



Individual Accounts in Social Security:

Practical Aspects of Risk and Regulation

D. Don Ezra
Frank Russell Company
dezra@russell.com

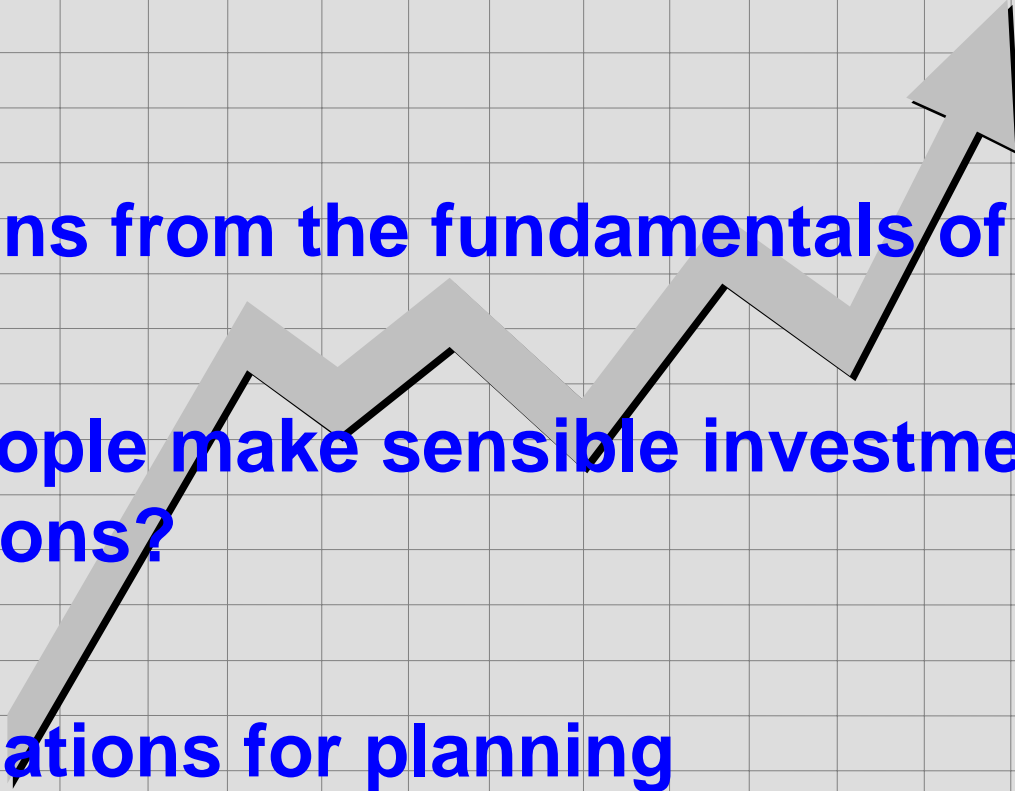
Cato Institute
February 6-7, 2001
Washington, D.C.

