



With a nod to Rick Perry, Carlos Curbelo calls Social Security and Medicare a 'Ponzi scheme'

By [Amy Sherman](#)

Wednesday, September 24th, 2014

Congressional candidate Carlos Curbelo sided with Texas Gov. Rick Perry's depiction of Social Security and Medicare as a "Ponzi scheme" in a [talk](#) with college Republicans.

"I speak about both of these programs as one because they both suffer from the same long-term insolvency, meaning that they won't be around for us, meaning that we're paying into a system that, you know, is a Ponzi scheme," he told college students at George Washington University in Washington on Sept. 18. "Rick Perry said that. That's one of the few things I think Rick Perry contributed when he ran for president last time -- and I worked for him, so I can say that."

The *Miami Herald's* [Naked Politics blog](#) wrote about Curbelo's comments captured by a tracker when he was in Washington fundraising. (Many of the students who heard Curbelo speak are from Florida.)

Curbelo faces U.S. Rep. Joe Garcia, D-Miami, in a district that includes many seniors from Miami to Key West so his comments drew a lot of attention.

PolitiFact has rated [several claims](#) about whether Social Security is a Ponzi scheme including two we rated False [by Perry](#) leading up to the 2012 presidential election. We found some similar problems with Curbelo's claim about Medicare.

Social Security differs from Ponzi schemes

We asked Curbelo's campaign spokesman for evidence showing the programs are Ponzi schemes.

Wadi Gaitan emailed us a statement that Curbelo was using "a figure of speech" and wants to preserve the programs for current and future generations. He provided no evidence that the programs are Ponzi schemes.

Curbelo has made some broad suggestions for reform, including indexing benefits to life expectancy, (which [already happens](#) in part in Medicare) and changing how the cost of living adjustment is calculated.

But first, what is a Ponzi scheme?

The term originates with Charles Ponzi, a Boston swindler who conned investors out of millions in 1920 by promising returns of up to 100 percent in 90 days on investments in foreign postal coupons. After first-round investors harvested those profits, others flocked to Ponzi, unaware his "profits" consisted of money paid in by other investors.

That strategy is unsustainable.

In contrast, Social Security is more like a "pay-as-you-go" system transferring payroll tax payments by workers to retirees. A 2009 Social Security Administration online post stated: "The American Social Security system has been in continuous successful operation since 1935. Charles Ponzi's scheme lasted barely 200 days."

Mitchell Zuckoff, a Boston University journalism professor who has written a book on Ponzi, noted three critical dissimilarities between Social Security and a Ponzi scheme. We will summarize Zuckoff's comments from an earlier [fact-check](#):

- "First, in the case of Social Security, no one is being misled," Zuckoff wrote in a January 2009 article in Fortune. "Social Security is exactly what it claims to be: A mandatory transfer payment system under which current workers are taxed on their incomes to pay benefits, with no promises of huge returns."
- Second, he wrote, "A Ponzi scheme is unsustainable because the number of potential investors is eventually exhausted." While Social Security faces a huge burden due to retiring Baby Boomers, it can be and has been tweaked, and "the government could change benefit formulas or take other steps, like increasing taxes, to keep the system from failing."
- Third, Zuckoff wrote, "Social Security is morally the polar opposite of a Ponzi scheme. ... At the height of the Great Depression, our society (see 'Social') resolved to create a safety net (see 'Security') in the form of a social insurance policy that would pay modest benefits to retirees, the disabled and the survivors of deceased workers. By design, that means a certain amount of wealth transfer, with richer workers subsidizing poorer ones. That might rankle, but it's not fraud."

Michael Tanner, an expert on Social Security at the libertarian Cato Institute says that Social Security and Ponzi schemes share some characteristics -- for example, in the early stages there is a huge windfall while those later on get smaller returns.

However, Ponzi didn't have the power of the federal government.

"In the end the Ponzi scheme collapses and can't make people continue to give him money, but Social Security can always force people to pay," Tanner said. "In theory Social Security can always go out and raise taxes to keep benefits flowing."

Medicare

[Medicare](#), which pays for medical care for senior citizens, as well as for younger people with certain disabilities, covers [51 million](#) people. (You can read more detail in a fact-check of U.S. Rep. Paul Ryan's claim that Medicare is going broke which PolitiFact Wisconsin rated [Mostly False](#).)

Medicare has two main [components](#) and they are funded differently.

The [primary source](#) of financing for Part A, Hospital Insurance, is the FICA payroll withholding. In other words, it's [pay-as-you-go](#): the contributions of current workers (and their employers) finance the care for current beneficiaries.

[Most of the costs](#) for Part B, which helps pay for doctor, outpatient and other services, are covered by the government's general fund and, to a lesser extent, premiums paid by beneficiaries. Part B also has a trust fund, but it's different from Part A in that whenever expenditures exceed revenue, the difference is automatically covered by [transfers](#) from the general fund.

There is also a Part C -- Medicare Advantage, which is a private-insurance alternative to Part A and has no trust fund. And there is Part D, a prescription drug benefit included in Part B.

Both [Social Security](#) and [Medicare](#) face a huge burden in the future and are susceptible to problematic demographic trends as the [number of workers supporting every retiree](#) has declined dramatically over decades.

However, budget experts say neither are Ponzi schemes.

The programs face shortfalls in part because the number of new workers paying into the system grows more slowly than seniors receiving benefits. But both programs get funds from general revenues to bridge the gap, said Edward Lorenzen, senior advisor at the nonpartisan Committee for a Responsible Federal Budget.\

"While a Ponzi scheme is by its nature inherently unsustainable, the Medicare and Social Security programs can be made sustainable with changes in benefits and taxes," Lorenzen said. However, "the longer we wait to make those changes, the magnitude of the changes that will need to be made will be greater."

Josh Gordon, policy director at the Concord Coalition, a group that advocates for balanced budgets, said. "The only difference with Medicare is that on its face it is even less 'like' a Ponzi scheme because for Medicare part B and D the system is designed to have general revenues (not

dedicated taxes) pay for 75 percent of costs -- just like any other government program is paid for by the general revenue pool."

Our ruling

Curbelo said that Social Security and Medicare are "a Ponzi scheme."

A Ponzi scheme is by definition an illegal crime and an unsustainable set-up that crashes very quickly. Social Security and Medicare, which have been around for decades, are not criminal schemes.

Both programs face the massive challenge of fewer workers paying for the benefits of current retirees, and budget experts say Congress could make changes to make them more sustainable in the future -- though many politicians are reluctant to gamble with the support of current senior voters.

Curbelo raises a legitimate point about the need for reform, but that's entirely different than calling these programs "Ponzi schemes."

We rate this claim False.