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 **SOCIAL SECURITY:  
KICKING THE CAN  
DOWN THE ROAD!  
..... ONE MORE TIME!**



By Stephen L. Bakke  June 10, 2016

*(This article was originally submitted for publishing in the Lake Mills, Iowa Graphic)*

### **Social Security: Kicking the Can Down the Road! ..... One More Time!**

President Obama has recommended an increase in Social Security (SS) benefits to be paid for by more taxes on the wealthy. He's actually announcing to the next Administration that he isn't going to get it done, so they'd better. He obviously thinks Social Security (SS) benefits are too "stingy"! Mr. President, rather than a scold, we need a dose of reality and then a clear path to fix what really is a problem!

#### **The Debate**

We're often preoccupied with the budget, deficit, national debt and debt ceiling. Central to this debate is Social Security. Some declare that it's soundly funded, not contributing to the national debt, and only needing a "tweaking" sometime in the future. More conservative observers insist that Social Security is "broke," and a major contributor to our national debt.

I'm convinced Social Security is NOT solvent by any practical measure. The so-called "trust fund" is effectively exhausted. The system has actually run a deficit since 2010 and this will continue in perpetuity unless reforms are enacted. Of course social security has added to the federal deficit! Here's how:

- Over the years, SS funds were collected and "deposited" into the "pretend trust fund" which in turn gave the money to the U.S. Government by purchasing government bonds. Those funds were then quickly spent.
- At this point, the fund's assets became IOUs, not cash – and those are very different things!
- Deficit spending has put the U.S. in a "borrowing status," evidenced by the growing national debt.
- Therefore, in 2010, when the SS benefits paid became larger than the inflow of funds, the IOUs (government bonds) had to be redeemed.
- Since the U.S. is in a "borrowing status" (evidenced by the ever increasing national debt) these new redemptions increase our deficit and the required funds must be borrowed from outside sources.

This will continue endlessly unless reigned in! Social Security reform is the only thing that can interrupt this ultimately disastrous cycle.

## **Changes Can Be Made**

The current administration's tone and understated language is dismissive and tends to soothe the public. This is disingenuous because it's a huge deal! What "tweaks" are needed? It's really not too complicated – but politically very difficult! We need some combination of:

- Increasing SS taxes – i.e. employer and employee contributions.
- Increasing or eliminating the contribution maximum.
- Increasing taxes on "the wealthy."
- Raising the retirement age.
- Delaying or limiting benefits or cost of living adjustments.
- Introducing a "means test" to lower benefits as income increases.
- Introducing an element of individual "private accounts."

The solution will be some combination or variation of these items. Take some time to decide on the path you would support. If we choose to put the burden on the wealthy, I warn against being "confiscatory" in the process. Remember that the wealthiest do provide a significant and important percentage of this country's investment capital – from whence cometh growth in employment and wealth.

My friends, I assure you that variations of this list are on the "to do" list of many of those currently declaring the soundness of the Social Security system. They just haven't told us yet!

It's easier to just "kick the can down the road" ..... one more time!