Your Social Security: Dr. Phil could use a second opinion

by Tom_Margenau

Q: I heard Dr. Phil call Social Security a "Ponzi scheme." What are your thoughts on this?

A: I suppose some people might seek Dr. Phil's guidance when dealing with a wayward husband or helping a troubled young person. But I don't really think people count on him to help them understand complex economic matters or to explain the financing of the world's largest social insurance system.

However, I will say this: Dr. Phil certainly isn't alone in his opinion about how Social Security is financed. Over the years, many uninformed people have called Social Security a Ponzi scheme. And it's easy to understand why. After all, Social Security does rely on a steady pool of young working taxpayers to support a growing cadre of retired beneficiaries.

But unlike a classic Ponzi scheme that inevitably collapses as the pool of new investors dries up, Social Security's investment base will never dry up. As I have explained many times in the column, Social Security has been thriving financially for years with a 3-to-1 ratio of working taxpayers to retired beneficiaries. And even though by 2030 the system will reach a 2-to-1 ratio of taxpayers to beneficiaries, the system can continue to work just fine with some relatively modest (but politically difficult to enact) tax increases and benefit cuts. And actuaries predict that long range, the pool of young workers will begin to increase again compared to the eventual shrinking base of retirees, i.e., dying baby boomers. (Gosh, I hate writing that, because I'm smack dab in the middle of the baby boom generation!)

Many well-meaning but uniformed folks usually complain that Social Security should have been set up from it's onset to work more like an insurance company that stockpiles enough financial reserves to cover a large percentage of their promised benefits.

But this financing fantasy ignores the fact that shortly after the Social Security law was enacted in the mid-1930s, it had to begin paying billions of dollars in monthly benefits to millions of retirees, widows, and dependent children.

Also, whereas an insurance company might have a few million potential beneficiaries, you must remember that almost every man, woman, and child in the United States is a current or potential Social Security beneficiary. In other words, the system would have to put aside literally trillions and trillions of dollars in reserve to cover all promised benefits. This simply isn't feasible. Nor would it be healthy for our economy to have a large chunk of our money supply tied up in Social Security coffers.

So that's why Social Security has always and will always operate on a "pay-as-you-go" basis, where young workers coming into the system support older workers who retire and leave the system.

If you want to call that a Ponzi scheme, go ahead. But let me hear your alternative "scheme" for how to handle and finance the world's largest social insurance system â€” a system which, combined with Medicare and Medicaid, makes up nearly half of our entire federal budget.

A CORRECTION:

In a column I wrote a month or so ago, I told a woman who had a large spike in her income one year due to the sale of some property that the increased Medicare premium she was paying due to that extra income could be rolled back to normal levels if she could prove her normal annual income was less. This was incorrect. According to the Social Security Administration, her Medicare premium cannot be lowered because she did not have a "life-changing event."

If you're confused, well then so am I. And apparently so are some government officials. I got the first answer (the incorrect one) from a source within SSA. But many other SSA officials told me my answer was wrong after the column was printed. As I've always told readers, I'm a Social Security expert, not a Medicare expert. If you have questions about Medicare, you can find answers at www.medicare.gov or from the Medicare experts at your local Social Security office. (Just make sure you ask the right one!)