Sacramento Bee (California)
September 14, 2011 Wednesday

Head to Head: Is Social Security sustainable, and is it worth continuing?

THE ISSUE: The Social Security system, which marked its 75th anniversary last year, was established as a pay-as-you-go social insurance program, whereby benefits to retirees are paid out of payroll tax contributions from current workers. Critics, most recently Texas Gov. Rick Perry, have called it a "Ponzi scheme." Supporters call it a vital "intergenerational compact."

Is Social Security sustainable, and is it worth continuing?

Pia Lopez: Absolutely

Life for older Americans is a lot better because of Social Security.

It is a bedrock of certainty to supplement private pensions and personal savings that are subject to the swings of stock and bond markets. And for the oldest Americans who eventually spend much of their retirement savings, Social Security is an essential source of income – and independence.

In 2008, less than 10 percent of individuals 65 and older fell below the poverty line – the lowest of any age group. Without Social Security benefits, it would be 45 percent, according to a 2010 analysis by the Center for Budget and Policy Priorities.

Yes, Social Security is an intergenerational compact. The payroll taxes of today's working-age children go toward benefits for their elderly parents who have retired after a lifetime of work. It is a way of spreading costs, so individual families aren't burdened with the costs of taking care of elderly parents who have lived beyond their savings. In turn, their children will do the same for them when they become too old to work.

The 1930s framers predicted that the 65-and- over population would increase from 5.4 percent of the population in 1930 to 12.7 percent by 2000. Pretty close. They knew, too, that as people lived longer, they would work for more years and spend more years in retirement.

Thus, they expected that the president and Congress would have to amend Social Security tax and benefit rates and eligibility conditions. But we've had no major adjustment since 1983 – a hard-won compromise among President Ronald Reagan, a Democratic-majority House and a Republican-majority Senate.

Today, despite hysteria to the contrary, Social Security's short-term finances remain solid – with $2.6 trillion in assets. The 2011 trustees' report projects that Social Security will be able to pay 100 percent of scheduled benefits for all workers through 2036. The issue is what happens after that.

Under a "do nothing" scenario, the trustees project that Social Security will be able to cover 77 percent of scheduled benefits after 2036. But to avoid big benefit cuts 26 years from now, Congress and the president have to do what they traditionally have done – gradually change the retirement age, cost-of-living adjustments and payroll taxes.

Social Security is not a "scheme" or a "failure." It has provided economic certainty to Americans in their old age for 76 years – and with tweaks can continue to do so for another 75 years.

Pia Lopez is an editorial writer at The Bee.

Ben Boychuk: No, it’s worse than a scheme

Call it "Ponzi-esque."

In a true Ponzi scheme, new "investors" pay off the old "investors," minus the grifter's fee. When a Ponzi scheme can no longer con new suckers in sufficient numbers to pay off the older marks, it collapses and the Charles Ponzis and Bernard Madoffs of the world go to prison.

Social Security is, as the libertarians at the Reason Foundation and **Cato Institute** have observed, considerably worse than a Ponzi scheme. At least in a Ponzi scheme, the mark has a choice. Not so with Social Security. The government automatically withholds payroll taxes and "invests" them for you.

And unlike a traditional Ponzi scheme, when Social Security runs low on investors the government simply raises taxes. According to Cato's Michael Tanner, Social Security payroll taxes have gone up 40 times since Congress passed the Social Security Act in 1935, increasing some 800 percent in inflation-adjusted dollars over the decades.

But the one problem neither Social Security nor Mr. Ponzi's scheme can overcome is demographics. Today, the worker-to-retiree ratio is roughly 3-to-1. That's down from 16-to-1 in 1950. By 2030, the ratio will be closer to 2-to-1.

Time was, liberals were keen to admit that Social Security was much like a Ponzi scheme – except virtuous.

Economist and Nobel laureate Paul Samuelson in a 1967 column for Newsweek argued that succeeding generations of taxpayers and ongoing economic expansion would ensure the Social Security Ponzi scheme's success. But even Samuelson had to change his tune 10 years later when the demographic realities became apparent.

Pia cites the Social Security trustees as if they're using real numbers. The Social Security trust fund is as fictional as a George R.R. Martin novel. The $2.6 trillion fund is, in fact, nothing more than a stack of interest-bearing IOUs. By the time the trust "fund" runs out in 2037, taxpayers will be on the hook for $7.3 trillion.

How to fix this? Congress could bump up the retirement age, tweak cost-of-living-adjustments, impose means testing – old ideas that would eke a little more life out the present system.

But the truth is, Americans in their 20s, 30s and 40s would get a better deal if they could invest the money taken from their paychecks for Social Security in a defined contribution plan. For example, the Galveston, Texas, plan for public workers has returned 7.5 percent a year on average since 1982, at little risk to employees. This isn't a radical notion or a "scheme."

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