



# Thomas Jefferson Is Rolling in His Grave -- A Rant on Social Security's Complexity

8/06/2012 @ 1:03 am

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I recently wrote a column called [“38 Social Security Secrets All Baby Boomers and Millions of Current Recipients Need to Know.”](#) In a companion column — [“When Should I Take Social Security — a ‘Simple’ Social Security Benefit Formula,”](#) I presented a ‘simple’ formula for the benefits of a husband or wife. The goal of these columns was to point out the unbelievable complexity we face in deciding when to take Social [Security](#) and which benefits to take.

If you read these two columns, you will realize that there probably aren't 20 people in the entire country who really understand the system's provisions. But there are 78 million baby boomers about to make their benefit decisions. Lord help them if they try to figure this out on their own. The “simple” benefit formula I presented for a married spouse involves 10 separate mathematical functions, some discrete, others continuous, one of which has four arguments. There are also complex side conditions, which restrict the domains of these functions.

Social Security's website is of limited help because it doesn't deal with the interconnected choice of when to take retirement, spousal, divorcee, survivor, and child benefits. We can't blame the folks at Social Security for this. They didn't write the thousands, if not tens of thousands, of rules in Social Security's Handbook and Program Operating Manual System. Even the most ardent supporters of Social Security would surely be dismayed by this complexity, which was developed over the years, presumably by Congressional staffers, looking to do good, but, apparently, with not the slightest concern about making the system minimally user-friendly. As a result, what you end up with from Social Security is a highly random outcome.

I hate to admit this, but I may be one of the 20 top experts in the country on Social Security provisions. But even I am learning new Social Security provisions over time. The really top top experts are a very small handful of actuaries at the Social Security

Administration's Office of the Actuary. The thousands of people manning the Social Security offices are very well meaning, but they are routinely doling out the wrong advice because the system's provisions are too complex even for them. I'm starting to collect emails from people detailing the wrong advice they received from their local Social Security office and will provide examples in a forthcoming blog.

I've been learning Social Security's rules to make sure that my software company's Social Security maximization tool, which we market for \$40 at [www.maximizemysocialsecurity.com](http://www.maximizemysocialsecurity.com), is giving the right suggestions. This may sound like an infomercial. It's not. I have personally earned, at least so far, not a single penny from my company and view my provision of this program at such a low cost as a public service as well as a means of keeping several top notch American software engineers employed. I'm also extremely proud that my company is providing the top-ranked financial planning tool on the web — ESPlannerBASIC — entirely *for free*. (It was ranked #1 by Money Magazine in a recent review of web-based software tools. To run the program for free, just go to [www.esplanner.com/basic](http://www.esplanner.com/basic) and click *Begin Planning* at the bottom of the home page. No need to register or otherwise login. Take a look at the animated video while you're on the site.)

But back to Social Security. Even if a couple understood perfectly the 10 functions and, thus, the benefit formula, they'd need to examine that formula an impossible number of times to consider all the different benefit collection cases. Am I nuts? No. It's that many choices. Suppose the couple are the same age. The husband can apply for his spousal benefit in any of 48 months between 62 and 66. Same with the wife. They can both apply for their retirement benefits in any of 96 months between 62 and 70. But in all 48 months between 66 and 70 each spouse can suspend his/her retirement benefit collection and then restart it again later. This gives us  $48 \times 48 \times 96 \times 96 \times 48 \times 48 \times 48 \times 48 = 612.7$  zillion combinations to consider, where a zillion is defined here as 1,000 trillion. There are some restrictions that limit this number, but one needs to consider these cases to understand they may not be feasible. But there are also more cases to consider if the husband and wife are far apart in age or one has a very early maximum age of death. In this case there are survivor benefits that come into play, which can further dramatically raise the number of cases that need to be considered.

No computer program can do that many calculations. Our program limits the months in which people would file and suspend to those that are the most likely. But my point is that we have a system that not only redefines complexity, but also defies understanding.

If this isn't driving you to start considering a different homeland, take a glance at the IRS 1040 worksheet governing the federal income taxation of your Social Security benefits once you start getting them. The formula for the additional income that's taxable involves a min (minimum) function of three arguments, one of which is a min function itself (call this function X) and one of which is a max (maximum) function and the X function is itself a function of min function. Hence we have here a min of a min of a min and a min of a min and a max. This is yet another extremely complex function, which Social Security describes as leading first to half and then 85 percent of our benefits being

subject to taxation. In fact, the formula doesn't produce anything that accords with this description. It's much more complicated than that. It treats people with more benefits relative to other income very differently from those with the opposite. I could describe it in more length, but let me simply say, it's *scary*.

The above rant may suggest that I'm a libertarian and would prefer to see Social Security dismantled with nothing put in its place. That's not the case. We need to force people to save and obtain survivor, disability, and longevity insurance. Otherwise, everyone will simply free-ride on everyone else's altruism. (This is why even the Cato Institute — the nation's leading libertarian think tank includes compulsion in its Social Security reform plan; i.e., the libertarians talk a good game, but when push comes to shove seem to be altruistic themselves, which forces them, out of self interest, to interfere in the behavior of those they care about.) But we need run Social Security in a way that doesn't drive us nuts or our kids broke. (See my recent Bloomberg [column](#) pointing out that Social Security is 31 percent underfunded.) My proposal at [www.thepurplesocialsecurityplan.org](http://www.thepurplesocialsecurityplan.org) is the way to do this right without Wall street having any involvement whatsoever. I'm a big fan of the basic objective of Social Security. But a big opponent of how it's been implemented. Thomas Jefferson would surely agree. He was a very strong proponent of small, effective government and is, no doubt, rolling in his grave over what this system has become.

President Obama and Mitt Romney would do well to point out that having our primary system of saving be an institution that neither Democrats nor Republicans can figure out and which can't pay a very large chunk of its bills going forward is doing no one any good and is something they intend to fix yesterday.