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Business & Money

ON WALL STREET

ALLAN SLOAN



A Lot of Trust, But No Funds

You don't have to totally agree with Bush's Social Security commission to see that its analysis of the system's financial problems is right on

NEWSWEEK

July 30 issue — One of Washington's biggest industries is producing documents that nobody reads, for good reason. But showing that every rule has its exception, the presidential Social Security commission last week produced a two-page gem: an explanation, buried in its 30-page preliminary draft, of why almost everything that almost everybody thinks about the Social Security trust fund is wrong. Tune out the predictable partisan noise—the Bushies and their fee-hungry Wall Street allies praised the draft, many Democrats and member-hungry advocacy groups hated it—and turn to pages 16 and 17.

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YOU FIND a wonderfully clear discussion of why the trillion-dollar Social Security trust fund doesn't help solve the system's long-term financial problems. And why letting the fund grow to \$5 trillion, as currently planned, won't help either. (You can find the report by [clicking here.](#))

I know it sounds silly to say that a trillion-dollar trust fund is useless. Let me explain why that's the case. Let's say that you set up a \$1 million trust fund to pay for your retirement. But instead of putting in \$1 million of cash or stocks, you give the fund a \$1 million I.O.U. from yourself. When your Golden Years arrive, you want the million bucks. To get it, you need to fork over \$1 million to redeem the I.O.U. The fact that the fund has the I.O.U. doesn't make it any easier for you to come up with the money.

The Social Security trust fund, which is part of the federal government, holds Treasury securities—I.O.U.s from the federal government—to meet its future obligations. Treasury bills are perfectly fine investments. But when they're held in federal trust funds, Uncle Sam has the same problem redeeming them that you'd have redeeming your own I.O.U.s in your personal trust fund. To quote the Clinton administration's fiscal 2000 budget, government trust funds "do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public or reducing benefits or other expenditures. The existence of large trust fund balances, therefore, does not, by itself, have any impact on the government's ability to pay benefits." That quote is in the commission's report, and it's buttressed by quotes from other credible sources: the head of the Congressional Budget Office, the comptroller general, two Social Security trustees. It's one thing for people



like me to have harped on this for years. It's a whole other thing to have it formally entered into the public debate.

If you accept the fact that the trust fund doesn't help solve the problem, you see that much of the debate about the "solvency" of Social Security is meaningless. "Solvency" is based largely on how big the trust fund is. But no matter how big it is, it doesn't help. Indeed, as the commission report notes—and as some of us numbers junkies have said for years—the problem starts when Social Security's cash income falls below its outlays. That's currently projected for 2016, and likely to move forward if the economy stays punk.

And, by the way, the government hasn't "stolen" Social Security money, as many people believe. The government has, indeed, borrowed the Social Security surplus—the difference between Social Security's tax revenues and its outlays. It's replaced the money with I.O.U.s, and spent it. Had the trust fund bought anything other than Treasury securities, that money would have been saved. But it didn't. Not because anyone's a crook, but because that's how government trust funds put their surplus funds to work.

Social Security's Future



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- [Learn more about Social Security and the problems the system faces.](#)

Accepting that the trust fund is useless doesn't mean you have to accept everything the commission says. For instance, I'm not too wild about private accounts, which the

commission mentions as a way to help low-income wage earners accumulate wealth. But there's a contradiction between the goals of maintaining benefits and wealth-building. If you have an individual Social Security account, you will presumably face a choice at retirement of maximizing your income (by turning your account into an annuity) or maximizing your estate (by taking as little as possible from the account). With an annuity, the government gets your private account after you and your spouse die. For obvious reasons, high-income types will find it easier to take the estate option than low-income types will.

A problem for another day. For now, remember that the Social Security "trust fund" isn't a fund. And you shouldn't trust it.

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