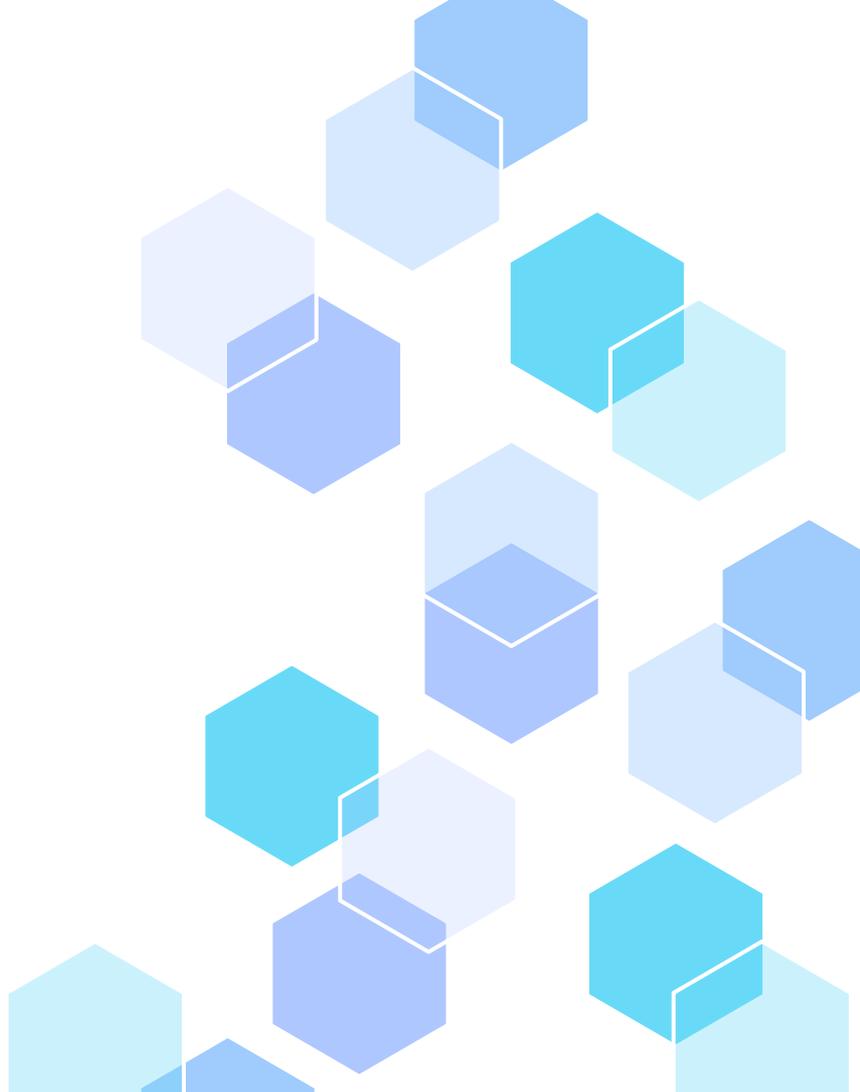
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Coleman, and Ela Keeling**



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01

# Introduction



# Why We Need to Fix Social Security

Social security will run out of its trust fund by  
**2035**

*Young Americans **don't trust they'll  
get their benefits...***



# What will we do?

We are **Amended Budget Analysts** for the *U.S. Department of the Treasury* proposing a solution

We propose: **Partial Privatization**

Based on studies by Gokhale (2013) and Turner & Rajnes (2019)



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02

# Article Reference



# Article Summary



**2013**

The structure of Social Security in its current form, the issues, and what are potential solutions



**2019**

A discussion of the public need for social security reform, and the willingness of the public to side with change



# Social Security in its current form: a ticking time bomb?

- **Pay-as-you-go financing**
- **IOU trust funds and 2035**
- **Increased life expectancy and health in later years**
- **Detrimental to consumption smoothing and private savings?**



# Solutions?

Increasing Payroll Taxes?

Decreasing Benefits?

Full Privatization?

Partial Privatization?

