RISK

Social Security privatization would expose individual workers and their families to much greater financial risk. Under privatization, Social Security benefits would no longer be determined primarily by a worker's earnings and the payroll tax contributions he or she made over his or her career. Rather, benefit levels would be determined by the vagaries of the stock market, by a worker's skill (or luck) in making investments, and by the timing of his or her decision to retire.

- Social Security today provides guaranteed, lifelong benefits. No matter what the stock market does the day you retire or in the months leading up to your retirement, your benefit will be unaffected.

- Advocates of individual accounts argue that, since fluctuations in the stock market average out over time, individual investment risk is negligible. Averages are misleading. For every person whose investments perform above average, there is another person counting on Social Security whose investments perform below average. Retirees are not just averages. Retirees are individuals.

- Between March 2000 and April 2001, the S&P 500 fell by 424 points or 28 percent. If Social Security had been privatized, a worker who had his or her individual account invested in a fund that mirrored the S&P 500 and who retired in April 2001 would have 28 percent less to live on for the rest of his or her life.

- There were fifteen years in the past century (1908-12, 1937, 1939, 1965-66, 1968-1973) in which the real value of the stock market fell by more than 40 percent over the preceding decade. (Congressional Budget Office)

- Between January 1973 and September 1974, the stock market declined by 43 percent and did not return to its 1972 high for almost 10 years. (Boston College Center for Retirement Research). More recently, the S&P 500 fell 10 percent in 2000 and 13 percent in 2001.

- Social Security protects against many risks, including the risk of death or disability, the risk of low lifetime earnings, the risk of unexpectedly long life, and the risk of inflation. Privatization undermines these protections and adds one more risk that workers would have to worry about – individual financial risk.