AMERICAN ACADEMY *of* ACTUARIES

THE BOTTOM LINE
-ON-
SOCIAL SECURITY REFORM: TRUST FUND INVESTMENTS

According to the actuarial projections in the Social Security Trustees' Report, assets in the trust fund will be exhausted in 2038. Some policymakers have suggested investing the trust fund assets in equities instead of government bonds to help shore up the program.

The American Academy of Actuaries' Committee on Social Insurance has revised its 1998 Issue Brief, *Social Security Reform: Trust Fund Investments*, to discuss some of the consequences of these proposals. Key findings in the paper include:

- An important issue is how to avoid government interference in the private market as a result of the trust fund owning a large amount of common stock. One possibility is to invest in funds tied to some type of stock index.

- The government would have to consider how to deal with proxy voting of the equities that are owned by the trust fund. The government may choose to refrain from voting or vote its proxies in proportion to the votes cast by other owners.

- Any large-scale shift of trust fund investments to the private sector would need to be carefully planned to minimize shocks to the market. Dumping large amounts of money into the market could sharply drive up prices, forcing Social Security to pay too much for its stocks.

- Another issue is how the American public and the government will respond to gains and losses in equity values that are bound to occur, especially short-term market fluctuations.

For additional information, please see the Issue Brief on the Academy web site (www.actuary.org) or contact the Academy's Pension Policy Analyst at (202) 223-8196.

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