Outline

Lessons from the fundamentals of investing

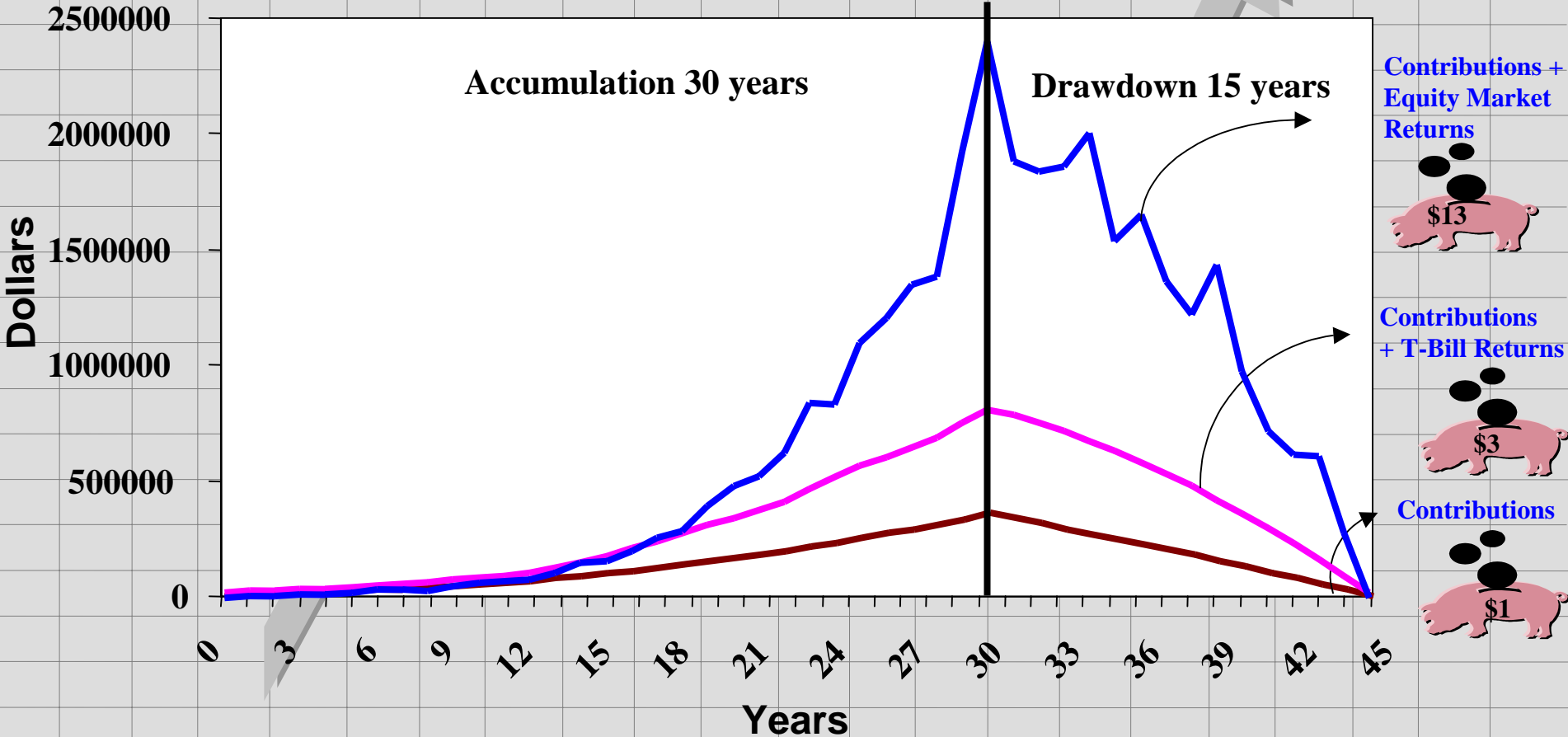
Do people make sensible investment decisions?

