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Harris Sherline: Can Social Security Survive?

The program can't be sustained without first making drastic changes

By Harris R. Sherline | Published on 04.24.2010

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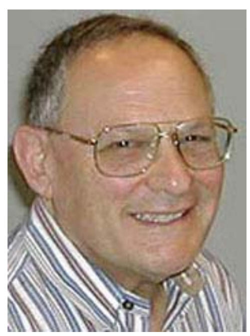
The assumptions used in preparing projections are not facts. They're guesses: Sometimes right on, sometimes way off or somewhere in between. But when it comes to Social Security, regardless of the accuracy of the assumptions used in making various forecasts, the reality is that the system is going broke. The question is not "if" but "when" and "how much?"


Harris Sherline

Start with the fact that the Social Security Administration doesn't have any funds in trust or investment accounts, such as stocks, bonds or savings accounts. The entire system is actually a giant Ponzi-type pay-as-you-go scheme that takes the payroll taxes of those who are still working and distributes it to retirees. Individuals who hustle similar dishonest "investments" are sent directly to jail without passing "Go," but it's OK for Congress.

CATO Institute researcher William Shipman noted in a 1995 project, "Retiring With Dignity": "Any surplus is not saved or invested for pensioners. Those funds are borrowed by the federal government to pay current operating expenses and replaced with government bonds. ...The federal government lends itself the excess in return for an interest-paying bond, an IOU that it issues to itself. ... The funds are not invested for the benefit of present or future retirees."

What a brilliant idea, having the government borrow money from itself and issue IOUs to itself, promising to pay it back sometime in the future. But wait, doesn't the money all come from the same pocket? The taxpayers, right? If you're confused, don't fret. You're not alone. The entire setup is nothing more than a giant shell game: Now you see the money, now you don't. Which shell is it under?

Our Social Security program has worked to this point because money has been coming in faster than it has been going out. But that's about to end.

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Charles Krauthammer, writing in the Washington Post in 2005, noted that in 2018, the "pay-as-you-go system starts paying out more (in Social Security benefits) than goes in (in payroll taxes).... But because the population is aging, in 13 years [now nine years] the system begins to go into the red." At that point, Social Security will be able to pay only 73 percent of "promised benefits" to retirees. However, The New York Times has reported that this year (2010), "the system will pay out more in benefits than it receives in payroll taxes ... an important threshold it was not expected to cross until at least 2016, according to the Congressional Budget Office."

If you're not yet convinced that Social Security is going broke, here are some stats noted by Shipman that are worth considering:

» In 1935, when the Social Security Act was adopted, life expectancy at birth was 64 years; in 1995, it was 75.8. Today, it's over 78.

» The birth rate was 3.56 in 1950, 2 in 1995 and is currently something less than 2.

» There were 16 workers for every Social Security recipient in 1950; 3.3 in 1995, and the ratio has been projected at less than 2 in 2030.

» In 1937, the maximum Social Security tax was $60 on $3,000 of income. Today, it's $6,621 on $106,800 of income, more than a 10,000 percent increase. (Note: Remember, the employer matches the employee's contribution.)

These numbers clearly demonstrate why Social Security is going under: People are living (read: collecting benefits) longer, and there are fewer workers paying into the system to support each retiree. In about 20 years, less than two workers are expected to be paying into the system to support each beneficiary, compared with 16 in 1950.

It doesn't take a math major or a Ph.D. to recognize that the program can't be sustained without making some drastic changes.

Furthermore, Social Security wasn't really intended to be a retirement program. The politicians who devised the system in 1935, including President Franklin D. Roosevelt, knew perfectly well at the time that most Americans would not live long enough to collect any benefits.

The United States is not alone in being confronted with the dilemma of a failing national pension system. It's a universal problem, affecting all the European nations and Russia, among others.

One solution might be to drastically reduce benefits for all Social Security beneficiaries. How much, no one knows, but it could easily be a third or more.

Another alternative would be to increase the retirement age, which would slow the rate of outgo, although that ultimately would not be enough of a fix. Raising the age of eligibility (to 67) has already been phased in.

A third possibility is to raise taxes — dramatically. Hardly an attractive option.

Or, the government could borrow the money to cover the shortfall, which the Peter G. Peterson Foundation reports added up to something in excess of $7.7 trillion in 2009. This does not include the impact of the retiring baby boomers, who will add about another 35 million to 40 million retirees to the Social Security rolls in the foreseeable future.

Of course, the problem could be fixed by reducing other government spending. However, since the discretionary portion of the federal budget is relatively small, it would mean significant cuts in other expenditures, such as defense, education, highways, energy, welfare or the host of so-called “entitlement” programs, including Medicare, which is already in an even deeper financial black hole.

Not very likely.

— Harris R. Sherline is a retired CPA and former chairman and CEO of Santa Ynez Valley Hospital who has lived in Santa Barbara County for more than 30 years. He stays active writing opinion columns and his blog, Opinionfest.com.