# PARTIAL PRIVATIZATION

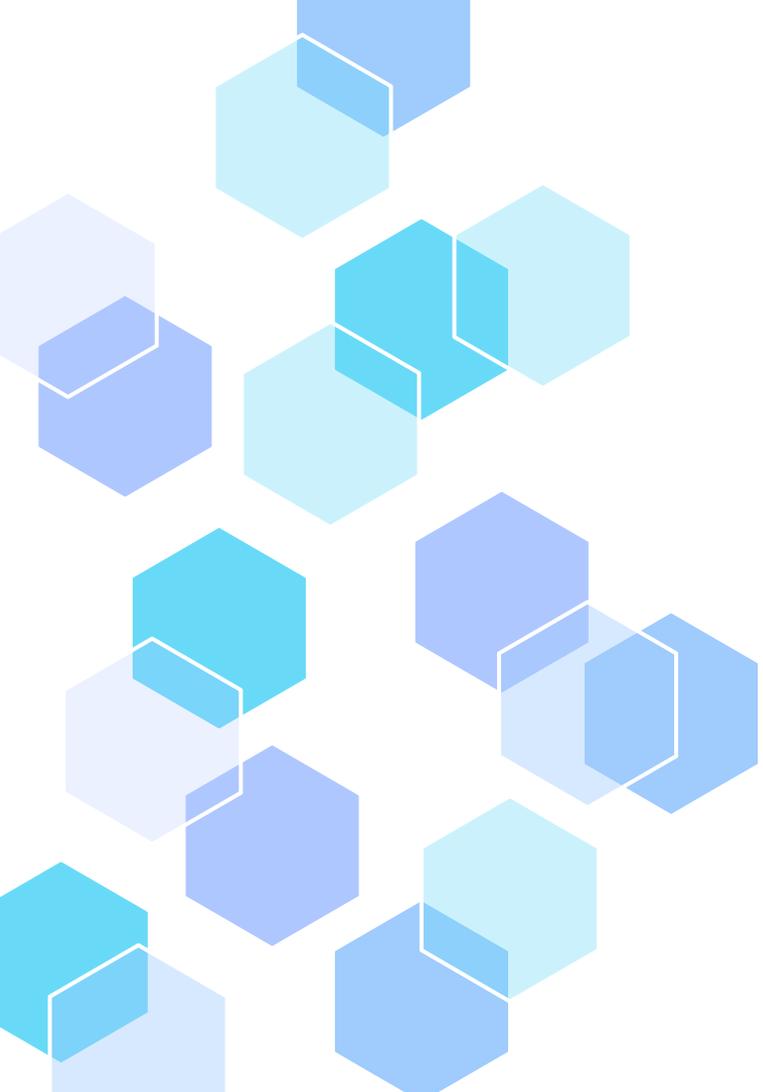
“Carve Outs”

