

MEMO# 10540

December 7, 1998

EBRI ISSUE BRIEF DETAILS ADMINISTRATIVE DIFFICULTIES IN ESTABLISHING INDIVIDUAL SOCIAL SECURITY ACCOUNTS

[10540] December 7, 1998 TO: BOARD OF GOVERNORS No. 80-98 RE: EBRI ISSUE BRIEF DETAILS ADMINISTRATIVE DIFFICULTIES IN ESTABLISHING INDIVIDUAL SOCIAL SECURITY ACCOUNTS

The Employee Benefits Research Institute recently issued a special report on administrative feasibility and cost issues relating to establishing individual investment accounts within the Social Security system. A copy of "Individual Social Security Accounts: Issues in Assessing Administrative Feasibility and Costs" is attached for your review. The findings and conclusions of the analysis generally suggest that creating individual investment accounts within the Social Security system would be difficult. The EBRI report makes no recommendations regarding the administration or regulation of individual Social Security accounts. The report instead attempts to "bring practical considerations to a political debate that has largely ignored the pragmatic challenges of whether Individual Accounts would be too complex for participants to understand or too difficult for record keepers to administer." Among the report's conclusions are the following (see executive summary, pages 1-2): ! Adding individual accounts to Social Security could be the largest undertaking in the history of the U.S. financial market and no system to date has the capacity to administer such a system. ! Direct comparisons between employment-based retirement savings plans and Social Security reform are tenuous at best. ! Credit-based systems such as the current Social Security program are less difficult to administer than cash-based systems, which must account for every dollar. ! Social Security individual accounts cannot be administered like 401(k) plans without adding significant employer burdens—especially on small businesses. ! If legally considered personal property, the individual accounts of married participants could pose significant administrative challenges. ! The current body of knowledge is too uncertain, and the proposals to date are too vague, to make an objective estimate of how much an individual account system would cost to administer or whether it would succeed in accomplishing its policy goals. ! Individual account benefits would be highly sensitive to administrative costs. The report discusses the subject of regulating individual accounts (see pages 30-32). It concludes that "the government would likely become actively involved in their regulation as soon as real or perceived problems or abuses are discovered" (see page 30). Anticipated areas of regulation include setting investment guidelines and establishing fee disclosure regulations. We will keep you informed as the Social Security policy debate develops. Matthew P. Fink President

Attachment

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