

 **THE SOCIAL SECURITY LIE**
– SENATORS REID AND
DURBIN DRIVE ME
ABSOLUTELY
CRAZZZZY!

Stephen L. Bakke  December 25, 2012

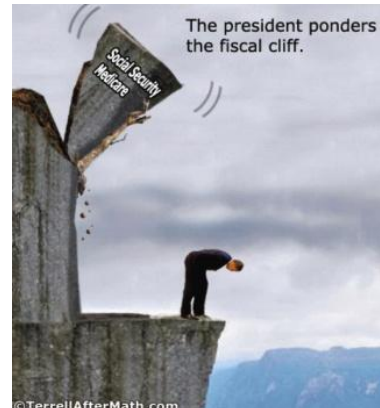


This is me going ***Craaaaaazy!***

Social Security is not part of the problem. That's one of the myths the Republicans have tried to create. Social Security is sound for the next many years. But we want to make sure that in the outer years, people are protected also. But it's not going to be part of the budget talks as far as I'm concerned. – Harry (the) Reid, (D) Senate Majority Leader.

Social Security does not add one penny to our debt ... [I will] bring entitlement reform into the conversation, but Social Security [should be] set aside. – Dick Durbin, (D) Senate Majority Whip.

Here's a "bonus quote" I just found: *Social Security is structurally sound. It's going to have to be tweaked the way it was by Ronald Reagan and Democratic Speaker Tip O'Neill. But the basic structure is sound* – President Obama



The dismissive attitudes the President, and Congressional Democrats, have for all who suggest that Social Security is insolvent remind me of the band that played on the deck of the sinking Titanic – totally naïve denial! – Stephano Bakkovich, an obscure but very wise economic pundit and purveyor of opinions on just about everything.

The Debate

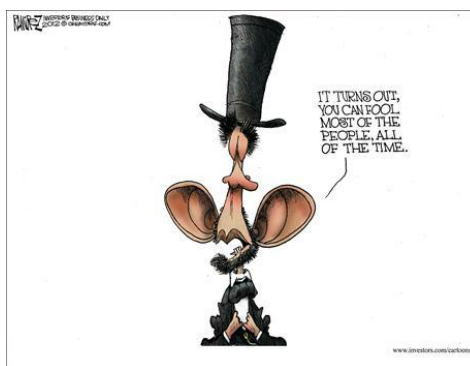
We are, and will be for quite some time, preoccupied with the topics of budget, deficit, national debt and debt ceiling. Central to this debate/dispute is Social Security (SS) – the enigmatic employer and employee funded retirement program. It's enigmatic because **those on the left describe it as soundly funded, not contributing to the national debt, and only needing "tweaking" at some future date;** while conservatives are adamant that SS is "broke," a real contributor to our national debt, and a **major part of reforms needed to balance the budget and reduce debt.** It seems that the two participants in the debate are on different planets. So which one is right?

Based on all that I know about accounting, finance and Social Security, let me take a stab at offering a firm and informed (I think) opinion. **Social Security is insolvent by any logical measure and definition. The so call “trust fund” is effectively exhausted.** The government borrowed and spent the proceeds on other things, leaving only IOUs in place of the funds. Social Security actually ran a deficit in 2010 and 2011, and this will continue in perpetuity unless reforms are enacted. How can the liberals and democrats be so totally wrong in their assertions?

The best way to understand this is to step through the situation logically:

- Durbin claims that SS is a separately funded program, but **that would presume the funds are kept intact once contributed. They are not!**
- There never really has been a SS trust fund in the true sense of the term! As the funds came in, benefits were paid and the balance remaining used to **purchase U.S. government bonds.**
- The funds used to purchase the bonds were then **spent on other federal programs.**
- Durbin and friends prefer for citizens to **look at the trust fund assets (IOUs) just as they would cash. Again, that’s reminiscent of the band on the Titanic.** It is NOT the same!
- A few years ago, when the benefits paid grew to be larger than the inflow of funds, the **government bonds (IOUs) had to be redeemed.**
- Durbin et. al. would like us to think, given the full faith and credit of the U.S., that redeeming the bonds is just a routine, incidental process. **BUT the U.S. does NOT have the funds!**
- Once the government has borrowed all the liquid funds and spent them elsewhere, if the U.S. is running a deficit, the **only way to make all the payments to retirees is for the government to borrow the money** – from China (!)?
- Durbin insists the trust fund is intact for two to three more decades. It’s true that it may take over 20 years to redeem all the IOUs, but remember, **as these are redeemed the government will continue borrowing to meet their SS obligations.**
- **This will continue unless there is reform in all aspects of spending, including SS,**

Democrats argue that SS reform doesn’t have to be part of the debt solution. **Nay I say!** The numbers are too big to make that argument – and they are getting bigger as the population ages. Unless SS is reformed, thereby taking the “pressure” off the general fund, there will be no solution!



