# Social Security

Myths, Facts, and the Future

Virtually every American is familiar with Social Security, but some have erroneous information about it. That's why we are here tonight.

It was passed by Congress in 1935 in the wake of the worst years of the Great Depression.
Devastation caused by the Great Depression:
Over half the banks failed.
The stock market plummeted; all pension plans and savings were worth nothing.
Due to the Smoot-Hawley tariff, prices of imports rose, spending fell.
Other nations could not buy products from the US because of higher prices
As the Depression worsened, many companies failed
Massive layoffs occurred
Prices fell, and firms experienced falling prices – called deflation.
Harvesting crops cost more than farmers could expect from their sale.
Debts were onerous because money was "worth more" in terms of paying debts than it had been when borrowed.
Firms could not pay their debts and the products cost more to make than they could be sold for.

If you were older, you were in the worst situation—your savings were gone, you often could not physically work, and no way to get any job.

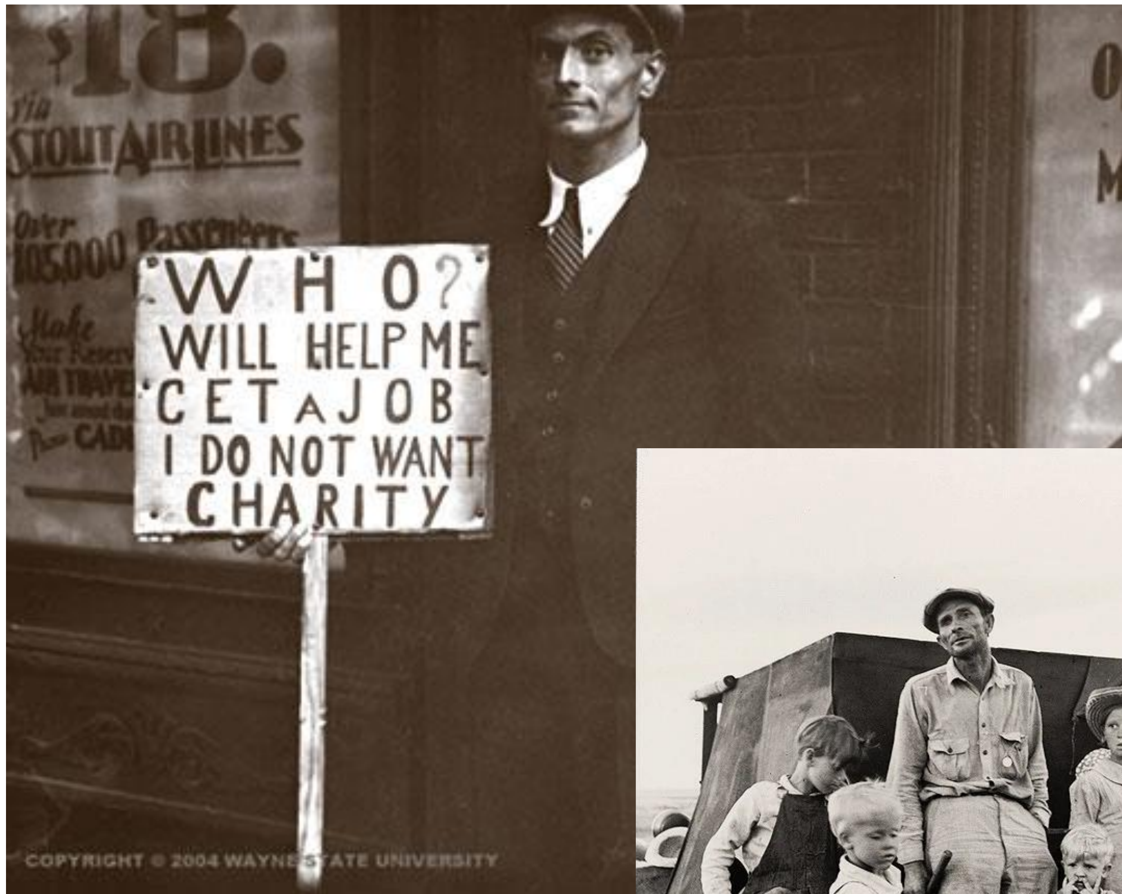
# Bank failures and the stock market crash took away the savings of many elderly residents.

