The Financial Status of Social Security, Part 1

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Our topic today is the financial status of the "Social Security Trust Fund". The Social Security Trust Fund is a short name for the "Federal Old Age and Survivors Trust Fund" (42 U. S. C. Sec. 401). The Social Security program was sold to the public in 1935 as an insurance program by which contributions made during one's working lifetime would be used pay benefits in retirement. The goal was to reduce poverty among the elderly, estimated at around 50% in the 1930's. Payments into the system are accomplished by direct withholding of a fixed percentage of income. Initially some occupations were exempt from Social Security taxes (known as FICA taxes) but now nearly all workers are required to contribute to it.

Revenues and Expenditures 1937 - 2013

Figure 1 shows the revenues collected by withholding against the expenditures made by the Social Security Administration (SSA) between 1937 and 1977 per the SSA website [1]. Nearly all the expenditures are in the form of payments to beneficiaries; the cost of administering the system has decreased steadily over time: in 1957, it was about 2.2% of expenditures, by 2013, was down to 0.74% of expenditures. Note that the black line in Figure 1 (revenues) tracks closely with the red line (expenditures); and that the system was mostly in balance throughout this forty-year period. For years in which the revenues exceeded expenditures (indicated by the green line), the excess was carried over into an account called the "Social Security Trust Fund" and are listed as assets within that fund. By law, these assets cannot be invested in marketable securities; they are restricted only to instruments backed directly by the "full faith and credit of the United States"; i.e., Treasury bonds.

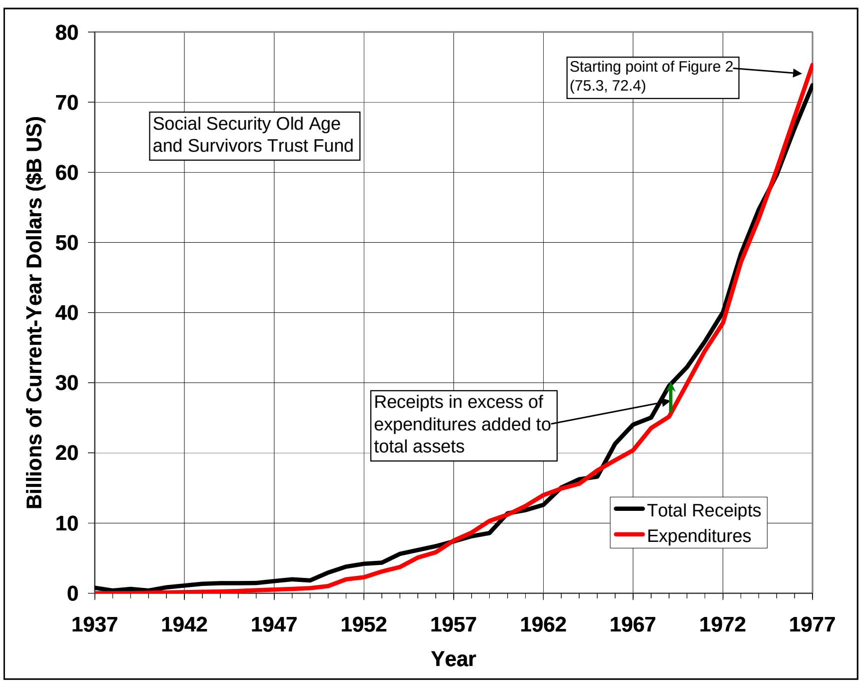

Figure 1: Social Security Revenues and Expenditures, 1937-1977

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Figure 2 shows exactly the same data, but for the years 1977 to 2013. Because of the enormous increase in the FICA tax rates, the growth of population, the number of workers included in the system, and the general depreciation of the currency, it is necessary to show the Y-axis of this chart in units ten times that shown in Figure 1. The end point of Figure 1 and starting point of Figure 2 are the same dollar value as shown by the respective notes. Starting in 1985, due to the "Social Security Amendments of 1983" [2], much more revenue was collected than was necessary to pay benefits, as shown by the large divergence between the two lines. The green line shows the growth from year to year of the assets in the Trust Fund. The idea of the reform bill was that large surpluses would be built up during the years when the "Baby Boom" generation was working, such that adequate assets would exist when that large generation began retirement beginning in 2011. Again, the excess of revenue over current expenses were invested in Treasury notes and added to the assets in the Trust Fund.