## Not an immediate replacement

Payroll tax still partially funded  
towards the program in its current  
form

## GDP returns on private accounts

Some studies show projections of as  
high as 9% GDP



**4%**

Those in 2015 confident in Social Security

**19%**

Those in 2015 believing they will receive  
0 benefits upon retirement

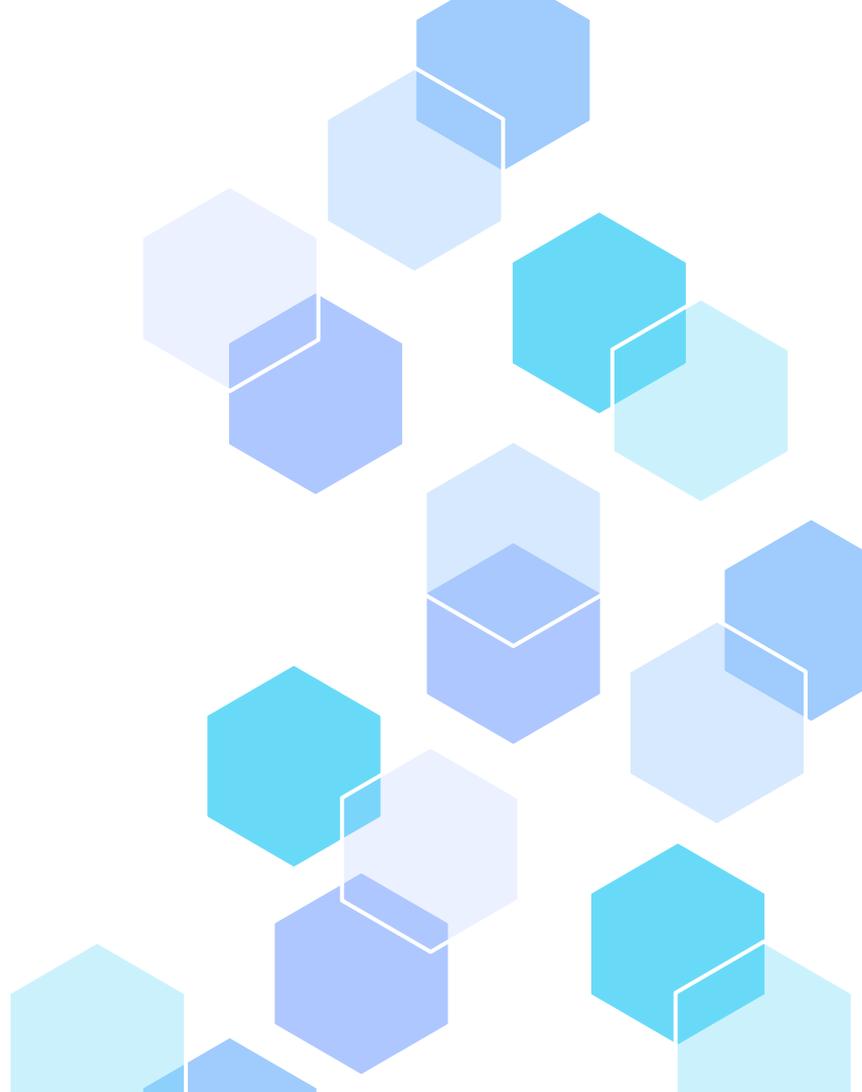
**32%**

Those in 2015 confident they would  
receive less in social security that was  
promised

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**03**

# Application



# Social Security Can't Keep Up

- The current system uses today's workers' taxes to pay retirees

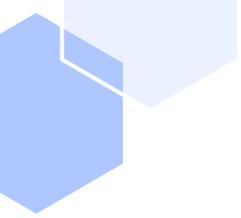
## The Social Security trust fund will run out by 2035

- After that, people may only get 75% of their benefits
- Fewer workers and longer retirements make it hard to keep the system going
- Most young people don't **trust** they'll get anything back



# A Mix of Public + Private Accounts

- We suggest a **Carve-Out** plan
- Part of your payroll goes into your own retirement account
- Better investment returns over time ( **possibly 6-9%**)
- Starts with younger workers (under 30), rolled out slowly
- The government still manages and oversees the program



