Retirement Income
JOURNAL

A Beneficiary of Social Security: Equities

By Kerry Pechter *Mon, Jun 1, 2026*

Social Security is too often regarded as a zero-sum game between cohorts and time-periods. But it can help give retirees the risk-capacity to own and hold equities, exploit the efficiency of insurance relative to investments, and make up for the consumption that workers forego while saving for retirement.

The debate over resolving Social Security's financial difficulties seems stalled around a distasteful choice between higher taxes or lower benefits. Within this narrow frame, the 85-year-old program looks like a zero-sum game between old and young, taxpayers and dependents, workers and retirees, and the public and private sectors.

Criticism of Social Security's financial sustainability tends to focus on its pay-as-you-go (PAYGO) financing system. Taxes on active workers' payroll go into a trust fund from which benefits are directly paid. But the payroll tax has needed help from past surpluses (and interest earned on those surpluses) since 2010. By 2032, payroll tax alone will cover only 75% of promised benefits.

PAYGO is problematic, to be sure. A Social Security system that limits retiree benefits to tax receipts from workers is explicitly vulnerable to the demographic changes that are predicted for the U.S.: a declining ratio of workers to retirees and other beneficiaries. That's where we are today.

But PAYGO's financing problems are arguably a symptom, not a cause, of that imbalance, which would likely hurt U.S. economic growth generally. So, before replacing Social Security and PAYGO financing with a national defined contribution system—as a bipartisan panel suggested in 2006—we might acknowledge and appreciate the benefits of the current OASI structure.

I'm suggesting that Social Security, including PAYGO:

- Helps Americans hold more risky investments before and during retirement.
- Eliminates the erosive frictions and disparate outcomes associated with investing.
- Smooths national consumption across generations.

Let's examine those strengths individually.

The ability to hold more equities

Except for the very rich, we all have implicit financial risk "budgets." We can only afford to take a certain amount of risk. We need a place to live, but it would be too risky to own a home without homeowner's insurance. Insurance lets us own the home.

Saving for retirement isn't so different. If we couldn't count on Social Security benefits in retirement, most of us couldn't maintain a lot of equity exposure before or during retirement, without running the strong risk of running out of money during retirement.

The stronger the guarantee of future income, the more secure we can be in taking investment risk in the meantime. We might arrange guaranteed income from annuities issued by life insurers, but a federally-backed guarantee is arguably stronger, and extends to more people, than any insurance company-backed guarantee.

Equity volatility isn't the only financial risk that Social Security helps mitigate. It provides a layer of protection against the risk of a stock or bond crisis close to our retirement date (sequence risk, interest rate risk) and the risk that we'll outlive our savings (longevity risk). Price-indexing of Social Security benefits protects retirees from inflation risk. In light of these protections, the payroll tax might be an unacknowledged bargain.

More income from fewer contributions

It's been argued that Americans could accumulate more savings for retirement by investing the money that's currently deducted from their paychecks for Social Security into a diversified investment portfolio, and then letting those assets grow and compound for several decades. Then, in retirement, they could draw a monthly income from their "pension pot."

There's also an argument, expressed in popular books, that the PAYGO financing system hurts workers. That system, which deducts payroll taxes from paychecks and credits earned benefits to the bank accounts of the elderly, gives workers not assets or guarantee but vaguely contractual "entitlements."

But the PAYGO system may be the more efficient way to turn revenue into benefits. It eliminates the impact of investment management fees and volatility. It prevents the creation of "lucky" generations, with large accumulations, and "unlucky" generations, with smaller

accumulations. Instead of a weakness, PAYGO may be the system’s strength.

Social Security is a social insurance program, not an investment program. As a public program, the Old Age and Survivors Insurance doesn’t have to generate a profit for investors; instead it operates “at cost.” When beneficiaries (and spouses) die, they drop out of the pool of beneficiaries.

That’s part of the efficiency of social insurance, and insurance in general: It reduces costs by paying off only for those who experience the insurable event. In the case of Social Security, that insurable event is living longer than 62, 67, or 70 years (depending on your claiming date).

Additions to consumption and U.S. GDP

Social Security was designed to eliminate poverty and deprivation among American retirees. It seems safe to assume that the elderly spend most or all of their benefits on goods and services. As an expense on the U.S. budget, Social Security benefits are treated, in public discourse, like a pure loss. That has always puzzled me, given that putting more than $1 trillion in the hands of the elderly and disabled every year would likely add to U.S. consumption.

In the absence of quantitative research, that statement might be an overreach. But annual payments to the elderly must work as an economic stimulus, especially in former mining or heavy-industry regions of the U.S.—like parts of my home state of Pennsylvania—where the working population has fallen and the elderly share of the population is high.

What about the argument that Social Security merely redistributes consumption? Whether they save through payroll taxes or deferrals to defined contribution, they need to consume less. That’s another hypothesis deserving further research. Barring inheritances, windfalls or debt-financed spending, current workers must consume less today to save for retirement. Social Security-financed consumption by the elderly should help fill that gap. In this framework, retirees and workers—or, rather, current and future beneficiaries—work in tandem rather than in opposition.

Only a few years away

I rarely hear Social Security’s strengths celebrated. More often, I hear the program and PAYGO together described as a zero-sum game between old and young, taxpayers and dependents, workers and retirees, or public and private balance sheets. It’s been described

as a “Ponzi scheme,” a source of “generational warfare,” and the most onerous expense in the federal budget.

These negative characterizations, based on economic models whose assumptions feel incomplete to me, have become conventional wisdom. Unchallenged, they threaten to dominate the conversation when, as a country, we have to decide either to keep Social Security largely intact, tweaking it with judicious changes to tax rates and benefit levels, or replace it with something akin to a defined contribution plan. At that moment, it will be important to recognize the existing system’s simplicity and strengths.

© 2026 RIJ Publishing. All rights reserved.