But—fortunately, the nation was of one mind—no one who had worked their entire life, saved diligently, and lost everything through no fault of their own, should have to spend their later years in abject poverty.

The Roosevelt administration decided that, rather than offer welfare, which would hurt the dignity of elderly residents, that it should be a modest retirement program whereby all workers would participate.
The original setup was: employers and employees paid in 1% each of the workers' pay. A worker had to have 10 years of work to qualify for benefits.

Social Security was designed to be a safety net—but not a government giveaway. People were expected to "pay in" to the system during their working years—and in retirement, they could reap income from Social Security.

It included all workers—even ones who had higher incomes—it was not welfare.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UP COFFEE & DOUGHNUTS
OR THE UNEMPLOYED
FREE SOUP
HORAN
BAILIFF

**But as the years elapsed there were problems:**

Inflationary periods in the US resulted in benefits being too skimpy to maintain even a minimum standard of living.

Sometimes Social Security income came dangerously close to being unable to meet all its obligations.

There was a looming problem everyone saw coming: what could we do about handling the massive retirements that would occur about 2011 when the first round of baby boomers turned 65? It was a large generation compared to workers. This was especially important in 1983 because it became obvious that there would not be enough workers to pay in enough for the massive “baby boom” generation. And, life expectancy had increased steadily since 1935, making it an even more dire situation.

# The Reagan administration set up a commission on Social Security reform (1983) headed by Alan Greenspan which proposed the following:

- Up to 50% of Social Security benefits could be added to taxable income, if the taxpayer's total income exceeded certain thresholds.

- Payroll contribution rates are phased in to the current levels (6.2% and 1.45% for each employee jointly paid by the employer.) This adds up to 15.3% tax on payrolls.

- Only persons who derive income from working are eligible for Social Security.

- Income from dividends, interest, rent, or capital gains are not taxed by Social Security or Medicare.

- There is an earnings limit, after which neither employee nor employer pays any further Social Security contribution for that worker. In 2022 the limit was: $147,000; in 2023 the limit is $162,200. Medicare has no limit on income from work.

- Since 1990, all social security transactions are recorded “off budget.”

**The Trust Fund**

The rise in contribution rates was on purpose.  There was already a “trust fund” set up in 1935 in case contributions were more than payouts—but, there was very little in there because at the beginning the workers had to support the current retired generation. The Commission wanted to beef up the “Trust Fund” so that baby boomers could save for their own retirement by contributing higher amounts.

# What is all the fuss about?

# The Trust Fund

| Old-Age, Survivors, and Disability Insurance Trust Funds, 2000-2022 | | | | |
|---|---|---|---|---|
| [In millions] | | | | |
| | | | - | - |
| **Calendar year** | **Total Income** | **Total Cost** | **Net increase during year** | **Trust fund balance** |
| 2000 | 568,433 | 415,121 | 153,312 | 1,049,445 |
| 2005 | 701,758 | 529,938 | 171,821 | 1,858,660 |
| 2010 | 781,128 | 712,526 | 68,602 | 2,608,950 |
| 2015 | 920,157 | 897,123 | 23,034 | 2,812,510 |
| 2020 | 1,118,096 | 1,107,214 | 10,881 | 2,908,286 |
| 2021 | 1,088,326 | 1,144,582 | -56,256 | 2,852,030 |
| 2022 | 1,221,782 | 1,243,925 | -22,143 | 2,829,887 |

When the new higher payroll “taxes”  came into being, the trust fund grew rapidly, as all workers paid in more than enough to pay the current retired generation. They call this a “surplus.”

The government believed it had solved the problem—no one should have to worry about Social Security running out of money.

So what is in the Trust Fund? Whenever government agencies generate surplus funds (such as Civil Service retirement, military retirement, the FDIC, the highway trust fund, etc.) it is required by law that the funds are “invested” in Treasury Special Interest Bonds. A Treasury bond is where the US government borrows money to spend in its budget and pays interest to the lender.  (Brief explanation from me.) So those “bonds” are in the trust fund. And at the end of the year, the government “credits” the trust fund with additional interest payments. Hmmm…starting to see the problem?

