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Social Security to Run Out of Money Sooner Than Estimated

The February report from the Congressional Budget Office (CBO) about the inevitable insolvency of Social Security is discouraging enough without checking the CBO's assumptions. A closer look at the report and those assumptions reveals a Ponzi scheme that is going to crater sooner than expected.

For 2013 the CBO said that beneficiaries will receive $816 billion in benefits while revenues from payroll taxes will be $846 billion, leaving the program with a surplus of $30 billion. By the year 2023, however, the CBO estimates that outgo will exceed $1.4 trillion compared to revenues of $1.3 trillion, a shortfall of about $100 billion.

According to Jed Graham at *Investor's Business Daily*, that means that the funds backing Social Security (which include Old-Age, Survivors, and Disability Insurance trust funds) will go to zero by 2031. He estimates that beneficiaries just now becoming eligible for retirement benefits will suffer huge cuts in their checks by the time they turn 80 — just when most of them will need them the most. And "workers 44 years old [today] face the prospect of retiring after the trust fund is bust."

Chuck Saletta, at *The Motley Fool*, agrees. He notes that the temporary "surplus" in the funds will peak two years sooner than estimated by the CBO just a year ago and will have $140 billion less in them in 2022 than projected. He says the "collapse date" will be moved back to 2033 or even sooner.

But neither of these picked up the footnote from the original CBO report:

> The CBO projects that the DI [Disability Insurance] trust fund will be exhausted during the fiscal year 2016. Under current law the Commissioner of Social Security may not pay benefits in excess of the available balances in a trust fund, borrow money for a trust fund, or transfer money from one trust fund to another.

So what is a good economist to do? They just assume that somehow those DI benefits will be paid from somewhere: "CBO … assumes that the Commissioner will pay DI benefits in full even after the trust fund is exhausted."

The CBO then calculates the additional shortfall that paying those DI benefits will create: another $1.2 trillion. That brings the total "surplus" remaining in the trust funds in 2023 to a little over $1 trillion. That's just enough to pay benefits to everyone for about three more years.

It's even worse. Two college professors writing in the *New York Times* on Tuesday claim that the assumptions made by the Social Security Administration are vastly inaccurate: "Their methods are antiquated, subjective and needlessly complicated — and as a result are prone to error and to potential interference from political appointees." As a result more people will retire and start drawing benefits than it estimates.

One would think that these awful numbers would start getting peoples' attention who would then begin to bring pressure on Washington to address the issue. But self-interest on the part of participants and politicians is keeping any serious conversation about the matter from occurring. First, the standard line from the Social Security Administration that it's safe and sound is enough to satisfy anyone who might be curious about it. Secondly, the beneficiaries continue to receive their checks and so what's the problem?

Gary North explains:

> The essence of the Ponzi scheme is not simply its statistical unsustainability. The essence of the Ponzi scheme is that it is like an addictive drug. Once someone enters into it, he finds it psychologically impossible to face the reality of the unsustainable statistics of the program….
>
> The essence of the Ponzi scheme is not statistical; it is psychological. It creates belief in that which is statistically impossible, and the degree of belief is so strong that anyone who points out the statistical impossibility of the scheme risks being cut off personally by the victim. Ponzi scheme economics creates the classic attitude: *shoot the messenger!*

There's another reason why the estimates from the CBO and projections from the college professors and other pundits quoted are likely to be too optimistic: As participants in Social Security begin to learn of its increasingly unstable condition, they will begin to draw their money out of it at the earliest opportunity. This may explain why more and more retirees are starting withdrawals at age 62 rather than waiting. It may also explain why more and more people are attempting to draw disability benefits as well. The mentality about Social Security is changing: "Let's get ours while we can."

If such a conclusion proves to be valid, then there's nothing to be done. Charles Blahous, commenting at the website economics21.org, said,

> The CBO report paints a disturbing portrait of unsustainable federal debt accumulation driven entirely by spending, and by entitlement spending in particular. To spare our children and grandchildren from unprecedented levels of taxation and/or indebtedness, entitlement reforms that slow these programs' growth are desperately needed, the sooner the better.

At this late date, tinkering with increases in payroll taxes and ages of eligibility and cost-of-living-adjustments would only put off the day of its cratering. Social Security is a Ponzi scheme, and all Ponzi schemes fail. This one appears to be failing sooner than predicted.

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