Implications for planning



Fundamentals of Investing

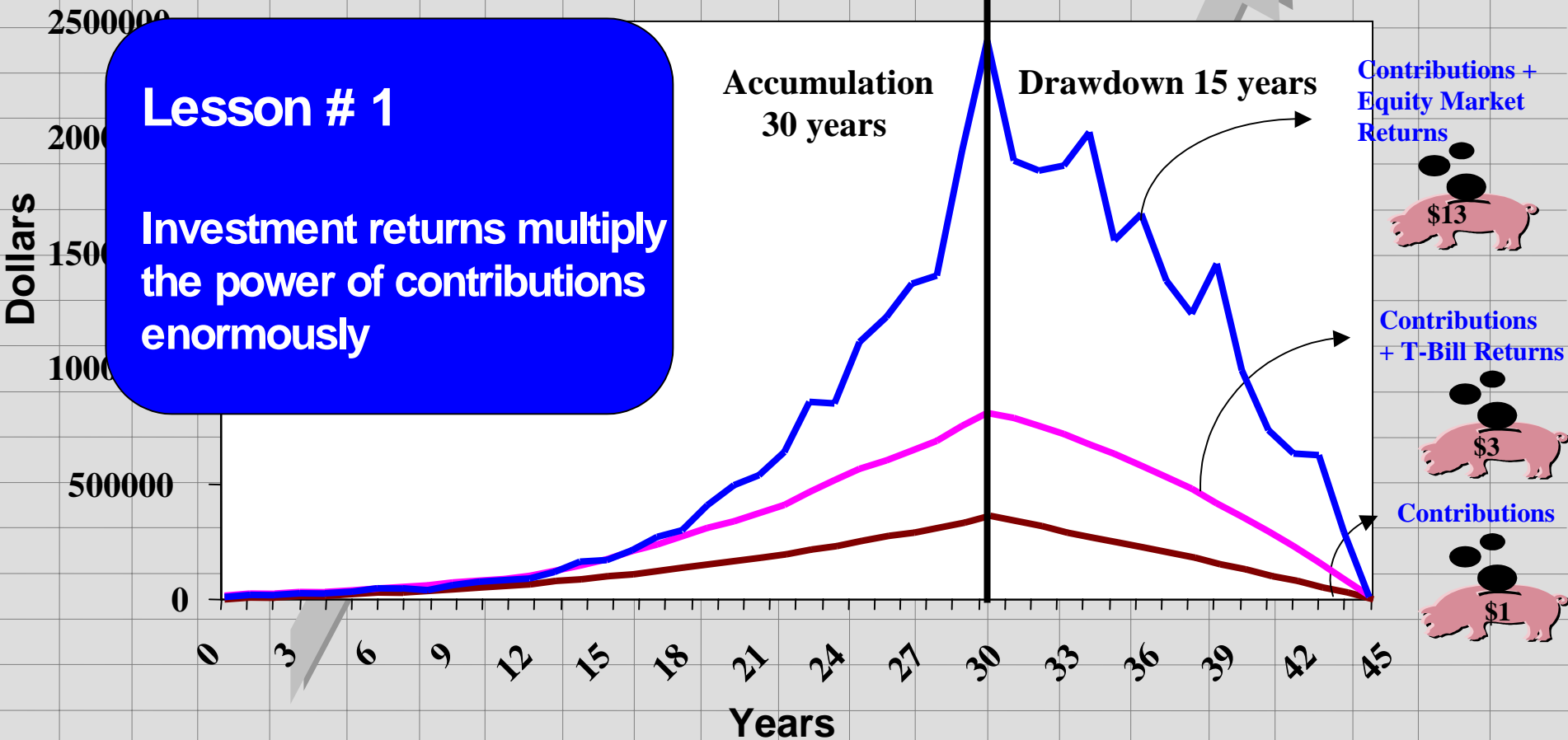
The accumulation and drawdown of wealth



Fundamentals of Investing

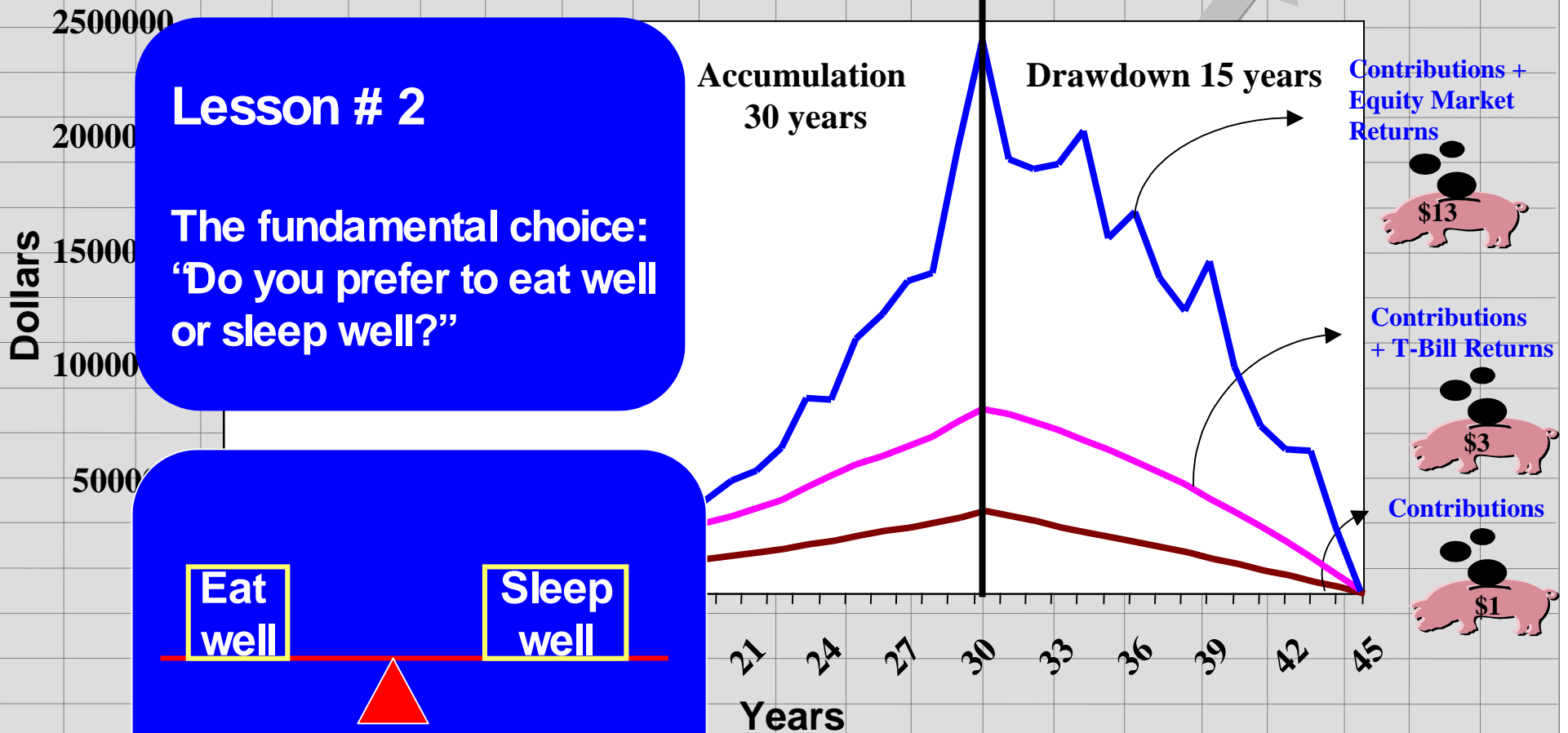
The accumulation and drawdown of wealth

Lesson # 1
Investment returns multiply the power of contributions enormously



Fundamentals of Investing

The accumulation and breakdown of wealth



Lesson # 2

The fundamental choice:
“Do you prefer to eat well
or sleep well?”