# Provisions in the original 1935 Social Security Act – Establishment of the Social Security Trust Fund

- TITLE II-FEDERAL OLD-AGE BENEFITS OLD-AGE RESERVE ACCOUNT
- Section 201. (a) There is hereby created an account in the Treasury of the United States to be known as the Old-Age Reserve Account hereinafter in this title called the Account. There is hereby authorized to be appropriated to the Account for each fiscal year, beginning with the fiscal year ending June 30, 1937, an amount sufficient as an annual premium to provide for the payments required under this title, such amount to be determined on a reserve basis in accordance with accepted actuarial principles, and based upon such tables of mortality as the Secretary of the Treasury shall from time to time adopt, and upon an interest rate of 3 per centum per annum compounded annually. The Secretary of the Treasury shall submit annually to the Bureau of the Budget an estimate of the appropriations to be made to the Account.
  (b) It shall be the duty of the Secretary of the Treasury to invest such portion of the amounts credited to the Account as is not, in his judgment, required to meet current withdrawals. Such investment may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purpose such obligations may be acquired

Whenever there is a surplus, Social Security lends those funds to the US government, who spends them.

Whenever there is a deficit, Social Security can withdraw funds from the Trust Fund, and the government essentially must pay Social Security back—with taxes!

Remember that all of Social Security's funds are "off budget."

For years, the US government's budget deficit was understated because it was using the money borrowed from Social Security which did not count toward the US government's budget deficit. But it definitely DOES count toward our government's national debt.

Look at numbers again.

# The Trust Fund

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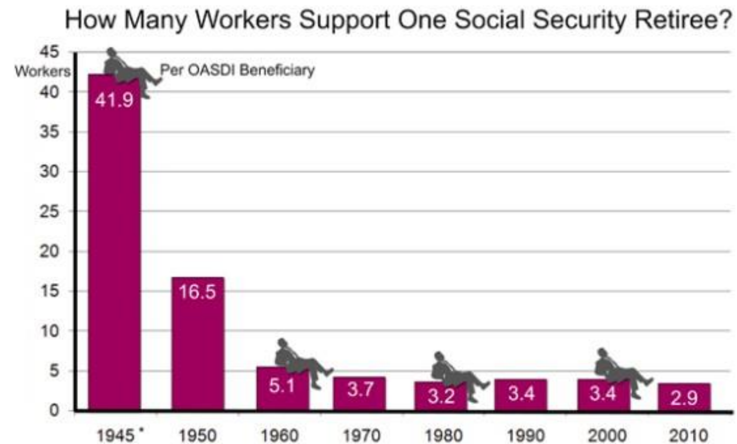
Uh Oh!

Now the US government has to pay back Social Security every year instead of collecting money.

You can imagine that now, many people in Congress do not want to pay this money back!!

Let’s discuss….

# But there’s more…




The ratio of workers to retired workers has shrunk dramatically:

- Population growth
- Better health care
- Percent of 100 year olds

has risen

# It’s Not Fair

- Baby boomers paid in for their retirement and extra to build up the trust fund.
- Future retirees are paying 3 times more than they would have to pay for their own retirement. Again, extra for retired baby boomers, and again to pay back the bonds in the trust fund.
- The irony is that taxpayers are having to pay back the trust fund when government spent the money years ago.
- It’s not about money—it’s about allocating current production between retirees and workers.
- Many workers pay more in FICA taxes than in income taxes.  Too much!

# And even more…

The Trust Fund will be depleted in 2034 (according to recent (2023Trustees Report.)

Social Security will still have enough contributions to cover 80% of benefits at that time.

# What should be done?

- Educate people as to the real situation concerning Social Security
- It cannot be privatized—this is a recipe for disaster—we will talk about the reasons
- Make sure our lawmakers understand what is going on—the US Government borrowed money contributed by workers, and now does not want to pay it back.
- Having a trust fund is a bad idea—Social Security should have been a flat “transfer” program from the beginning.
- “We” can figure out how to solve the unequal generation problem—lots of ways to do that: raise retirement age; could lower SS contributions (everybody pays in) and payouts only to retirees whose earning fall below a threshold.