

Social Security works. Don't let Trump destroy it

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Be afraid, very afraid. There is good reason to fear that President Trump and the Republican party are out to destroy our Social Security system.

Social Security is an incredibly popular program. For decades, it has provided a reliable income floor for seniors. We need to prepare to fight for it.

President Trump and the Republicans failed to achieve one of their top goals: the gutting of the Affordable Care Act. But they have other programs in their sights – one of the biggest and most important is Social Security.

Powerful financial interests want to transform the \$2.8 trillion in interest-earning, non-tradeable U.S. government bonds held in the Social Security Trust Fund into a pool of investment funds they can profitably manage and invest in the stock market. Their strategy is simple: convince people that Social Security is a broken, bankrupt system saveable only by privatization.

The truth is that Social Security is a sound and vital social insurance system.

Candidate Trump said he would defend it. But, President Trump appears to hold a different position. He has surrounded himself with people openly committed to privatizing Social Security, including the man he chose to head the Office of Management and Budget. The top Republican leadership have long sought the same end. With Republicans in control of both the Senate and House, as well as the presidency, Social Security is in real danger.

Social Security Basics

The Social Security system generally works like this: workers and their employers each make yearly payments into the system. Workers pay 6.2 percent of their wage and salary earnings, up to a “cap” which rises each year based on the movement in average wages. The 2016 cap was \$127,200. Their employers pay a matching amount. The self-employed pay both shares. Social Security beneficiaries receive inflation-adjusted monthly payments based on a formula tied to their or their spouses’ lifetime earnings, years of work, date of birth, and age at retirement.

From 1983 to the present, yearly payments into the Social Security system have been greater than payouts to retirees. Past surpluses and interest earnings have produced the current Trust Fund surplus of \$2.8 trillion.

Every year the Social Security Board of Trustees issues an annual report on the financial health of the system. The report includes projections of expected earnings and payouts over a 75 year period. Three different outcomes, based on different assumptions about the future values of key economic variables, are highlighted. The intermediate outcome is the one the Trustees commonly use to assess the stability of the system, but even this outcome is based on very conservative assumptions about future growth.

Since 2010, worker and employer yearly contributions into the system have been too

small to cover payments to beneficiaries. However, interest earnings on the bonds held by the Trust Fund have been large enough to fully pay retirees and keep the Trust Fund growing. But, the trustees project that beginning in 2020, the payment gap will grow too large to be covered by interest earnings. Bonds will have to be sold to meet beneficiary obligations. By 2034, according to their estimate, the Trust Fund will be exhausted, leaving retirees with only 80 percent of their promised benefits.

It is on the basis of this predicted outcome that those who want to privatize the system declare it to be in crisis and in need of radical transformation.

The Trumped-Up Crisis

There are many reasons to dismiss this declaration of crisis. First, the predicted bankruptcy of Social Security depends heavily on the assumptions used in the projection of the economy’s movement over the next 75 years.

The report assumes, for its intermediate forecast, historically low values for key variables like productivity growth, immigration, wage growth and labor force participation. The lower the assumed values, the more likely the system is to run short of funds. Assume more reasonable rates and the crisis disappears.

The role of assumptions is also important when examining the main argument for the privatization of Social Security. Those who favor privatization point to the historical performance of the stock market to argue that returns would be higher and thus the system more secure if it were privatized. But there is a sleight of hand here – the conclusion that the Social Security system will fail is based on a future projection of historically slow growth. An honest comparison would require projecting the future earnings of the stock market using the same relatively gloomy assumption about growth, a comparison never made. And, of course, this comparison ignores the considerable ups and downs of the stock market; a worker who retires during a market slump could be left with little in retirement support.

Moreover, there is an easy way to strengthen the existing Social Security system if we want to be on the safe side. As noted above, wage and salary income is taxed up to a cap, which in 2016 was \$127,200. That cap means that income earned from work above that level is not subject to social security taxes. The use of a cap also means that Social Security’s financial health has been weakened by rising inequality.

Reforms in 1983 set the cap at a level that made 90 percent of all wage and salary income subject to Social Security taxes. However, because of the explosion of income inequality, that figure has fallen to roughly 83 percent. If the cap were raised to restore the 90 percent figure, the shortfall projected by the trustees would likely disappear.

If we made all wage and salary income subject to the tax, the system would be solvent until the year 2067!

The Importance of Social Security

The average Social Security retirement benefit is approximately \$1350 a month or a bit over \$16,000 a year. It replaces about 39 percent of past earnings for a person who worked their entire adult life for average earnings. That percentage places the US near the bottom among developed countries.

And yet, millions of people count on Social Security for their survival. Over 60 percent of seniors rely on Social Security payments for at least half their income. Approximately one third of seniors rely on Social Security payments for at least 90 percent of their income.

Not surprisingly, a strong majority of Americans support doing whatever it takes to ensure Social Security’s future. A 2014 survey sponsored by the National Academy of Social Insurance found that 86 percent of those polled believed that “current Social Security benefits do not provide enough income for retirees,” 72 percent favored “raising future Social Security benefits in order to provide a more secure retirement for working Americans,” and 83 percent agreed that “it is critical to preserve Social Security benefits for future generations, even if it means increasing taxes paid by top earners.”

In sum, Social Security is not in crisis. It is a strong program and, if necessary, a simple reform can ensure its continuing smooth operation for the foreseeable future. In fact, two bills have recently been introduced to do just that. The Social Security Expansion Act and the Social Security 2011 Act both include new taxes on high-income earners, higher minimum benefit levels, and use of a new senior oriented consumer price index for calculating yearly benefit increases. The Social Security Expansion Act is projected to extend the system’s solvency by 60 years; the Social Security 2011 Act by 75 years.

What does need our attention is the broader workings of our economy. Among the most pressing issues is the disappearance of secure, well-paying jobs. In fact, a growing number of analysts worry that the labor market has become so bad for workers that we may be facing the end of retirement; low pay and the lack of benefits will force people to work until they literally drop. That we have come to this point is the real crisis.

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