

Commentary

BUFFIN PARTNERS INC.

ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

Social Security: Semantics and Subterfuges

The current debate on Social Security is noteworthy not only for the focus on the issues of solvency and sustainability but also for the rhetoric deployed in support of various viewpoints concerning the future structure of the system. The 2005 Social Security Trustees Report discloses a similar financial position to that reported in 2004 with a projected 75-year actuarial deficit equivalent to 1.92% of covered payroll and a solvency cross-over point of 2041, after which date, the currently projected benefits will likely require increasing subvention in order to be paid to beneficiaries in full. We have always had doubts about the wisdom of reliance on actuarial projections over as long a period as 75 years and feel that a statement should accompany such projections to the effect that long-range estimates may be subject to substantial variability in practice. We are reminded of Sir Winston Churchill's words of wisdom on the subject of the long-range outlook: "It is wise to look ahead, but not farther than you can see." Notwithstanding Churchill's caveat, it is often observed that the results of the 75-year projections tend to be interpreted as representing absolute certainty. Hidden away in an appendix to the Trustees Report are the appropriate comments and explanations about the sensitivity of the results to deviations from the assumptions underlying the demographic and actuarial projections. Another appendix to the Trustees Report presents the results of an alternative stochastic model for projections that very clearly demonstrate the potential range of plausible outcomes and the increasing "funnel of doubt" associated with the results as the projection period is extended through time.

While *Commentary* maintains an impartial and objective view of the Social Security debate, we nevertheless feel that it is appropriate to comment on the semantics

and subterfuges that have been featured by participants in the debate. Some public officials have pronounced the Social Security system as "bankrupt" and promote this viewpoint in order to advocate structural changes to the system. It is not only a question of semantics as to the meaning of "bankrupt." It is also a question of how the semantics are used as a subterfuge for the advocacy of major structural changes that reflect considerations other than actuarial and financial orthodoxy. To claim that a Social Security system that is financed by a steady and permanent flow of payroll taxes is "bankrupt" on the basis of a single projection of its financial condition, when its solvency position is in excess of 100% for the next 36 years and is projected at around 93% over 50 years and around 88% over 75 years, is not a valid representation of the facts and is therefore semantically incorrect. It is certainly not a basis for advocating structural changes to the system involving the adoption of individual private account features that, if anything, would impose greater financial strains on the system than exist at present. However, in the current debate, semantics and subterfuges are much in evidence as a means of conveying a rationale for a particular viewpoint or objective. There is a non sequitur in the logic of the advocates of private accounts who start from the premise of "bankruptcy" and proceed to the "fix" of their structural transformation of the system. Their arguments rely on a number of subterfuges that, when carefully examined and analyzed, have little or no credibility. One such subterfuge is the claim that the Social Security system is in deficit by an amount of \$11.1 trillion and will cost \$600 billion a year if it is not "fixed." These numbers are based on a projection to an "infinite horizon." Infinite horizon means not just 75 years,

not a hundred or a thousand years, not even a million or a trillion years, or even an unimaginable number of light years, but truly all the way to eternity! It should be intuitively obvious that no mortal, no actuary, no prognosticator possessed of magical powers could ever possibly make such an infinite projection and endow it with any degree of credibility. Yet just such an infinite horizon deficit projection appears in the Trustees Report and it has indeed been seized upon, repeated with authority, endowed with certainty and widely promulgated in support of the myth of bankruptcy. In this fantasy world of infinite projections it is then only a small step to develop a further subterfuge to claim that this deficit has an annual cost of \$600 billion associated with it for each year that the Social Security system is not "fixed." It reminds us of a former tennis champion who would routinely express his disbelief in the calls of line judges with the remark "You've got to be kidding!"

The April 2004 edition of *Commentary* referred to the Orszag-Diamond study published by Brookings Institution. Our comments are worth repeating: "The authors have undertaken an objective academic analysis of the Social Security system and have developed specific proposals for achieving long-term balance and sustainable solvency. The proposals do not require general revenue financing and do not introduce individual accounts. We favor the Orszag-Diamond proposals as a specific plan for consideration by Washington policymakers."

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