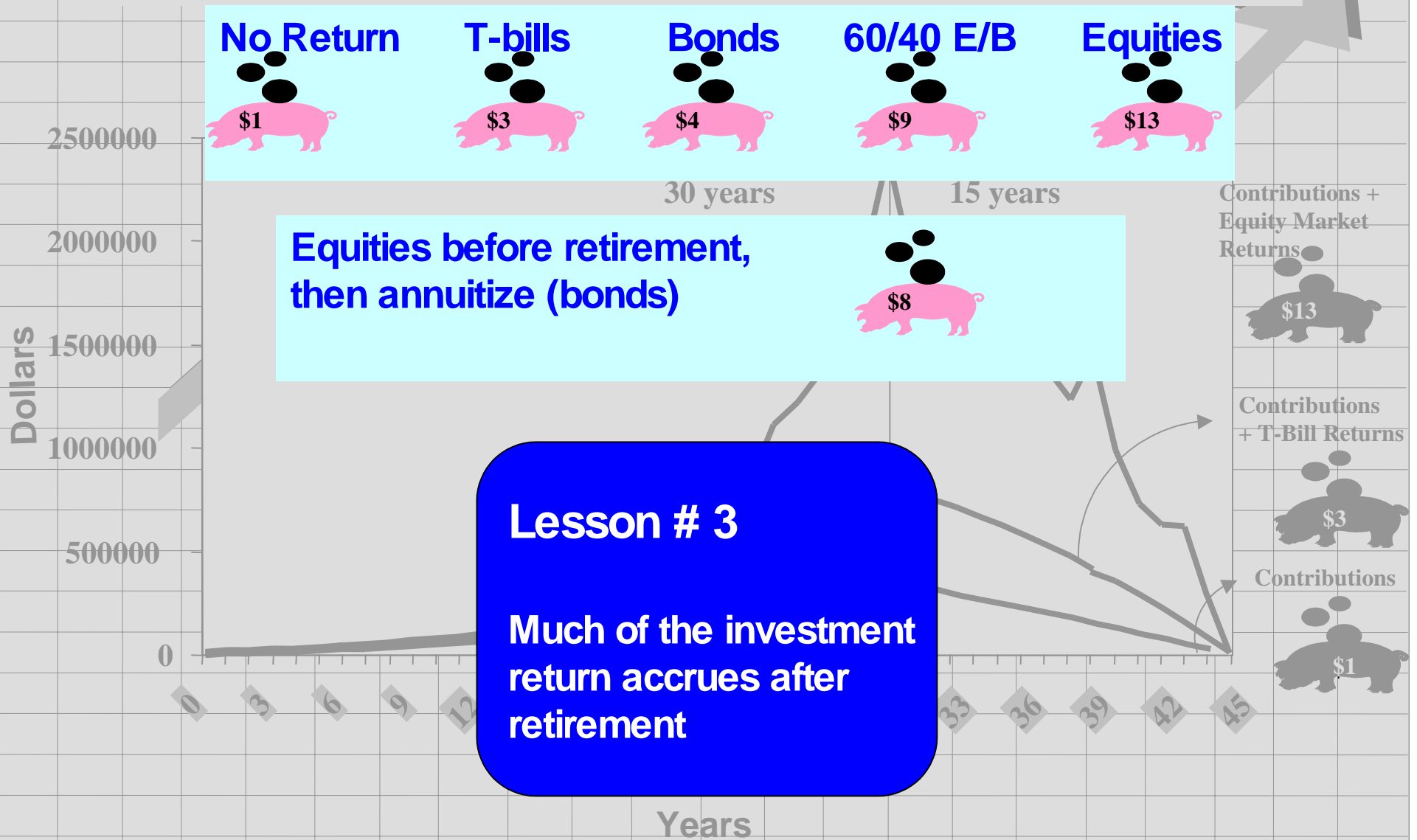
Eat
well

Sleep
well

Where do you want to be?

