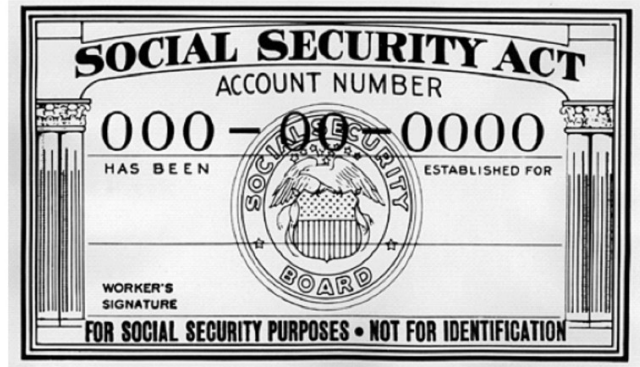




Written by [Bob Adelman](#) on June 3, 2013

Social Security Trustees Celebrate: Trust Funds Won't Be Broke for Years

With Friday's [announcement](#) by the trustees of the Social Security Administration that "reserves are still growing and will continue to do so through [the year] 2020," it didn't take long for groups like Strengthen Social Security (SSS) [to chortle](#) that not only is Social Security "fully affordable and structurally sound, [but it] will meet all its obligations to the American people as far as the eye can see."



That works only if the eye can see out to the year 2020 and not beyond. SSS added: "Social Security's cumulative projected surplus will be roughly \$2.8 trillion in 2013 and [will] continue to grow until it reaches about \$3 trillion around 2020." This is, according to SSS, "the result of decades of foresight and planning."

Unfortunately, buried in the trustees' report are two unsettling facts that SSS ignored altogether. First, the Disability Trust Fund under Social Security will be out of funds in three years, forcing beneficiaries to take at least a 20-percent cut in their benefit checks. Second, after the year 2020 the highly touted "surplus" drops to zero in 2033, forcing everyone receiving a check to take a "haircut" of at least 25 percent, if not more. Under the trustees' "high cost" scenario, totally ignored by SSS, Social Security will be out of funds by 2026, a scant 13 years from now.

By taking a longer view and broader view, however, Boston University economics professor Laurence Kotlikoff [calculates](#) that the difference between the government's promises and its revenues, discounted to present value, is \$222 trillion, or nearly 14 times the country's gross domestic output. He points out that most people don't know that the difference is that large because so many of those promises are kept off the books and consequently are not counted when the national debt is calculated:

You want to put everything on an even footing. Most of the liabilities the government has incurred in the postwar period have been kept off the books because of the way we've labeled our receipts and payments. The government has gone out of its way to run up a Ponzi scheme and keep evidence of that off the books by using language to make it appear that we have a small debt.

So, just how much of that \$222 trillion belongs to Social Security? NBC News' Business Editor Stephen Ohlemacher did the math and concluded that it's \$134 trillion, or eight times the country's GDP.

These numbers are so staggering that they have galvanized both senators from Texas, John Cornyn and Ted Cruz, [to take a hard look](#) at what's happening in Galveston, Texas, to see if something similar can't be implemented nationally to make the program solvent. Back in 1979, the municipal employees in Galveston, Brazoria, and Matagorda counties opted out of Social Security under a loophole that Congress, in its infinite wisdom, closed in 1983. They voted to "go private," 78 to 22, and are they glad they did. The 5,000 employees still covered under a plan, based on approximately the same level of contributions they would have made under Social Security, are now receiving [vastly larger retirement checks](#) than they would have received under Social Security. Those who have died were able to pass



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along to their heirs any unused part of their retirement funds, while those who died early, or became disabled along the way, also received larger benefits than those that would have been provided under Social Security. For instance, workers earning \$51,000 a year can expect a monthly retirement check of about \$3,100 instead of just \$1,350.

County Judge Ray Holbrook helped design the plan, which provided a minimum rate of return on funds invested, along with some exposure to other investments that could earn a higher rate. He explained:

We sought a secure, risk-free alternative to the Social Security system, and it has worked very well for nearly a quarter-century. Our retirees have prospered, and our working people have had the security of generous disability and accidental death benefits.

Most important, we didn't force our children and grandchildren to be unduly taxed and burdened for our retirement while these fine young people are struggling to raise and provide for their own families.

According to Holbrook, Galveston's results [would provide a good model for the country to follow](#):

It shouldn't be a pay-as-you-go system, where children and grandchildren are paying for your Social Security. That's why it's bankrupt, and that's why [Texas Governor] Rick Perry says it's a Ponzi scheme, which I agree with.

Will anything be done before it's too late, and beneficiaries start taking "haircuts" in their benefit checks? Probably not, if enough senators, such as "[democratic socialist](#)" Bernie Sanders from Vermont, think that other problems require more attention sooner. Back in 2012, Sanders said:

I would like to see Congress move on this tomorrow but we do have 22 years before there is any cut in Social Security benefits. Compared to other crises — the collapse of the middle class, real wages falling for American workers, 50 million people having no health insurance — how would I rate the Social Security situation? Nowhere near as serious as these and many other problems.

The problems facing Social Security and its beneficiaries are going to have to get a lot worse before Congress turns its attention to anything like the Galveston plan. After all, according to Strengthen Social Security, Social Security is "structurally sound [and it] will meet all of its obligations to the American people as far as the eye can see," provided one doesn't look too far ahead.

A graduate of Cornell University and a former investment advisor, Bob is a regular contributor to The New American magazine and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.



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