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Actuaries Report Indicates Social Security Insolvency Could Occur Earlier Than Predicted.

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Issue Highlights

❖ SECTION 1

- The annual report by the Social Security Trustees/Actuaries predicted massive and permanent deficits if Congress fails to reform this dilapidated and outmoded entitlement program.
- In 1950, there were fifty workers for every one recipient of Social Security, whereas, today, there are three workers for every one beneficiary.
- By 2040, the Social Security, Medicare and Medicaid will consume one-hundred percent of federal expenditures.

❖ SECTION 2

- In the next seventy-five years, the Social Security Trust Fund will owe \$7.9 million more than it will receive in payroll taxes. Finding a viable solution to solving this entitlement program is of paramount importance.

❖ SECTION 3

- Social Security is predicted to be one of the hot-button issues in the 2010 midterm elections. With Social Security beginning its precipitous decline towards insolvency, it is pertinent that conservatives induce the electorate to believe that personal accounts, not the current pay-as-you-go system, is the only viable solution to reforming this passé entitlement program.

❖ SECTION 4

- The long-term costs associated with the current government run entitlement programs (Social Security, Medicare, and Medicaid) pose a fatal threat to America's economic supremacy. Social Security's exorbitant unfunded liabilities, \$27 trillion over the next seventy-five years, will be demonstrably bad for American economic supremacy.

SECTION 1

In the next seventy-five years, the Social Security Trust Fund will owe \$79 million more than it will receive in payroll taxes.

In their newly-released report, Social Security Trustee's highlight the myriad tribulations surrounding the Social Security system. In this enthralling report, Trustee's note that Social

Security will begin running a cash-flow deficit as early as October 2010. In 2008, when this author penned his now seminal thesis on Social Security reform, entitled: *The New Wave of the Future: Social Security Accounts and the future of Entitlement Spending*, the Social Security Administration was predicting that cash-flow deficits would not take effect until 2014. The current economic recession, however, coupled with a decrease in government revenue, has pushed the date of insolvency forward.

SECTION 2

In addition, the 2010 report denoted that in 2015 Social Security would begin running permanent deficits that will require hundreds of billions of dollars to pay recipients their full benefits. Furthermore, in 2037, Social Security will only be able to pay 73 cents for every dollar paid into the trust fund.

So once again, in just two short years, the insolvency date has been pushed ahead due to the perilous state of the American economy. The diminishing number citizens paying into the trust fund, compounded by an excess of retirees, poses mortal problems for Social Security and American fiscal health. The excess of retirees is a direct result of the influx of children birthed during what has been dubbed by modern historians as “the Baby Boom.” During the Baby Boom, 1946-1964, nearly seventy-seven million children were birthed, the eldest of which began retiring in 2009. This influx of workers, coupled with a drastic decrease of the American workforce poses a grave threat to America’s fiscal future. In addition, the ratio of workers to recipients has seen a precipitous decline since 1950. In 1950, there were fifty workers for every one recipient of Social Security, whereas, today, there are three workers for every one beneficiary.

As a result of the declining workforce, and an influx of retirees, the Social Security Trust Fund owes \$7.9 trillion more than it will receive in payroll taxes. Thus, many liberal policy scholars contend that the only viable solution for reform is increasing the payroll tax.

As noted in the thesis, a failure to reform the current Social Security system would have cataclysmic and calamitous effects on the future of the American economy. By 2040, the Social Security, Medicare and Medicaid will consume one-hundred percent of federal expenditures. This in turn means the United States will not possess the monetary resources necessary to fund the military, public schools, highways or infrastructure projects. As the reader can discern, Social Security, in its current form, is unsustainable and will ultimately bankrupt the United States of America.

SECTION 3

With Social Security beginning its precipitous decline toward insolvency, it is pertinent that conservatives induce the electorate to believe that personal accounts, not the current

pay-as-you-go system, is the only viable solution to reforming this passé entitlement program.

Social Security, for just the second time in recent memory, is poised to be a hot button issue in a national election. In 2004, President Bush traveled the country promoting his plan for Social Security reform. The Bush plan, as it was affectionately dubbed by conservative political scholars, advocated for a system of personal accounts in which citizens would be allowed to invest just four percent of their payroll taxes into low-risk bonds, stocks, or life-cycle accounts. President Bush was successful in making Social Security reform a focal point of the 2004 presidential election, but ultimately failed to convince the electorate that his plan was economically feasible.

The 2010 elections mirror the 2004 presidential election, in that liberals and Democratic politicians are working rapaciously to persuade the American electorate that Republicans and conservatives want to slash benefits and ultimately bring about the demise of Social Security. These vitriolic harangues being fabricated by liberal polemicists are erroneous on all accounts. Conservatives have no intention of abolishing Social Security. Rather, conservatives seek to transform the current pay-as-you-go system, administered by the federal government, to one that is controlled by individuals.

PAY-AS-YOU-GO vs. THE PERSONAL ACCOUNT SYSTEM

In the next several paragraphs, the author will meticulously analyze the fundamental differences between the pay-as-you-go system, as supported by liberal Democrats, and the free market based personal accounts system, which has been lauded by conservatives for decades. Prior to doing so however, it is pertinent to first provide a concise synopsis of the pay-as-you go systems inception.

In 1939, President Franklin Roosevelt and Congressional Democrats worked vicariously to reform this, at the time, successful program. After countless debates, petulant negotiations and copious amendments, Congress reformed the Social Security system. Under the 1939 provisions, Social Security was funded by a pay-as-you-go system, and abandoned the funding mechanism in which retirees were paid a lump sum.

