The US Social Security program is intended to provide a safety net protecting American workers and their families in the event of retirement, disability, and early death. Moving Social Security benefits into private accounts is one proposal to prevent Social Security's predicted future financial shortfall. Privatization of Social Security would allow workers to control their own retirement money through personal investment accounts.

Supporters of private accounts contend that retirees would have the freedom to invest their retirement money in the stock market as they wish, theoretically earning higher returns than with government-invested funds.

Critics of privatizing Social Security argue that investing retirement money is complicated and risky because individuals can lose their retirement safety net through bad decisions.

Social Security was created when Franklin D. Roosevelt signed the Social Security Act on Aug. 14, 1935 to provide a social insurance system based on the idea that, if workers pool a portion of their wages, they would be able to protect each other and their families against catastrophic wage loss due to death, disability or retirement. Through this national benefits program, Social Security makes available a basic level of monthly income to those workers who have paid into the system. Of 2009 Social Security benefits, 69% was for retired workers and their dependents, 18% was for disabled workers and their dependents, and 13% was for the survivors of deceased workers. [10]

Although Social Security benefits are intended to complement pensions and personal savings for retirees, Social Security payments have become a de facto retirement plan for many Americans. Among elderly beneficiaries, 20% of married couples and about 41% of unmarried persons relied on Social Security for 90% or more of their income in 2009. [10]

It has become the largest government program in the world and the single greatest expenditure, at 20.8% ($612 billion) of the 2008 $2.9 trillion federal budget. [15] In 2008, the Social Security Administration paid $615 billion, or 4.3% of the US GDP, in benefits to about 56 million people. [1]

Workers pay into the Social Security system and receive benefits when they become eligible. Social Security does not maintain individual savings accounts per worker, but operates as a pay-as-you-go system in which each generation of workers supports the preceding generation's retirees. As of Nov. 24, 2009, 6.2% of US citizens' salaries is taken out in Social Security Federal Insurance Contribution Act (FICA) taxes. Individuals can begin collecting reduced retirement benefits as early as age 62, and full retirement benefits can be claimed at 67 years old.
Social Security has had financial difficulty in the past. Budget shortfalls in the 1980s prompted an adjustment to the system with comprehensive changes in the Social Security coverage, financing, and benefit structure. For example, in an effort to generate revenue a 1983 Social Security Amendment included a tax on benefits for the first time- 50% of Social Security benefits became subject to taxation for individuals with an income of $20,000 or more-and raised the full-benefit retirement age from 65 to 67. However, because many American voters consider Social Security benefits to be a right, it has consistently been a federal program that politicians are reluctant to change.

According to the 2009 annual report of the Social Security Board of Trustees, the program faces a budget shortfall of more than $15 trillion over the next 75 years. They predict that Social Security's cost will exceed tax revenues beginning in 2016 and will become insolvent, i.e. unable to pay scheduled benefits in full, when reserves become exhausted in 2037. Insolvency does not mean the Social Security fund will be completely broke and unable to pay benefits. Starting in 2037, the program is expected to pay benefits, not out of reserved funds as is currently the case, but out of incoming FICA taxes. In that year, Social Security is projected to have only enough tax income to pay about 76% of scheduled benefits.

When Social Security trust funds are projected to become insolvent in 2037, the benefit cuts and tax increases required to achieve long-range solvency are estimated to be about twice as large as those needed in 2007. An early indication of Social Security's financial distress is that, in 2010, more than 57 million Americans will not automatically receive a Cost-of-Living Adjustment (COLA) in their benefits. It was the first year without an automatic increase since COLA was added to Social Security benefits in 1975.

Several factors contribute to Social Security's predicted long-term insolvency. Over 40 million post-World-War II baby boomers will reach the retirement age of 65 between 2010 and 2040 in what has been called America's "silver tsunami." By 2030, almost one in every five Americans will be 65 or older and, by 2040, there will be twice as many people aged 65 and older as there will be in 2010-from 40.2 million (13% of the population) to 81.2 million (20% of the population).
Given the aging population, the share of the workforce is declining relative to the share of the population that is retiring, which may contribute to Social Security unsustainability over the next several decades. In 2009, there was an 83-year life expectancy for Social Security recipients versus 77.5 years when the program began in 1935. Life expectancy will likely continue to increase and retirees will collect more benefits over a longer time period.

Although the Social Security Act entitles workers to receive benefits, these benefits are not guaranteed by law. The federal government does not have a legal liability to pay retirees the money they paid into the system over their working careers and Congress can change the rules regarding benefit eligibility at any time. Therefore, workers paying into the Social Security system do not have any contractual right to Social Security benefits.

Individual private accounts have been proposed to alleviate future fiscal shortfalls for retiring Americans. While there are many ways privatization can occur, at the basic level these personal accounts would be retirement investment accounts, similar to IRA or 401(k) plans, financed from a worker's Social Security taxes.

Factors indicating that the Social Security program will not be financially sustainable under the present statutory scheme have fueled the current debate regarding Social Security reform. While the majority of people and politicians agree that reform is necessary, a debate rages over whether a plan for private accounts for individuals is the right answer to what appears to be the inevitable insolvency of Social Security retirement funds.

Proponents of privatization contend that personal accounts are fundamental to Social Security reform. They argue that private investment would not only provide a higher rate of return, but would also impart a sense of ownership and control over one's retirement money.

Opponents of privatization believe that investing retirement money in personal accounts is a bad idea. Among other things, critics suggest that future returns to equity investment are likely to be far below historical rates of return and that the risk and administrative costs of those investments will outweigh any benefits.