'Why Social Security Can't Go Broke'

By Kerry Pechter *Tue, Mar 31, 2026*

Here's a link to a chapter on Social Security that I contributed to 'The Elgar Companion to Modern Money Theory.'

The chapter about Social Security that I was invited to write for the "Elgar Companion to Modern Money Theory" (2024) is now freely available on a stand-alone basis to the public, for a limited time. You can access the chapter **here**. It's titled "Why Social Security Can't Go Broke."

After studying our pay-as-you-go Social Security system and comparing it with alternatives in other countries, I'm persuaded that what some call a weakness of our system—a lack of pre-funding—is actually a strength. Pre-funding is fine for investment-based retirement programs, like the 401(k)/403(b) systems, because it pursues individual investment risk.

But it's inefficient for an insurance system like Social Security hat pursues society-wide risk reduction. Pre-funding is inefficient in the way that the old high-inventory maintenance practices were inefficient; just-in-time inventory management proved better. Stock-piling financial assets for 30 years may be appropriate for capitalizing corporations, but not for providing income benefits to retirees.

Other countries' experience with "collective DC" (CDC) shows that pre-funding exposes savings to governance risk, market risk (unequal outcomes), and fee-erosion. CDC systems don't eliminate the need for a tax-funded minimum pension for the poor, and as Australia's experience shows, CDC without mandatory annuitization at retirement doesn't protect retirees from longevity risk.

Only a mandatory insurance system like Social Security, which relies on payment of premiums in return for benefits in retirement, can do all that at low expense. It cuts overall costs by being life-contingent and pooling longevity risk. America's biggest retirement problems are the 50% shortfall in 401(k) coverage and declining fertility. Blaming the pay-go structure for low fertility rates would not solve any retirement financing problems.

No life insurer, or consortium of life insurers can finance the nation's longevity risk; the

government alone can bear that risk, which inevitably includes fluctuations in premium and benefits. Our Social Security system's benefit formulas may need tweaking, but only pay-go can pool longevity risk, minimize costs, and provide the life-contingent guarantees that retirees need.

The idea that today's retirees are spending the payroll taxes of today's workers, I've found, is not consistent with the way our monetary system works. The federal government creates money (liabilities) by spending and destroys it by taxing.

The greatest impediment to Social Security reform isn't financial, it's political. It will take a lot of bipartisan cooperation and compromise to improve our pay-go system. We don't have that today. But we need to start talking about Social Securty *today* in order to avoid blunt, blind cuts in benefits after 2032-33. Here's another **link** to my chapter.

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