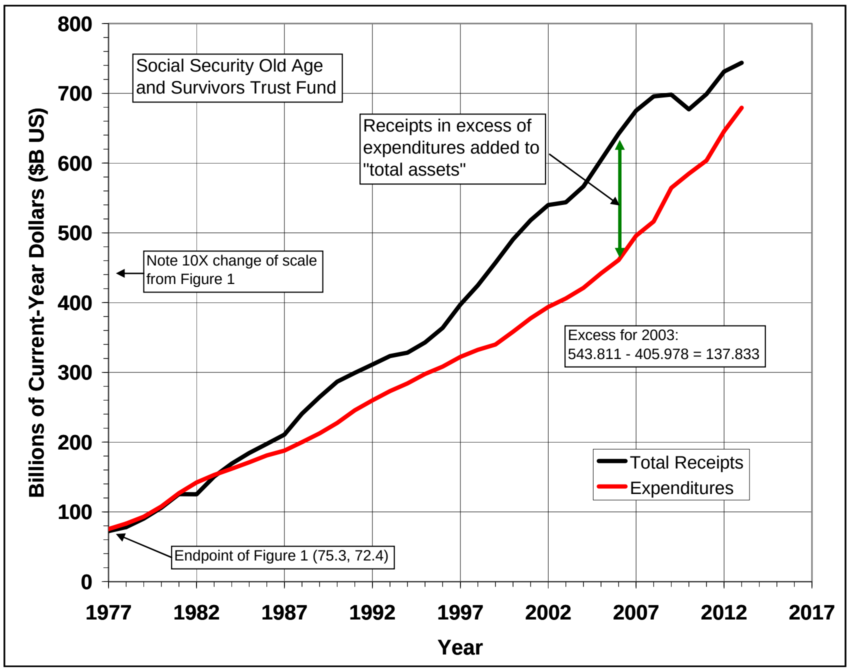

Figure 2: Social Security Revenues and Expenditures, 1977-2013

Figure 2 shows an example for the year 2003: the excess of revenues over expenditures was $137.833 B. This amount was added to the assets of the overall Trust Fund.

Growth of the Trust Fund 1937 - 2013

It is difficult to see from Figures 1 and 2 the actual growth of assets in the Trust Fund. Again based on data from the SSA website, Figures 3 and 4 indicate the financial status of the Trust Fund for the intervals 1937 to 1977 and 1977 to 2013 respectively.

Figure 3 shows that the total accumulated assets of the Trust Fund was $ 32.49 B in 1977. The total accumulated assets in 1977 were fairly small since the program revenues and expenses were closely aligned between 1937 and 1977.

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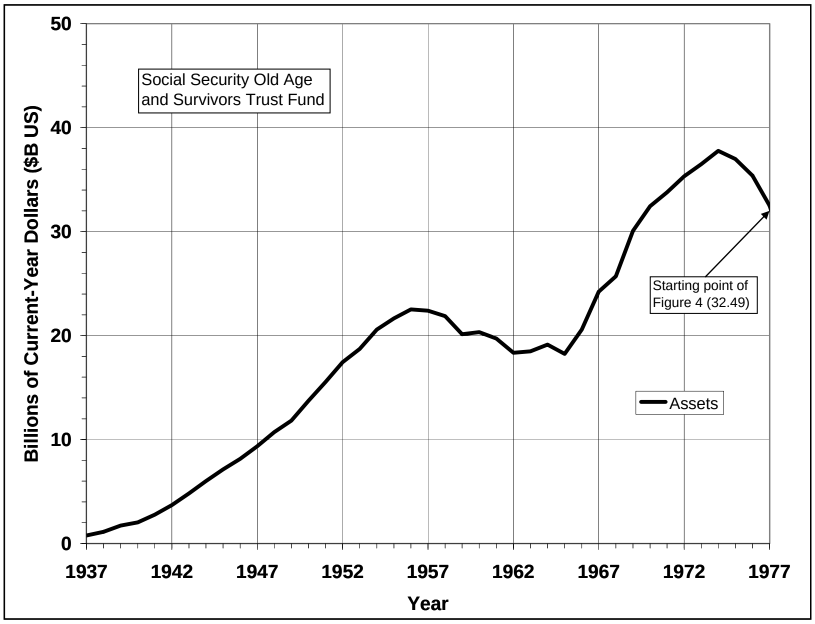

