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AARP Misleads Elderly About Social Security's Fiscal Health

By: Jagadeesh Gokhale – February 25, 2013

The American Association of Retired Persons (AARP) is perhaps the most powerful lobbying organization in the U.S. Its Policy Council promotes national fiscal policies that protect its members' interests.

But the Council cites half-truths, uses ambiguous language, and omits key details about the programs and policies it discusses — especially on Social Security — in its communications with those members.

A recent letter responding to an enquiry about AARP's policy perspective on Social Security, for example, appears to claim that the program has no financial worries:

"I am pleased to tell you, Social Security is not 'broke.' In 2011, the Social Security Trust Funds ran a surplus of about $69 billion. That surplus was added to Social Security's accumulated reserves, which totaled about $2.7 trillion at the beginning of 2012. .. . In fact, in 2011, the Social Security Trust Funds earned $114 billion in interest at an average rate of 4.4%."

This is a typical AARP half-truth.

Since when do we figure whether a program is broke by looking at just its current surplus or assets on hand? (we'll avoid an argument by granting, for now, that the Social Security Trust Fund holds "assets.")

What about the program's obligations?

The Social Security Trustees' 2011 and 2012 Annual Reports (Tables IV B. 6 in both reports), reveal the following: Unfunded obligations for all participants from 1935 to an "infinite horizon" — that is, forever — have risen from $17.9 trillion in 2010 to $20.5 trillion in 2011. But through just 2085, they've jumped from $6.5 trillion to $8.6 trillion.

In short, during 2011 Social Security's total unfunded obligations increased by $2.6 trillion when calculated in perpetuity. If we count just the next 75 years, the increase in the program's unfunded obligations during 2011 was $2.1 trillion.

The 2011 accrual of unfunded Social Security obligations dwarfs the surplus income of $69 billion accumulated during 2011 — which the AARP letter focuses on exclusively. Note also that Social Security's total present-valued obligations — $20.5 trillion as of year-end 2011 — also dwarf its Trust Fund of $2.7 trillion.

These numbers reveal a funding ratio of just 13%, whereas in the private sector and for state government pension plans required funding ratios are 80% or larger.

Such a low funding ratio implies that the program will depend almost entirely on future revenues to pay benefits to today's retirees and those about to enter retirement, unless those benefits are scaled back.

But, as shown below, AARP rejects all benefit side changes to Social Security.

The financial progression of annual Trust Fund income surpluses being outpaced by Social Security's annual accruals of unfunded obligations has been a constant feature — observed ever since Social Security's Trustees began publishing these estimates in 2003.

One way to view the result is to delve into the Trustees' 2003 report which shows the Trust Fund containing assets of $1.4 trillion while Social Security's obligations amounted to $10.5 trillion.

Since that year, the program's obligations have increased by $10 trillion while the Trust Fund has accumulated just $1.4 trillion.

According to AARP, however, the program is not broke.

That the program's unfunded obligations would increase more rapidly than its Trust Fund is a well-known financial (and predictable) phenomenon. The AARP letter reports that the $2.7 trillion trust fund is currently accruing interest at 4.4% per year (in nominal terms).

In the future, this accrual will be faster under the Trustees' assumed long-range interest rate of 5.7%. But that means the program's total obligations of $20.5 trillion will also grow at 5.7% per year.

Contrast this with what the Trust Fund is drawing upon — not real income-generating assets but the U.S. Treasury dipping into federal general revenues which, in turn, will require increasing nonpayroll taxes.

However, under the Trustees' long-range assumptions, the income tax base will grow at a much slower rate — at just 4.3% per year under the Trustees' long range assumptions of annual inflation at 2.8%, annual productivity growth of 1.1%, and annual population growth rate of 0.4%.

The AARP letter acknowledges that future financial shortfalls are likely to arise for Social Security.

It says that "changing demographics ... do call for some adjustments to ensure that future generations also enjoy the same essential protections (emphasis added). ...If these changes are made sooner rather than later, modest adjustments will overcome the projected shortfall."

But that's followed by: "the goal of reform must be strengthening and improving Social Security's guaranteed benefits."

This is a classic AARP misdirection: Given that (a) Social Security does not produce anything but only transfers funds from taxpayers to beneficiaries, (b) that there's a financial shortfall, and (c) that Social Security benefits must be "strengthened and improved," for AARP's current clients, it follows that most if not all of the adjustments must come from the program's revenue side or from outside of Social Security current financing framework.

AARP misses is the fact that imposing higher taxes on future taxpayers would not extend to them the same essential protections during their lifetimes.

Such AARP communications — with half-truths and misdirection, either willful or unwitting — serve only to mislead AARP's members — who, one expects, care not only about themselves, but also about their children and grandchildren. The latter will be ill-served by AARP's muddled promotion of the status quo on Social Security benefits.