

## **How Safe is the Social Security Trust Fund?**

So who exactly went and blew the Social Security Trust Fund?

One of the interesting things about political campaigns is the sheer volume of half truths and outright lies that get plastered onto the airwaves. This one's a half truth, with just enough fact to make the fiction particularly pernicious.

Here's the actual facts. First, the Social Security Trust Fund is alive and well, not spent, but safely invested in the world's most secure asset - U.S. Treasury Bonds. These are the same bonds that most banks routinely hold as part of their asset portfolios. The same bonds that most insurance companies regularly invest in. The same bonds that most mutual funds park at least a portion of their assets in.

So no, the Trust Fund has not been spent. It's been invested prudently, waiting to be drawn down to help cover Social Security payments over the next 30 years.

Secondly however, while the Trust Fund has been building up, Washington D.C. politicians from both parties have used it to hide the sizes of the deficits they've run. For example, in fiscal year 2002, the Bush tax cuts and the Iraq War spending together pushed Federal spending to \$1.55 trillion while Federal revenues dropped to \$1.24 trillion - a \$317 billion deficit. During that same year, the Social Security System ran a \$159 billion surplus, which it added to the Trust Fund.

However, by reporting a combined budget that merged these two numbers together, the Bush administration was able to claim that the deficit that year was only \$158 billion, half its true size. So no, the Trust Fund wasn't spent, but yes, it was used to mask the real level of fiscal irresponsibility in Washington D.C.

Those who say the Trust Fund has been spent make that claim because the Fund is invested in Treasury Bills. What would they prefer? Gold bricks? Shares of Enron Corporation or Lehman Bros.? AAA rated General Motors Corporate Bonds? Somehow I doubt that these are the kind of people we want to be taking investment advice from.

But does that record of profligacy, of excess spending and inadequate taxation, mean Social Security is in trouble? Well, maybe. Over the past decade, a combination of tax cuts and spending increases has caused Federal deficits to mushroom, and the market has been flooded with Treasury Bonds. Unless we take major steps to bring those deficits under control - by among other things allowing the Bush tax cuts to expire, while making a variety of spending cuts - then that flood will become a deluge. A deluge right when the Trust Fund is trying to sell all the Treasury Bonds it's bought up over the last few decades.

If that happens, to the point where those bonds begin to lose their value, then yes, the Trust Fund could disappear, just as surely as if it had been invested in Enron or Lehman Bros. And if our deficits aren't brought under control, the question is not whether the Trust Fund will become a pile of worthless paper, but how soon.

The current projections show the Federal Government's interest payments on its debts growing to more than 100% of its revenues, sometime during my children's lifetimes. That just simply cannot be sustained. And if you think the recent Republican landslide is likely to solve the problem - Moody's credit rating service just warned that the Republican plan to permanently extend the Bush tax cuts could threaten the Treasury's AAA bond rating.

So, who exactly went and blew the Social Security Trust Fund? No one has, at least, not yet.