

Despite the naysayers, the system's finances are sound

Social Security's Enduring Truths

By James Roosevelt Jr.

There is a saying that if you repeat something often enough it becomes the truth. Nothing better illustrates that point than the notion that Social Security will be bankrupted by the boomers.

Indeed, the generation of Americans born between 1946 and 1964, who drew their first Social Security checks in 2008, will place heavy demands on the system as they reach their retirement years. But this is also a generation that has been paying into the system since they started working in the early 1960s. Much of the money that boomers are and will be drawing from Social Security is and will be their own.

But these important factors are usually left out. Instead, the purveyors of fear want you to believe that boomers are retiring on the backs of their children and grandchildren. If you buy that, they have statistics showing fewer contributors supporting more beneficiaries—"proof" that the program is unsustainable.

These utter distortions, however, are nothing new. My grandfather had to contend with them. In the 1936 presidential campaign, the Republican nominee, Alf Landon, labeled Social Security a "hoax." In dismissing the program as "unworkable," the GOP platform of that year stated that Social Security would be unable to pay benefits to two-thirds of retirees. My grandfather would not be surprised by the fear mongering today.



The author's grandfather, Franklin D. Roosevelt, campaigns for the presidency in 1932.

Indeed, Social Security's critics have been casting the same aspersions on the program for 75 years.

Let's take a true measure of where we are. Social Security has not only been the most effective government program, it has been the most responsible government program. Social Security costs are funded out of its own dedicated revenue stream. It does not and cannot borrow money to finance its operations. There is no deficit financing. Social Security is the epitome of Yankee frugality. It could not be better managed. The administrative cost is .09 percent. It returns more than 99 cents to beneficiaries on every dollar collected. I dare you to find a private retirement plan that can claim that.

By the end of 2010, the Social Security trust fund had a positive balance of \$2.6 trillion. As a result of interest earned on the trust fund balances, the fund's surplus will continue to expand to approximately \$3.67 trillion at the end of 2022. After that year, it is projected that the balance will begin to decline. Still, reserves will be sufficient to pay full benefits through the year 2036. After that, Social Security would still be able to pay for 77 percent of benefits.

Since when is news that a program is completely solvent for 25 years bad news? Even in year 26 and thereafter it could still fund three-fourths of anticipated benefits. This is decidedly *not* a program that is broke or going broke. In fact, this is quite a remarkable achievement. □

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Landon's Comments for:

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To the editor:

Please use the following in the **Opinion** column, or elsewhere in the Bulletin as might be appropriate. What am I thinking? You'll never print this.

Regarding "Social Security's Enduring Truths" in your June Opinion column. Were your fact checkers on vacation? James Roosevelt Jr, said, "There is a saying that if you repeat something often enough it becomes the truth." Roosevelt then went on to repeat several untruths about Social Security.

Roosevelt said: "Much of the money that boomers are and will be drawing from Social Security is and will be their own."

NOT true. The truth is, most of the money boomers are and will be drawing will not be old money. (Unless they continue to work and pay FICA.) It will be new Social Security revenues, mostly from FICA, with a little from boomers' income taxes that pay the interest on the "Trust Fund" bond portfolio. According Social Security web site data, from inception through 2010, receipts totaled \$14.6 trillion. Only \$2.6 trillion remained in the Trust Fund at year-end 2010, while \$12.0 trillion is long gone and no longer available to be drawn out. Thus, without new revenues from the younger generations, the 2010 Trust Fund year-end balance would be exhausted in just 3.7 years based on 2010 expenditures of \$713 billion.

Roosevelt said: Social Security's "administrative cost is .09 percent."

NOT true. The truth is, according Social Security web site data, the cost was about nine times that much. In 2010, and also cumulatively from inception, the administrative cost was 0.8 percent of benefits, not 0.09 percent. (Administrative costs were \$6.5 billion and \$123 billion, respectively, while benefits were \$701 billion and \$11.8 trillion, respectively.)

Roosevelt said: Social Security "returns more than 99 cents to beneficiaries on every dollar collected."

NOT true. The truth is, according Social Security web site data, since 1935, Social Security returned only \$11.8 trillion in benefits of the \$14.6 trillion it took in. That was less than 81cents of benefits on every dollar collected, not 99 cents.

Roosevelt said: "I dare you to find a private retirement plan that can claim that." (99 cents on the dollar)

Sad but True. I can't. And it's unlikely you will either. Any private or state pension fund manager with a long-term return of just 81 cents on the dollar (or even 99 cents) would be fired unceremoniously for not doing much better. And shame on you if, over your lifetime, you only earn 81 (or 99) cents on each dollar you put into your IRA, 401(k), or 403(b).

Roosevelt said: "reserves (in 2022) will be sufficient to pay full benefits through the year 2036."

NOT true. The truth is, there is a big difference between “reserves” and new revenues. Those 2022 reserves (assuming they materialize) might be sufficient to pay full benefits for four years, through 2026, based on today’s 3.7 year cushion. To “pay full benefits through the year 2036” it will take trillions of dollars in new revenues in addition to the projected reserves.

Roosevelt said: “After that (2036), Social Security would still be able to pay for 77 percent of benefits. . . . Since when is news that a program is completely solvent for 25 years (from 2022 to 2036) bad news? . . . In fact, this is quite a remarkable achievement.”

“News”? “Achievement”? NOT true. The truth is, a 25-year projection is not “news.” Nor is it “an achievement.” It’s raw speculation. And after 2036, being able to “pay for 77 percent of benefits” will hardly seem like “an achievement” to the recipients. And who’s to say Social Security won’t be forced to pay even less than 77 percent of benefits?

Roosevelt said: “Social Security has not only been the most effective government program, ...”

NOT true. The truth is, arguably, TARP has been “more effective,” and repayments of TARP loans continue to come in.

Roosevelt said: Social Security “could not be better managed.”

NOT true. The truth is, Social Security could have been managed much better. Here’s two ways:

(1) Congress never should have adopted pay-as-you-go funding for Social Security. From the beginning, that scheme was doomed to become exorbitantly expensive. (It outlawed pay-as-you-go for most retirement plans other than Social Security with the enactment of ERISA in 1974.) For example, if the price of gasoline had been pegged to the annual cost of FICA when withholdings first began, minimum-wage earners would now pay \$34 a gallon for regular, and maximum-FICA workers would pay \$44.

(2) Social Security’s founders failed to do their homework. They just assumed the stock market was risky for investing Social Security’s money. But they failed to verify their assumption. In 2001, Roger Ibbotson (in *Stocks, Bonds, Bills, and Inflation*) showed what the founders missed. Between 1824 and 1934, with dividends reinvested, a dollar invested in an index of stocks comparable to today’s S&P 500 Index never lost money over any annual period of 11 or more years. Over the initial Social Security birth to retirement period (65 years) the average return on a invested dollar would have been \$139. The worst case return would have been \$39.

Respectfully submitted,

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