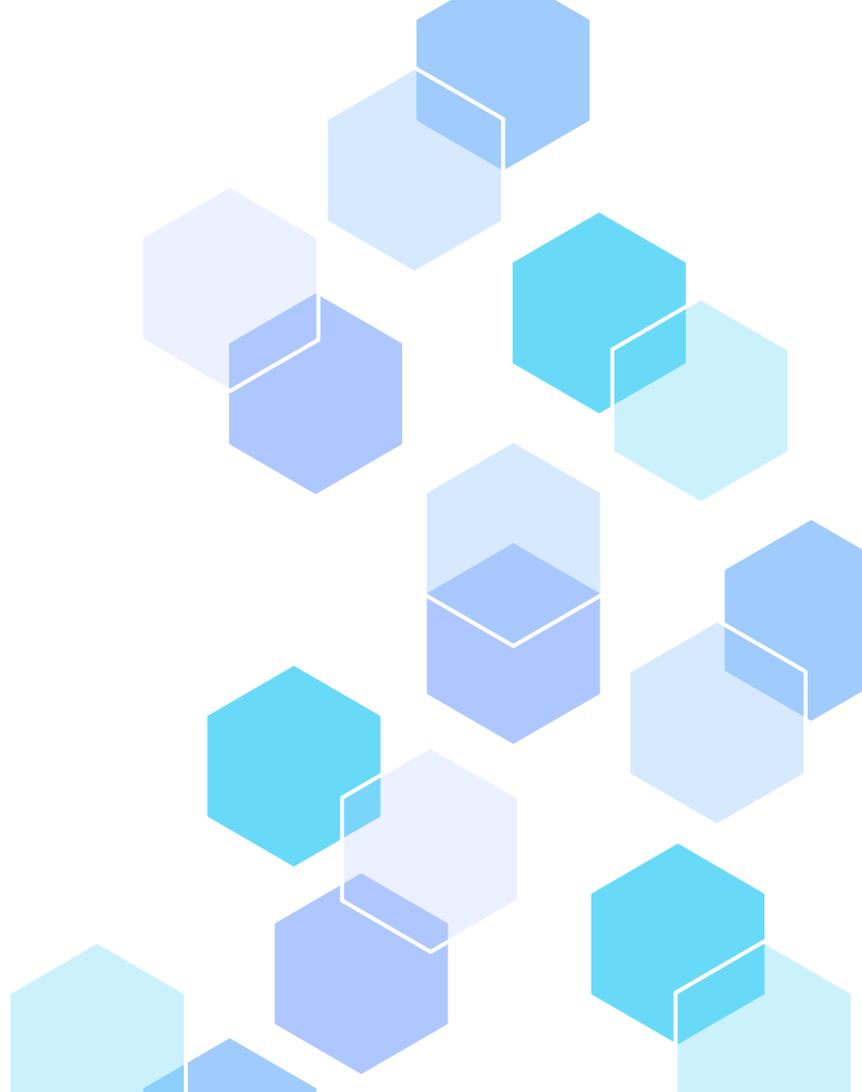
# Making it Work for Everyone

- Help for low-income workers through government matching
  - More **financial education** so individuals understand how to invest
  - A board makes sure private companies play fair
  - People can **track** with online tools
  - This system **builds trust**, helps people save more, and strengthens the economy
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**04**

**Measure**



# International Case Study:

## Australia

- Private Investment Accounts
- High Rank in Mercer CFA Institute
- High Intentional Participation Across Population
- 3.5 Trillion AUD in Domestic Investment
- Earning 6%–7% per year on Investment

## Italy

- Traditional PAYGO System (Payroll Taxes)
- Similar to United States Currently
- Median–Low Rank in Mercer CFA Institute
- Lots of Fiscal Pressure and Limited Means–Testing
- Receiving 1%–3% per year on SS Funding
- Similar to Social Insurance Fundamental

# Limitations of Measuring Policy

- **Results Depend on Market Performance**

*Unpredictability Creates Bias*

- **Transition/Administrative/Management Costs**

*Short Term Funding Gaps from Public to Private*

- **Irrationality of Financial Behavior**
- **Demographics of Different Countries to cross-reference**

- **Different Economic Structures**

Australia:

- GDP Per Capita: \$65,000
- Debt: 45%
- Risks: Commodity Dependence

Italy:

- GDP Per Capita: \$37,000
- Debt: 135%
- Risks: Debt Sustainability

# Implementation

How will we use this data to better understand this policy implementation into the United States?

