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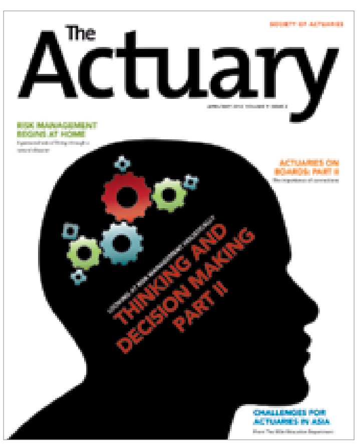
Letter To The Editor

SOCIAL SECURITY TRUST FUNDS



***THE ACTUARY* RECEIVED** several letters similar to the one printed here. This letter encompasses many of the points in those letters. The opinions expressed in this letter are those solely of the letter's author and should not be interpreted as those of the Society of Actuaries or *The Actuary's* contributing editors.

DEAR EDITOR,

Regarding Professor Douglas Eckley's letter in your April/May 2012 edition, pension plans, including Social Security, invest the excess of their current proceeds over benefits paid out. They invest in a broad variety of instruments, some wise, some not, but the most important thing is that the excess money is invested, not buried in the plan sponsor's back yard to be dug up when needed. By law, Social Security's excess proceeds are invested in bonds issued by the United States Treasury. What Treasury does with the money it borrows isn't relevant. The only thing that really matters in this context is that when the debt comes due, it will be repaid. To suggest that the Social Security Trust Funds are empty because the feds spent the money borrowed from SSA is nonsense. Suppose Social Security had invested one year's net proceeds in corporate bonds—half loaned to IBM and half to General Motors. No one would say that piece of the trust fund was empty because IBM and GM had spent on their businesses what they had borrowed from SSA. Of course, it would be legitimate to say part of the trust fund was ultimately lost since GM went broke, thus devaluing its bonds, but unless the feds similarly renege on their promise to fully redeem their bonds, the Trust Funds are, and will continue to be, alive and well.

The real issue regarding Social Security is moving wealth between generations. And it's an issue for every pension plan but Social Security's scale makes it more obvious. Personal financial retirement assets—pension plans, DB or DC, and other forms of savings—are in fact markers giving the holder/retiree claim to some part of the national economic output even after the holder is no longer contributing. The money due for those markers will be paid by current workers at the time

Trust Fund Assets

THE FOLLOWING IS excerpted from the May 2011 issue of *Issue Brief* published by the American Academy of Actuaries. The excerpted material is from an article about the Social Security Trustees report.

TRUST FUND ASSETS

Any excess of tax income over outgo is recorded as an asset in the Social Security trust funds and allows the Treasury to borrow that much less from the public. These trust fund assets are held in special U.S. Treasury securities amounting to $2.6 trillion at the end of 2010. Trust fund assets are expected to increase to $3.6 trillion at the end of the short-range estimate period (and peak at $3.7 trillion in 2029). The bonds in the trust funds represent the government's commitment to repay the borrowed cash whenever Social Security needs the money. As the securities are redeemed by the trust funds, the U.S. government must raise the necessary cash either by raising taxes, increasing publicly held debt, or lowering other expenditures. A they are cashed. And the values of the markers will also be determined then. What buying power retirees receive from their financial retirement assets is going to depend long-term on how much of the national output the current workers are willing to give up. That reality has the potential to significantly affect security values, inflation, taxes and other aspects of our economy.

Specific to the Trust Funds, when the bonds come due someone is going to have to come up with the cash to redeem them. The feds can raise taxes to bring in the money, or re-borrow from someone who then has money to lend. Regardless of how the cash is obtained, as long as the bonds are paid off on time the Social Security Trust Funds will have done their job exactly as intended. But in fact the benefits paid out of those bond proceeds will be paid by the current generation of workers, not by the workers whose taxes built the Trust Funds in the first place. The same would be true had the money been invested in IBM and GM bonds. This transfer of wealth across time and between generations may ultimately turn out to be the single most important problem the actuarial profession can help solve. A

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