Figure 3: Social Security Trust Fund Assets, 1937 - 1977

Figure 4 shows the same data as Figure 3, but here the Y-axis is now 100X that of Figure 3 for the same reasons as stated before. Recalling the example from Figure 2 for the year 2003, it is seen that the growth of the Trust Fund was the same $137.833 billion. By 2013, the total accumulated Trust Fund amount to $2.763 trillion (a trillion is a thousand billion).

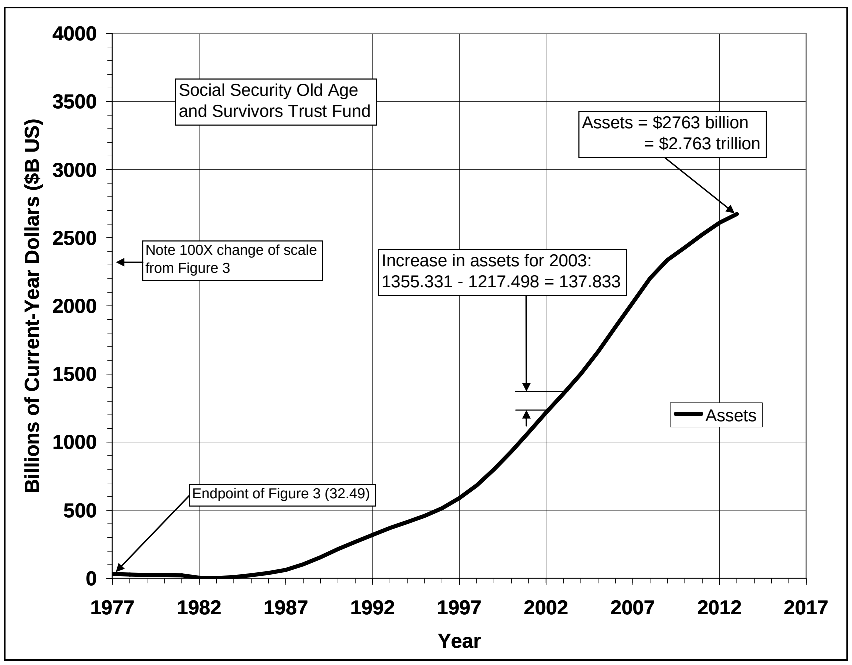

Figure 4: Social Security Trust Fund Assets, 1977 - 2013

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The True Nature of the Trust Fund

Social Security Old Age Insurance does not function like real insurance. There is no contract between the worker and the SSA which legally obligates the SSA to actually pay benefits. Likewise, the Social Security Trust Fund is not a trust fund in the usual sense: it contains no actual assets to be distributed to the claimants. The reason is simple: although the "Trust Fund" holds "assets" in the form of Treasury notes, they can only be used to pay claimants if the SSA takes them to the Treasury Department and demands payment. Since the federal government is the payer in general, and Treasury notes are its debt, the notes in the SSA "Trust Fund" are actually liabilities, not assets. They are "assets" to the SSA, but not to the actual payer; hence the Social Security "Trust Fund" is nothing more than an accounting fiction. When the day comes that the current-year revenues exceed current-year expenditures (expected to occur in 2021), the SSA will have to demand redemption of the Treasury notes from the Treasury Department. The Treasury Department, having no assets of its own, will have no choice but to go to Congress. Congress can then do any or all of these options: a) cut benefits to match the current revenues; b) raise taxes to make up for the shortfall; c) order the Treasury to sell more bonds and use that money to pay SSA who can then pay the claimants; or d) order the Federal Reserve to print the amount of currency necessary, credit it to the SSA for the SSA to pay the claimants. Option a) cannot happen because Congress would have to explain why benefits are being cut with such a large pool of assets with which to pay them. Option b) is the honest choice, and for that reason alone is out of reach for the ruling elite. Option c) will increase the national debt, and option d) will cause inflation.

