

# ***PERSONALLY SPEAKING***

***Special Issue***

***October 2007***

---

## **SOCIAL SECURITY: A BAD INVESTMENT FOR CURRENT AND FUTURE WORKERS**

**Edward J. O'Boyle, Ph.D.  
Mayo Research Institute**

---

Treasury Secretary Henry Paulson in September initiated a series of public discussions intended to forge agreement on what to do about the ever-deepening financial distress in the Social Security system which if no action is taken (a) in ten years will result in benefits paid out exceeding revenues taken in and (b) in 34 years revenues taken in falling short of benefit obligations by 25 percent. The financial crisis is much worse if one considers the financial condition of the system 75 years into the future, for persons who to a large extent are not yet born.

According to Paulson, there are only two alternatives available: raise system revenues or lower benefits. Our attention in the following is focused on the 34-year horizon because looked at from the perspective of persons currently working for covered employers there is no good reason to maintain the system given what it will take to preserve it.

When it was launched in 1935, Social Security was structured not as a social assistance program but as a social insurance program. Social assistance programs pay benefits from general tax revenues to persons who must *demonstrate* they are needy. Every needy person has a legal right to those benefits by virtue of the enabling legislation. Medicaid is a social assistance program. Social insurance programs pay benefits from earmarked monies paid into a trust fund by and/or for persons who are *presumed* to be needy and therefore do not have to demonstrate need. Every person covered by a social insurance program has a legal right to benefits by virtue of the enabling legislation and a property right based on the monies he/she paid into the trust fund or were paid into the fund in his/her name. Medicare is a social insurance program.

General tax revenues support a social assistance program. Contributions to a trust fund support a social insurance program. Medicaid is not the same as Medicare. Paulson's September statement on the nature of the Social Security problem uses "taxes" much more often than "contributions." Is he saying that he sees Social Security not as social insurance but social assistance? Some clarification as to the

nature of the program itself is necessary in order to deal properly with the nature of the problem besetting the program.

Given the huge increase in living standards in the last 70 years and the expanded opportunities to provide for one's retirement through private plans using one's own financial resources, the presumption that most of the working population are unable to provide for themselves in retirement without Social Security is called into question. Normal economic growth in the future means that presumed need among the elderly becomes even more difficult to defend.

Perhaps Social Security should be re-structured as a social assistance program. In years past this suggestion has been referred to as "means-testing" Social Security and was rejected. Such re-structuring is a third alternative to the two offered by Paulson in which current Social Security retirees are fully protected until death, current enrollees can opt out of the program with minimum public protection in their retirement years if they are needy, and the program is shut down for everyone else.

Under the third alternative of converting Social Security to a social assistance program ...

- Persons currently receiving Social Security benefits would continue to receive the benefits promised them as long as they live even if the trust fund has to be supplemented by general tax revenues.
- Persons currently working for a covered employer or who in the past worked for a covered employer would be given the option of continuing in the Social Security program and getting the benefits promised them or surrendering their legal and property rights and enrolling instead in a private retirement program with the understanding that they would be eligible for a social assistance retirement program paying benefits at the poverty level when they reach retirement age if they are able to demonstrate need.
- Persons never enrolled in Social Security would receive retirement benefits based on demonstrated need through a social assistance program that supports them at the poverty threshold. They would have no option to enroll in Social Security and would be expected to provide for their own retirement from their own personal financial resources.

The point at which Social Security revenues would fall short of benefits would occur sometime before the 34-year horizon is reached, forcing the system to supplement the trust fund from general tax revenues. At that point, however, the tax burden would be more widely shared because Social Security taxes are paid only by the current generation of covered workers and their employers. That burden could be reduced by basing annual benefit increases on the cost of living rather than basing them on average annual wage increases as presently done.

Medicare probably should continue as a social insurance program because presumed need makes sense for the elderly who typically can expect to face large

health expenditures in which private insurance becomes increasingly expensive as they grow older. However, there would have to be some changes to the eligibility requirement for Medicare that at present requires at least 40 quarters of Social Security coverage.

The third alternative -- convert Social Security to a social assistance program and allow persons to provide for their own retirement with a poverty-level safety net to provide minimal protection -- removes the harsh reality facing *persons born between 1940 and 2000 who under the current law, according to Paulson, will receive less in lifetime benefits than they pay in taxes (contributions)*. That reality by definition becomes even worse if either one of Paulson's alternatives -- higher taxes (contributions) or lower benefits -- are incorporated in any reformed Social Security program.

A compulsory public retirement benefit program based on presumed need made sense in the Great Depression. It does not make sense today. Indeed, as Paulson himself admits, *most current and future workers would do better investing in essentially risk-free U.S. Treasury bonds than paying into the Social Security system.*

---

*Edward J. O'Boyle is Senior Research Associate with Mayo Research Institute. Since completing his doctorate in economics from Saint Louis University more than 35 years ago, Dr. O'Boyle has specialized in economic research and analysis increasingly from the perspective of the human person engaged in everyday activities both as a unique individual and as a community member. In January 2004 the Association for Social Economics conferred on Dr. O'Boyle its prestigious Thomas Divine Award for lifetime contributions to social economics and the social economy. He taught economics at a state university in Louisiana for 30 years prior to his retirement in 2007.*

---

*Mayo Research Institute 1217 Dean Chapel Road West Monroe, Louisiana 71291  
318-396-5779 edoboyle@earthlink.net*