Fundamentals of Investing

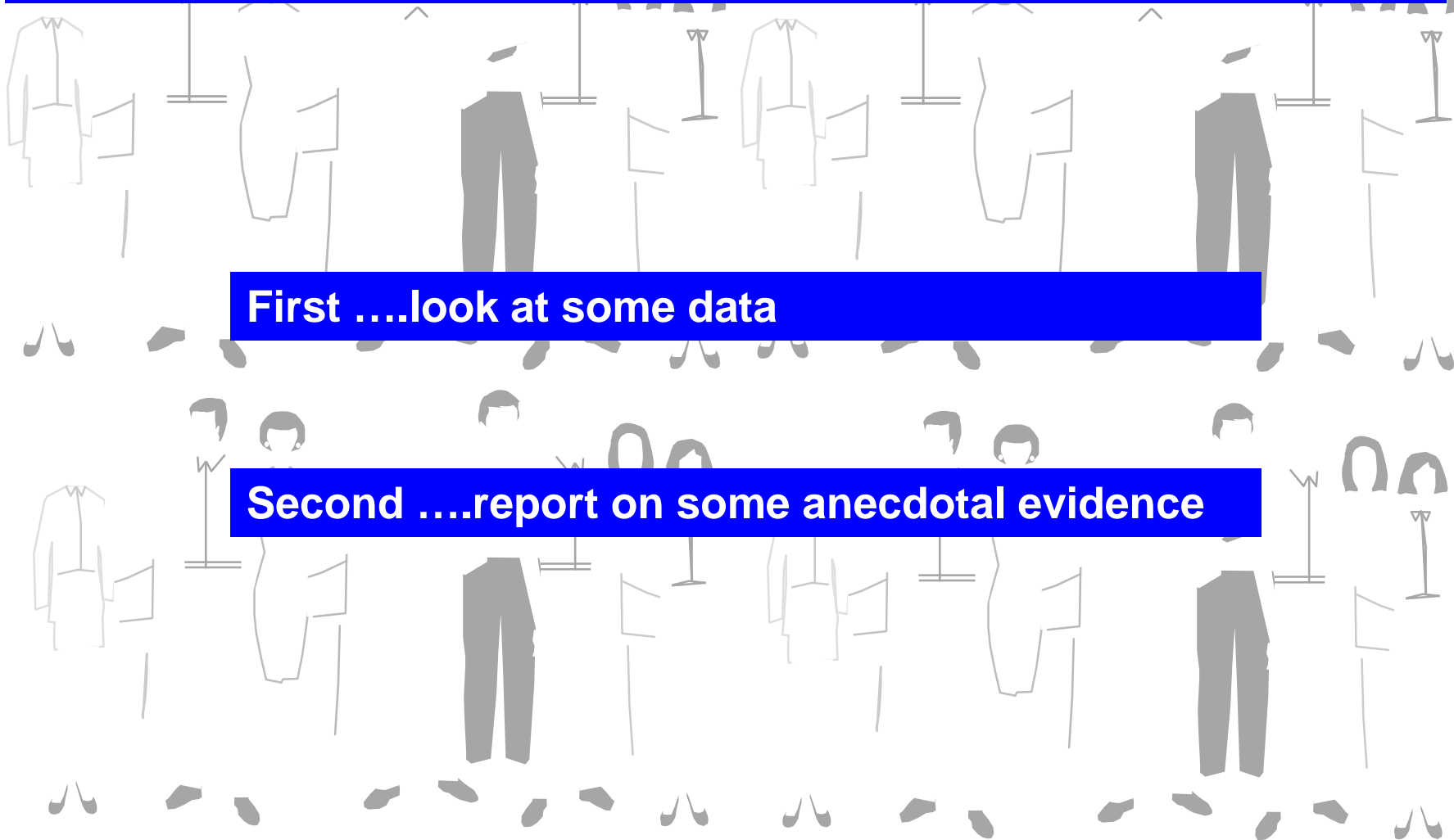
The accumulation and draw down of wealth



Do people make sensible investment decisions?

Firstlook at some data

Secondreport on some anecdotal evidence



On the whole, they take their age into account in a sensible way

	Age Range				
% Exposure	20s	30s	40s	50s	60s
Equities	76	76	72	66	54
Fixed income	16	16	20	26	38
Balanced funds	8	8	8	8	8

Exposure to equities (riskiest) falls as retirement nears

Source: ERBI, 401(k)
February

On the whole, they understand that diversified funds are less risky than their own company stock

	<u>When employer-directed</u>		<u>When not employer-directed</u>
% exposure to Company stock	Total Account	Participant - directed portion	
	52	32	23
Equity funds	27	38	42
Balanced funds	6	8	11

Source: EBRI, 401(k)
February 2000

High exposure to equity and balanced funds preferred to forced investment in company stock



Positives and negatives from anecdotal evidence

Focused communications achieve results

- increased desire to continue investment education
- increased voluntary participation in investment accounts
- increased willingness to take equity risk

But also

- aggregate statistics conceal individual variation
- paternalist would be horrified by some attitudes and choices



Implications for planning

Ensure availability of investment education

**Permit “eat well versus sleep well” choice,
after retirement as well as before**

**Up for grabs: freedom to make
further choices**