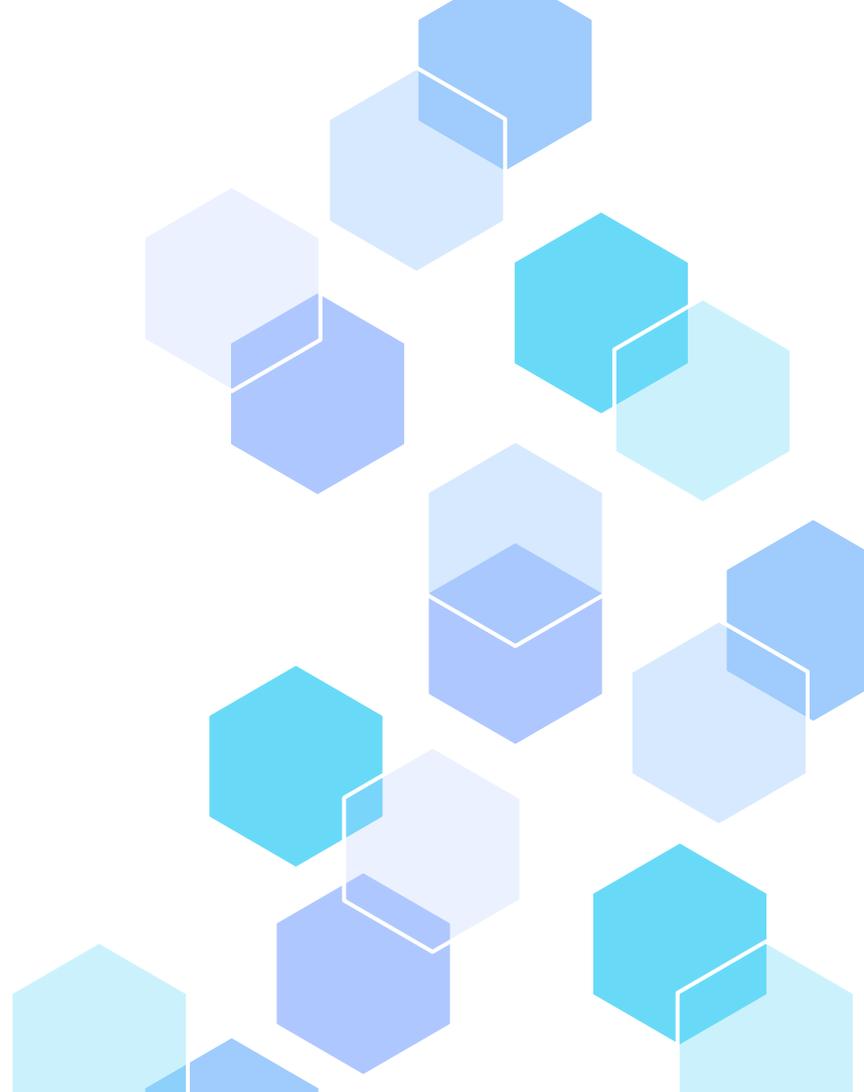
- Australia has more efficiency in their SS policy
- Strong Consumer/Investment Markets in United States
- Higher Emphasis on Retirement Savings
- More Incentive for Financial Education/Literacy



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**05**

**Outcomes**



# Expected Changes of Implementation



## Higher Returns on Funding

6%–10% Annual Return  
vs.  
1%–3% Annual Return  
(Increase in GDP)



## Reduced Fiscal Pressure

The government can focus on  
other social programs and  
infrastructure.  
(Transition from Public to Private)



## Diversified Portfolios

This policy will create more  
income sources and risk  
reduction for retirees and older  
adults.

# Welfare Implications

- Potential for Increase in Retirement Savings

*Increased Retirement Satisfaction, Higher Net Worth for Older Individuals*

- More Importance for other Welfare Programs

*Help out lower socioeconomic groups/demographics  
(ex. Food Stamps/SNAP Programs/Medicaid)*

- Diversification of Income Sources

*Introduction to Better Savings, Life Insurance, Low/High Risk Investments, and more*