So what is the true nature of the "Trust Fund"? It is a record of the largest theft-by-diversion in the history of mankind. Those payroll taxes were paid by the workers under the false notion that the revenue would be used to secure future Social Security benefits. No such thing happened: Congress spent all the excess revenue on other general budget items, and simply gave the SSA IOUs in the form of Treasury notes, falsely calling it a "Trust Fund". The Office of Management and Budget notes [3]:

> These [Trust Fund] balances are available to finance future benefit payments and other Trust Fund expenditures – but only in a bookkeeping sense. These funds are not set up to be pension funds, like the funds of private pension plans. They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures. The existence of large Trust Fund balances, therefore, does not, by itself, have any impact on the Government's ability to pay benefits.

The True Purpose of 1983 Amendments

The true purpose of the 1983 Amendments is now clear. President Ronald Reagan, who had served eight years as Governor of California, and had been educated as an economist, knew or should have known that Congress can not resist spending more than every penny received. He also knew or should have known that even an honest government cannot save money the way people do: what could the SSA have done with the excess revenue -- pile up mountains of cash in the basement of some office building? There is nothing else a government can do except spend it, which is why governments must always be restricted to collecting the revenue they need for the current year, and nothing more. The true purpose of the 1983 Amendments was to establish a means of raising extra revenue for Congress to spend without having to raise income or any other federal taxes. They could and did falsely claim that the revenue was to be used to make Social Security more secure. They then spent the money, leaving Social Security in exactly the same place financially as it was before.

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Figure 4 shows that the "assets" in the Trust Fund amounted to $798 billion. We need look no further for proof of a diversion than the statement in President Bill "Perjurer-in-Chief" Clinton's 2000 Budget proposal [4]:

> In his State of the Union address, the President unveiled his proposal to save Social Security by using some of the projected budget surplus to strengthen the system and by investing a portion of the surplus in equities to raise the rate of return. These actions will substantially improve the program's fiscal position, strengthening it until mid-century. It will require tough choices and a bipartisan approach to fix Social Security and to reach the President's overall goal of saving the Trust Fund at least until 2075. During this year, the President will work with Congress to restore the system to fiscal health, and to address his other priorities including protections for the elderly at high risk of poverty.
>
> **Devote 62 percent of the budget surplus for the next 15 years to Social Security**: The Administration proposes to set aside 62 percent of the projected unified budget surplus of the next 15 years for Social Security. This amounts to more than $2.7 trillion in additional resources available to meet Social Security benefit obligations.

There never was a budget surplus. There was never going to be a budget surplus. The plan and result was to spend everything and lull the working taxpayers into a false sense of security by maintaining the illusion of a Trust Fund.

References

[1] http://www.ssa.gov/oact/STATS/table4a3.html
[2] http://www.ssa.gov/history/1983amend.html
[3] U. S. Government Printing Office, *Budget of the United States Government, FY 2000 Budget, Analytical Perspectives*, p. 337; http://www.gpo.gov/fdsys/pkg/BUDGET-2000-PER/pdf/BUDGET-2000-PER.pdf
[4] U. S. Government Printing Office, *Budget of the United States Government, Fiscal Year 2000*, p. 41; https://fraser.stlouisfed.org/docs/publications/usbudget/BUDGET-2000-BUD.pdf

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