

MEMO# 10407

October 26, 1998

CHAIRMAN LEVITT SPEECH ON SOCIAL SECURITY REFORM

[10407] October 26, 1998 TO: BOARD OF GOVERNORS No. 69-98 PRIMARY CONTACTS - MEMBER COMPLEX No. 97-98 PENSION COMMITTEE No. 70-98 RE: CHAIRMAN LEVITT SPEECH ON SOCIAL SECURITY REFORM

On October 19, SEC Chairman Levitt delivered an address entitled "The SEC Perspective On Investing Social Security In The Stock Market" at Harvard University. In the address, a copy of which is attached, Chairman Levitt stated that possible reforms permitting individuals to invest Social Security assets in equities raise important issues that "go to the heart of investor protection." Specifically, he stated that if there were such reform, "we must be ready to undertake an unprecedented level of broad- scale policing of the equity markets. Without such policies, fraud and sales practices abuses may be perpetrated against an army of novice investors. And many of those novice investors are our society's most vulnerable citizens." He also made the following points: ! If there is to be an individual account component to Social Security reform, potential investors will need to understand the basics of saving and investing, including the concepts of risk and cost. ! There is a trade-off between greater investment choice and lower fees. Such fees are related to marketing and sales costs and to the range of investment options available to investors. If investment choices were limited to broad market indexes resembling the Thrift Savings Plan for Federal employees, administrative costs could be reduced. On the other hand, a privately managed system could offer individuals a greater range of choice, but with higher administrative costs. ! If the government itself, rather than individuals, were to invest Social Security Trust Fund assets in the stock market, the impact on capital markets would need to be assessed. On the one hand, having the government invest the Trust Fund would spread market risk across society and achieve economies of scale that would lead to lower administrative costs than individual accounts would entail. Such investment would, however, give rise to concerns about corporate governance and market impact. Matthew P. Fink President

Attachment