# Scalability

- Trust and Engagement in New Program

*Traditional PAYGO: Established in 1935 – Franklin Roosevelt*

- Private Financial Institution Involvement

*Funding Transferring from Government to Private Banking/Financing*

- Change in Executive/Bureaucratic Agencies

*More Laws and Regulations to look over these investments*



# Back Up Plan

- Stick with Traditional PAYGO System

*Some Problems Currently, can be switched for future*

- Government Guaranteed Retirement Accounts
- Universal Base Income

*Not as efficient, puts everyone on the same playing field (Socialist View)*

- Social Security Safety Net Programs

*Still helps people to save and be set up for retirement*



# In Class Reference

- Social Security/Retirement Planning
- Social Insurance

*Programs depended on by public from government*

- Fiscal Spending/Budgeting for Social Programs



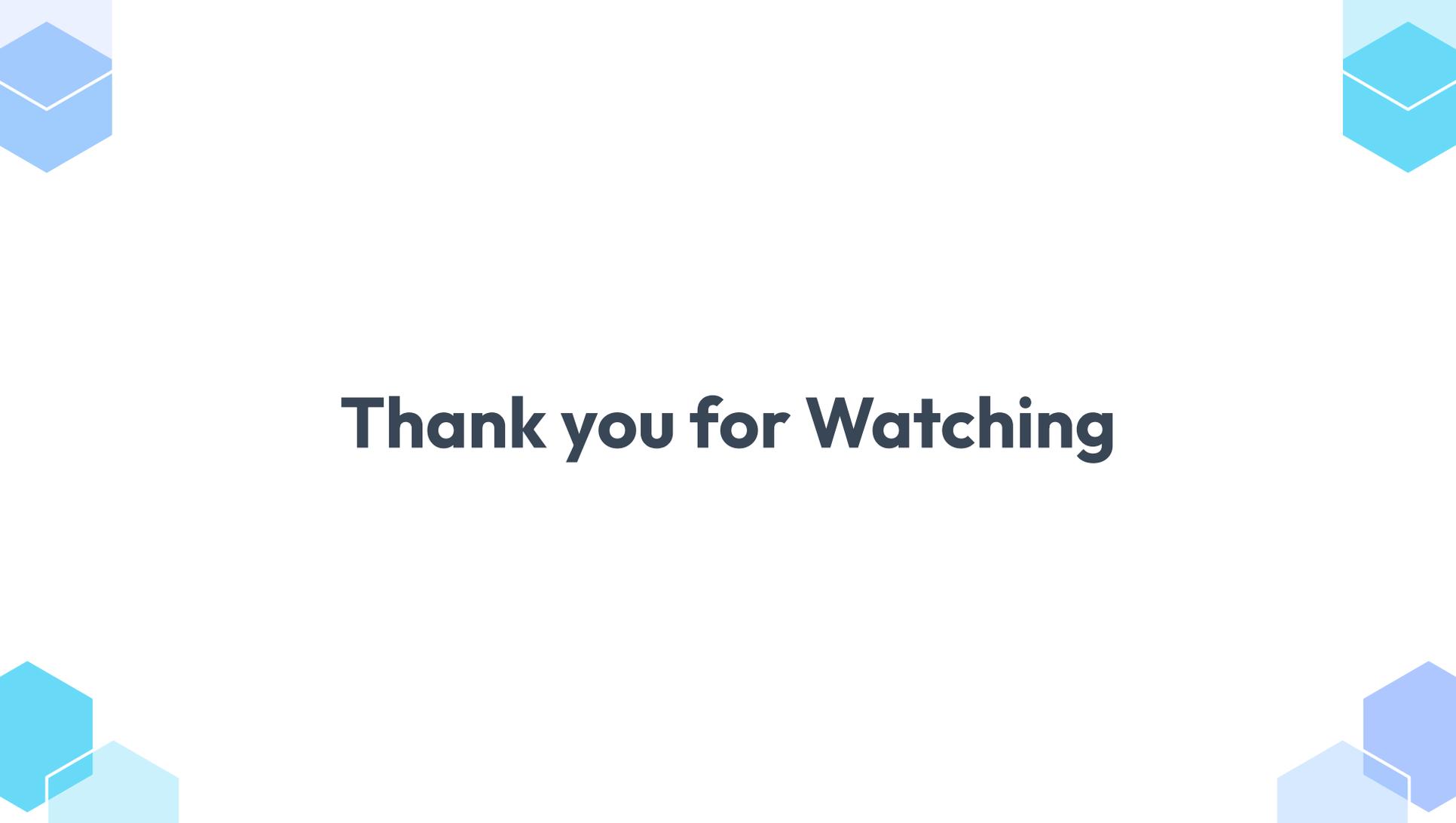
# Conclusion

- Social Security is GOOD!

Just needs to be modernized

- Privatization has a variety of benefits

*Higher Market Return, Incentive to Educate, Create Economic Boost*



**Thank you for Watching**