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## Thanks-givings (Not Misgivings) about Social Security

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By Kerry Pechter    Thu, Nov 25, 2021

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*This year I'm claiming the Social Security benefits that I've earned on my own work record. I'm old enough now to be truly thankful for Social Security, whose future is precisely as certain, as fair, and as bountiful as we decide it will be.*

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Aside from the support of my family and my subscribers, I'm grateful for the Old Age and Survivors Insurance program, more familiarly known as Social Security. This year, I'm claiming the benefits I've earned on my personal work history.

Others may feel differently about Social Security. From what I read, many younger people are skeptical that benefits will "be there" for them. At the same time, many affluent investors believe that they could "invest their money better than the government can." Others believe that Social Security is "broke," or on its way there, because it's "unfunded." Still others seem to worry that the rising ratio of retirees to workers—the "dependency ratio"—will inevitably require much higher payroll taxes for current workers or smaller benefits for themselves.

Regrettably, there are marketers in the financial services industry who seem to regard Social Security's dilemma—and there's certainly a political dilemma—as an opportunity. Glib references to Social Security's fragility in marketing materials are not unusual. These tactics might help nudge sales of private annuities up a bit, but they're not harmless. I'd rather not believe that anyone would consciously set out to undermine the public's faith in a system that most Americans themselves like, want, and need. But it appears to be happening.

Social Security's constraints are mainly self-imposed. Consider the political and fiscal constraints that architects of Social Security faced: They needed to start paying benefits ASAP to people who had never contributed to the program; the government, in the Depression, couldn't afford to pre-fund future liabilities; everyone had to make payroll contributions, so that benefits would be earned and universal. The program, luckily, started with a tailwind: The worker-to-beneficiary ratio was high. Payroll taxes and retiree benefits were low. Costs were suppressed, temporarily, by excluding domestic and farm workers

(including many people of color) from participation.



In the years since then, the demographic tailwind has turned into a headwind. Even so, Social Security doesn't suffer from the vulnerabilities of defined benefit pension plans, which inevitably run into trouble as industries and demographics change. As for the supposed weaknesses of PAYGO and the unmet need for pre-funding, the program stopped being PAYGO in the 1980s, when workers began paying much more in payroll taxes than was paid out to beneficiaries. Payroll tax surpluses have added trillions of dollars to the general account over the past decades; the program's surplus is currently \$2.6 trillion. A portion of benefits are already coming out of the general fund (as the government redeems the program's trust fund bonds). No crisis has occurred.

In short, if Americans want their earned benefits to continue to be paid in full for the indefinite future, they can choose, through their legislators, to finance it through a combination of payroll hikes, benefit adjustments, or general-account supplements. Congress has raised payroll taxes and program benefits many times over the past seven decades; it can do so again.

If it turns out that there are simply too few workers in the US economy to support a large elderly population, there will probably be too little output to sustain a bull market in stocks. And even if we eliminated Social Security today, the financial burden of caring for a large elderly population wouldn't vanish. As for investors' claims that they can invest better than the government, that's true. But they can't *insure* themselves against the risk of outliving their savings, or against the risk of retiring amid a depression, or against inflation risk, as efficiently as Social Security can. Social Security is *social insurance*. It's not an investment. Its benefits are guaranteed by the claims-paying ability of the US government, and no one has yet plumbed the bottom of Uncle Sam's pockets.

That's more than I intended to say, and much less than I could say on this complex topic. I'm old enough now to be truly grateful for Social Security, and I believe that its future is precisely as certain—or uncertain—as we decide it will be.

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