For those unfamiliar with the term pay-as-you-go, current workers, through payroll taxes, are paying current retirees. The pay-as-you-go system is no longer viable for a myriad of reasons. Firstly, when Social Security was established the average life expectancy was 60 years; whereas, today it is 77 for males and 79 for females. Conversely, the number of citizens 65 and older increased from 9 million in 1940 to a whopping 34 million in 1995 and is expected to skyrocket to 80 million by the middle of the next century.

Secondly, the architects of the program were unable to predict the titanic population influx that occurred during the middle of the 20th century. From 1946-1964, 77 million babies were born, constituting the most cataclysmic population increase in American history.

Lastly, the ratio of workers to recipients has seen a precipitous decline since 1950. In 1950, there were 50 workers for every one recipient of Social Security, whereas, today, there are 3 workers for every one beneficiary. The pay-as-you-go system is no longer feasible, as the number of retirees is vastly exceeding the number of workers.

Personal accounts, as advocated by leading conservative scholars and Republican politicians, are the antithesis of the derelict pay-as-you-go system. Since the inauguration of President Reagan in 1981, conservatives have worked voraciously to transform the Social Security system from a government run entity to one dominated by individuals and the free-market. Of the many personal account proposals drafted in the past decade, none of them have come to fruition, due in part to trepidation over cost, benefit cuts, and transfer costs.

In recent years, two excellent Social Security reform policies have been proposed: the Ryan-Sununu plan of 2005, named after WI Representative Paul Ryan and NH Senator John Sununu, and the Tanner plan, named after Michael Tanner, the taciturn, senior policy fellow at the Libertarian Cato Institute. Both of these plans advocated for full, not partial, privatization. The fundamental difference between full privatization and partial privatization is the amount of payroll taxes that can be invested in personal accounts.

Under the Bush plan (2005), citizens would have been able to invest just 4% of their payroll tax into a personal account. In contrast, the Ryan-Sununu plan advocated for 6.4% investment into personal accounts, whereas the Tanner plan called for 6.2% investment. The 6.4% advocated by Ryan-Sununu would have allowed employees to invest the entirety of their payroll tax, and 0.2% of the employees share into personal accounts. Both the Tanner plan and the Ryan-Sununu plan would have allowed citizens to invest in low-risk stocks or bonds and would have created what is known as Life Cycle Accounts. Life Cycle Accounts allow the investor to fluctuate the amount of money invested into stocks throughout the duration of their working career. For example, a citizen could invest 60% of their money into bonds and 40% into low risk stocks upon being hired, and later invest 60% into stocks and 40% into bonds as their career progresses.

Many Republican politicians have been hesitant to support either of these proposals or address the issue of Social Security reform on the campaign trail. As noted in the introduction to this section, the liberal media has been tremendously successful in convincing the American people that these proposals intend to cut benefits and do away with Social Security entirely.

The Republican Party has been divided over whether or not to make Social Security a focal point of the 2010 midterm elections. Moderate Republicans have thus far been hesitant to discuss Social Security and, in turn, have expressed their chagrin with the *Roadmap for*

America's Future, a policy document penned by Rep. Paul Ryan (R-WI), which advocates for the creation of personal accounts and increasing the retirement age from sixty-five to seventy.

Conversely, those in the conservative wing of the Republican Party contend that with Social Security nearing insolvency and on the brink of calamity, it must be a focal point of the 2010 campaign. Conservative Republican candidates are correct in their assertion that personal accounts are the only viable solution for Social Security reform. Accordingly, it is pertinent that they make Social Security reform a focal point of the 2010 midterm elections.

SECTION 4

Social Security's exorbitant unfunded liabilities, \$27 trillion over the next seventy-five years, will be demonstrably bad for American economic supremacy.

The long term effects associated with the current government run entitlement programs, Medicare, Medicaid, and Social Security, pose a colossal threat to American economic supremacy. In a 2010 report the non-partisan Congressional Budget Office noted that by the year 2040 Social Security and Medicare will consume one-hundred percent of government revenue. In addition, the report noted that the unfunded liabilities, or mandates, by these two programs is a combined \$82 trillion over the next seventy-five years. With unfunded liabilities as astronomically high as these, it is impossible for the United States government to function.

As noted, by 2040 every dollar brought in by the federal government will go towards paying off the benefits of these three entitlement programs. As a result, the federal government will be unable to fund the military, schools, roads, or the motley assortment of other programs that require federal funding. Supporters of the pay-as-you-go system contend that the only feasible way to reduce the transfer costs is to increase the payroll tax from 12.5% to an unfathomable 14.2% by the year 2055. An increase in what is already the highest tax paid by Americans on a yearly basis would be nonsensical and pose a grave threat to financial predicament of every American.

Conversely, Michael Tanner of the Cato Institute, in his plan, suggested that a minute portion of the payroll tax not being invested into a personal account be used to assist in paying for the unfunded liabilities. This solution, despite being unable to cover the entirety of the unfunded liabilities, is exceptional and should be seriously considered.

Representative Paul Ryan, in his landmark policy piece *A Roadmap for America's Future: A Plan to Solve America's Long-Term Economic and Fiscal Crisis*, ascertained that without a drastic alteration of the Social Security stem the federal government would have to finance these transfer costs with higher taxes. Doing so would cripple the U.S. economy and force the government to transfer an unprecedented level of economic resources away from other entities of the economy. In order to dissipate the already exorbitantly high transfer costs, it is imperative that the United States Congress reforms Social Security.

As more information becomes available on Social Security reform, PAI will keep you abreast.

If you are interested in reading the Social Security Trustee's Report, you can find it at:

<http://www.ssa.gov/OACT/TRSUM/index.html>

For a more detailed analysis of this issue and the various proposals for reform, read this author's thesis entitled: *The New Wave of the Future: Social Security Privatization and the Future of Entitlement Spending*, at: www.PaxAmericanaInstitute.org