
Social Security Started from Scratch—and That's Its Biggest Problem

By Editorial Staff *Thu, Apr 5, 2018*

You can blame your grandparents for Social Security's looming shortfall. The ghost of their unpaid contributions still haunts us—and will for decades to come.

As retirement mavens well know, Social Security is projected to be unable to pay more than about 75% of its promised benefits after 2034. Yet there's been little productive public discussion about how—via a combination of higher taxes and/or lower benefits—the financial health of the national pension might be restored.

A new report from the Center for Retirement Research at Boston College should help establish a factual foundation on which to have that debate. It asserts that the only thing wrong with the financing of the system is its \$20-odd trillion “legacy debt,” which is responsible for the OASI's “missing trust fund.”

These are notional numbers that quantify the simple fact that the government sent out Social Security checks—starting with one for \$22.54 that Vermont legal secretary Ida May Fuller received in January 1940—well before it had amassed a pension fund to pay for them.

Analysts at the CRR say Social Security would be healthy today if it had been prefunded, and if it had built up an interest-bearing trust fund. “If there had not initially been this period of time when no trust fund was yet developed, there would be enough money” today for Social Security to pay its promised benefits in full, the Center's associate director of research, Geoffrey T. Sanzenbacher, told *RIJ* this week.

“The fact that we don't have as many workers per retiree now as we used to wouldn't be a problem,” Sanzenbacher said. “And the people who are retiring now, the people born around 1950, actually paid their fair share. They aren't getting more than they contributed.” He's the co-author, with CRR director Alicia H. Munnell and senior research advisor Wenliang Hou, of “How To Pay for Social Security's Missing Trust Fund.”

This is a revolutionary idea that could clear the air and allow enough oxygen into the room for a healthy debate. Evidently, Social Security isn't a “Ponzi scheme,” as many people glibly say. Nor should it necessarily be ammunition for “generational warfare” between the Boomers and their kids.

Sanzenbacher also questioned the idea that Americans don't get a fair return on their

payroll contributions to Social Security. "The program has a lot of insurance value," he said. Because the benefit is protected from market volatility, is inflation-adjusted and has a survivor benefit, and that the system doesn't create winners and losers (as a market-based retirement program would) it has a value, relative to a defined contribution savings, that often goes unappreciated.

Now that most of those early free riders on the system have passed on, who should bear the burden of "paying back" the phantom trust fund and/or the interest on it? There are "a variety of ways to structure a revenue increase," the paper's authors say, "ranging from an increase in the payroll tax without an expansion of its base, to a smaller increase in the payroll tax with an expansion of its base, to an increase in the income tax."

"Increasing the payroll tax tends to place a disproportionate burden on middle class working households, whether that burden is measured by reduced household income or by reduced utility," the paper says.

"Getting rid of the payroll tax cap distributes some of that burden onto the top quartile, but the effect on middle class workers is still fairly substantial. Increasing the income tax, on the other hand, places more of the burden on the top quartile.

"Taxing the society more widely - through an income tax increase - could make sense given that society as a whole benefitted from having a generation of people receive benefits who did not fully contribute to the system. Any of these taxes could be raised permanently by a moderate amount, effectively paying the missing interest from the Missing Trust Fund, or by a larger amount, ultimately replacing the Missing Trust Fund before returning taxes to their current level."