The 'Catch-22' of Social Security

By Kerry Pechter   *Tue, Jan 4, 2022*

Don't let the pundits confuse you into trading your retirement parachute for paper. We need Social Security AND employer-sponsored retirement savings plans.

In another attempt to undermine faith in Social Security (**'Should You Count on Social Security?'**), economist Andrew Biggs mixes up the value of social insurance and defined contribution retirement savings accounts.

What do I mean by that? In the 1970 dark comedy about WWII, 'Catch-22,' Jon Voigt as quartermaster of a B-25 bomber base near Italy reveals that he sold the flight crews' parachutes to capitalize a company he'd created. He stuffed the empty parachute sacks with certificates of company stock.

Social Security is like the parachutes, and 401(k)s are like the stock. They serve different purposes. Insurance by definition pays off during insurable events; Social Security pays off in the event that you live past a certain age or are disabled. All US workers pay taxes for it, they get credit for it on a database, and the gov't guarantees that they will get what they earned–in case of the insured event.

Jon Voigt (left) and Martin Balsam in the film ‘Catch-22’.

The cost of Social Security is low (relative to private annuities) because almost all American workers contribute, not everyone experiences the insurable event, and the government runs the program at cost. Armed with Social Security, Americans can afford to worry less about a market crash during the five-year “red zones” before and after they retire. They can also worry less about longevity risk, market risk, and inflation risk.

Importantly, workers can *afford to risk more money on stocks* because they know those other financial risks (which stocks don’t cover) will be covered by Social Security. Without Social Security, most people would need to invest more of their 401(k) contributions in bonds. I contest Biggs’ characterization of Social Security contributions as taxes (i.e., an expense), 401(k) contributions as savings (investments), and Social Security money as a transfer from strapped workers to pampered retirees. I believe this plays a shell game with the facts.

Payroll contributions to Social Security *are* savings, in effect, and the workers and retirees that Biggs pits against each other *are the same people* at different times of their lives. Biggs concedes that there won’t be a big fiscal crisis when the Social Security trust fund is empty, but still manages to compare the program unfavorably to DC plans (without mentioning the massive annual federal tax expenditure to incentivize retirement savings or market crashes or the cost of bailouts).

Sure, you might be able to *invest* for yourself ‘better than the government can.’ But you can’t *insure* yourself against market, sequence, interest rate, inflation and longevity risk more efficiently than Social Security can. And, by the way, Social Security’s critics often denigrate its “unfunded” nature; in fact, Boomer contributions to Social Security exceeded the program’s cost for decades. The Boomer burden has been pre-funded. (In 2034, when the Boomers’ decades of excess contributions may finally be exhausted, about half of them will already be dead.)

Biggs would have you believe that there’s a zero-sum game between workers and retirees, between taxes and investment, and between the public sector and the private sector. This supposed zero-sum game is not reality. In 2021, about a trillion dollars was deducted from paychecks for SS tax and a trillion ended up in the bank accounts of Social Security beneficiaries. The banking system saw no big change in reserves or lending capacity as a result. Consumption rose. The elderly lived independently. Don’t let the pundits confuse you. Don’t trade your retirement parachute for paper. We need Social Security and employer-sponsored retirement savings plans.