

Social Security Stock Market

Transcript

The Social Security Trust Fund is shrinking. Also the number of young workers paying taxes is shrinking, because of falling birthrates. But as of today, we still have almost \$3 trillion in the Social Security Trust Fund. Some people suggest we should invest that money in the Stock Market, to get a higher return than what we are getting today from Treasury Bonds.

The same idea came up in the late 1970's, when the Trust Fund was shrinking. However, I didn't hear much about it after the Black Monday stock market crash of 1987. That's when the Dow Jones Industrial Average fell by 23% in one day, representing a loss of \$1.7 trillion.

That brings up the first problem with investing in the stock market: prices are volatile. Social Security checks go out every week. We need stability in the Trust Fund.

Second, we have basic supply and demand theory. If we sold \$3 trillion worth of Treasury bonds and bought \$3 trillion worth of stocks all at once, we would severely distort the markets. Bond prices would go down and stock prices would go up, so we would not get a good deal either way.

For the long term, we could gradually invest new Social Security money in the stock market, but there are still concerns about the federal government competing with private investors. Many of us have IRA or 401K plans invested in stocks. So whatever Social Security gains from investing in the stock market, we lose as individuals.

We do have to make some changes to keep Social Security safe for the future. But I don't think the stock market is going to help us.