The Numbers!

- In 2010, Social Security was in the red by \$30 B (billion) (that’s the lowest estimate I found – some are as high as \$49 B) and will have its **annual payroll tax shortfalls will exceed current levels and potentially add as much as \$165 B to the deficit by 2015.** I understand those to be the amounts of the inconvenient (but necessary) redemption of those IOUs.
- Remember that in order to redeem the bonds the federal government will have to borrow almost half of it, thereby adding to the national debt!
- The **total SS budget this year is about \$760 B** (compared to \$651 B for defense).
- Do you know what “unfunded liability” means? That means the amount of expected payments to SS recipients in future years. It’s “unfunded” because the payments haven’t been made yet and for which the payments will exceed the anticipated revenues.

- When made, unless things change for the better, and don't even get worse, 40% of the shortfall (payments over revenues) will have to be borrowed from China and other opportunists. **(Now, gently ease into the next point. You may even want to send the children out of the room for this one – it's scary!)**
- **Over the next 75 years, by some legitimate projections, SS's unfunded liability (expenses over anticipated revenues) will be 21 T (That's TRILLION!)**
- Part of this "emergency" comes from the fact that **the retired population has started to "balloon" and will soon get worse!** The number of people over 65 is now about 30 M (million) and will be OVER 40M in about 20 years!
- The **Democrats' assertion that the trust fund is sound through 2034 doesn't pass the "smell test"!** We are now "dipping into" the IOUs and that isn't a sound practice, contrary to what the Democrats seem to think.
- **Consider the combined SS and Medicare unfunded liability is about \$63 T, or over 4 times the size of the U.S. GDP (NCPA assertion).** (This estimate doesn't go out 75 years as does the item above.) Responsible computations point to a total increase in the "unfunded" liability of the U.S. to have grown by \$50 T just from ObamaCare! (Budget items outside SS and Medicare are affected by this last estimate.)

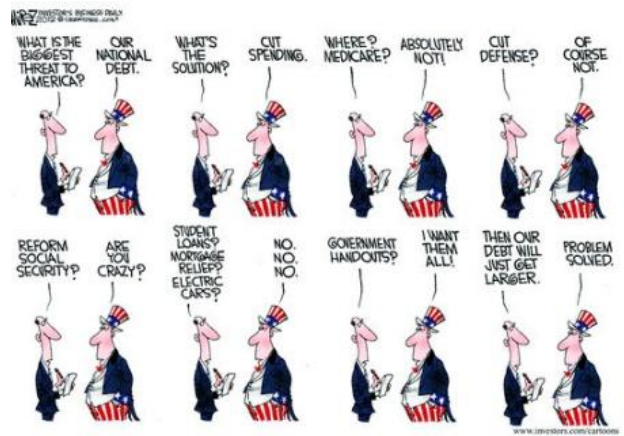
Can Changes be Made? (I'm glad you asked! Yes they can!)

Obama is vague and dismissive in his comments about the "tweaks" to be required at some future date. His tone and understated language is intended to mislead the public into believing this is no big deal. He is disingenuous to the extreme. It's a huge deal! He just wants to "take off the table" the entire topic of SS reform in the context of budgets and debt reduction.

What are the tweaks that are needed? It's really not too complicated – intellectually very simple, but politically very difficult! That's why the Democrats are shying away from discussing it directly. What will be needed is some combination of:

- Raising the retirement age.
- Increasing SS employer and employee contributions.
- Increasing or eliminating the contribution maximum (variation of the last item).
- Delaying or limiting cost of living adjustments.
- Introducing a "means test" to lower benefits as income increases.
- Consider mixing in an element of individual "private accounts."

Variations of this list are on the Democrats' "to do list" but they don't want to broadcast the fact. Their real plan may be minor "tweaks" which will kick the can down the road for decades. That's why they dismiss the importance of SS in the financial future of the United States. They don't ever want to face the discipline of payback by the feds to the SS system!



Can there be any doubt that Social Security is a real problem? I think not!