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## CAN THE SOCIAL SECURITY PROGRAM REALLY GO BANKRUPT?

By NANCY J. ALTMAN

Social Security is of vital importance to the United States. Although most people associate the program with its retirement benefits, Social Security is most accurately thought of as a family protection program. In addition to providing a guaranteed floor of retirement income, Social Security is the nation's largest children's program and biggest disability program. More than 3 million children—including virtually all of those who lost parents in the September 11 terrorist attack—receive monthly benefits. So do about 6 million workers with disabilities, including thousands of American soldiers wounded in Iraq and Afghanistan. Those soldiers' families and the families of soldiers killed in those wars receive Social Security benefits, as well.

Because Social Security is so important, President Bush stirred up a great deal of anxiety among Americans when he claimed that “the crisis is now” for this essential American program. In discussing Social Security, the President has dramatically warned that if “we don't start moving on [Social Security reform] now . . . the system will be flat broke,” and “bankrupt” and “flat bust.”

### MISLEADING WORDS

Headline-grabbing as his language is, the President's words are ill advised and misleading. Bankruptcy is a meaningless concept when applied to Social Security: Unlike private employers who sponsor pension plans, the government is permanent and cannot go out of business. Also unlike private employers, the federal government has the Constitutional power “to lay and collect taxes,” as well as the authority to issue and sell Treasury bonds. From 1943 to 1950, the law provided that in the event that Social Security had insufficient funds to pay promised benefits, the shortfall would be made up by general revenue of the United States. If that provision were still part of the law, alarmist cries of potential bankruptcy would disappear instantly.

From the beginning, Social Security has been prudently and conservatively managed. Unlike the rest of the federal government, the program has no authority to borrow, but rather must have sufficient cash on hand to meet promised benefits. Consistent with prudent management, program trustees issue annual reports detailing Social Security's financial condition. Contained in the annual reports are projections of the program's income and outgo for the current year of the report, as well as for every subsequent year for 75 years into the future.

A 75-year valuation period is much longer than the valuation period used by the private sector for private pension plans and generally longer than the period used for the public programs of other countries. Nevertheless, for the U.S. Social Security system, the trustees have concluded that 75 years is an appropriate length of time, because three-quarters of a century covers the working lifetime plus the retirement period of almost all workers. Americans who are age 20, just starting their working lives at the beginning of the valuation period, will be age 95 (if still alive) in the last year of the valuation period.

The anxiety-producing claims about future bankruptcy are the result of recent reports by the Social Security trustees, which state that in about 35 years, if no action is taken before that time—an incon-

ceivable scenario—Social Security may have insufficient income to cover every dollar of benefit costs. Ironically, out of all federal programs, Social Security has been singled out for these worrisome claims about bankruptcy because of the conservative requirement that it maintain a balanced budget. Although the President would be loath to make the point, if deficit spending were to be the definition of bankruptcy in a federal program, then the entire federal government—other than Social Security—is bankrupt right now and has been for more than four decades.

#### EARLY-WARNING SYSTEM

Unlike Social Security, which has always maintained sufficient funds to cover its benefits, the debt of the entire federal government has increased every year since 1960.

The 75-year projections are intended as an early-warning system so that Congress may have sufficient time to calmly enact midcourse corrections to keep the program in balance. Although President Bush and his supporters have chosen to hype the projected long-range deficit, in reality the projections are doing just what they are supposed to do: signaling a potential problem far down the road so that Congress can enact carefully crafted solutions that may be phased in over a long period of time.

In truth, Social Security's projected deficit is one of the easiest problems facing the nation. Unlike the war in Iraq, dependence on foreign oil and polluted rivers, Social Security is simply a matter of balancing income and outgo, and there are many ways to achieve that balance. In my opinion, the best proposal has been put forth by Robert M. Ball. Now age 91, the former Commissioner of Social Security under Presidents Kennedy, Johnson and Nixon and the founding chair of the National Academy of Social Insurance in Washington, D.C., Ball is unquestionably the most experienced, pragmatic and knowledgeable Social Security expert alive today. The Ball proposal cuts no benefits, does not increase the payroll-tax rate, and involves no tax increase at all for 94% of all Americans. (Ball has discussed elements of his proposal in the March-April 2004 issue of *Ageing Today*, "Is Fixing Social Security Really So Hard?" and "A Proposal for Progressive Financing," available online at [www.agingtoday.org](http://www.agingtoday.org)—click on "Back Issues." The plan is also described in detail in Chapter 16 of my new book, *The Battle for Social Security: From FDR's Vision to Bush's Gamble*.)

In asserting that Social Security is in crisis, President Bush has sought to convince Americans that the program is outmoded and unworkable for an aging population. But throughout the program's 70-year history, there clearly has always been "a tiny splinter group"—as President Eisenhower described opponents of the Social Security in his day—who have been hostile to Social Security. Members of this group believed that, to the extent government should facilitate the provision of income security at all, its role should be limited to providing subsistence benefits for the most economically disadvantaged of the nation's elders. The current Social Security debate is simply the latest skirmish in a longstanding ideological battle whose roots began well before the program's enactment.

President Bush has been unsuccessful in winning this battle: Congress appears unlikely to substitute private accounts for a portion of Social Security's guaranteed benefits, as the President proposed. Nevertheless, this President has helped undo another important benefit of the program. Social Security is intended to provide not only tangible cash benefits but also the intangible benefit of peace of mind—the sense of security that Social Security will be there in the normal course of aging or in the event of disability or death.

If President Bush or another politician succeeds in unraveling Social Security's guaranteed protection, it will not be as a result of economics and an aging population. Rather, it will result because people have become convinced—erroneously—that the program is out of date and unsustainable. If people believe Social Security will not be around in the future, the belief will become a self-fulfilling prophesy: Americans will no longer defend this most successful domestic program, and politicians will be free to change it.

In contrast, if Americans are properly armed with insight and understanding, they will insist, as they have so far in the current struggle, that any changes made to the program remain consistent with its current structure and basic philosophy—a structure and philosophy that have served the nation so well since the program's start in 1935. Then, Social Security can continue to play its crucial role and, in the future, provide security to tomorrow's workers and their children, grandchildren and great-grandchildren. ♦

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