Last year, I penned an article discussing the primary problems with Social Security. [To wit:](#)

> *"According to the June 2017 snapshot from the Social Security Administration, nearly 61.5 million people were receiving a monthly benefit check, of which 68.2% were retired workers.•Of these 41.9 million retirees, more than 60% count on their Social Security to be a primary source of income. Of course, that dependency ratio is directly tied to financial insolvency of the vast majority of Americans.• According to a Legg Mason Investment Survey, US baby boomers have on average $263,000• saved in defined contribution plans. But that figure is less than half of the $658,000 they say they will need to retire. As noted by•[GoBankingRates](#), more than half of Americans will retire broke."*

*"This is a huge problem that will not only impact boomers in retirement, but also the economy and the financial markets. It also demonstrates just how important Social Security is for current and future generations of seniors. Of course,•***the problem is that•according to the latest Social Security Board of Trustees report issued last month, those benefits could be slashed for current and future retirees by up to 23% in 2034 should Congress fail to act.•***Unfortunately, given the current partisan divide in Congress, who•have been at war with each other since the financial crisis, there is seemingly little ability to reach any agreement on how to put Social Security on sound footing.•***This puts those ?baby boomers,?•78 million Americans born between 1946 and 1964 who started retiring last year, at potential risk in their retirement years.•*** *While the Trustees report predicts that asset reserves could touch $3 trillion by 2022, implying the program is expected to remain cash flow positive through 2021, beginning in 2022, and each year thereafter through 2091,•***Social Security will be paying out more in benefits than it?s generating in revenue, resulting in a $12.5 trillion cash shortfall between 2034 and 2091.•***That is a problem that can?t be fixed without internal reforms to the pension fund due specifically to two factors: demographics and structural unemployment."*

I was reminded of this discussion by a recent note from the [Committee For A Responsible Federal Budget]•which updated the rather dire situation of the Social Security system.

"The Trustees for Social Security released their annual report today. As they have for many years, their projections show that ***the Social Security program faces a large and growing funding imbalance that must be addressed promptly to prevent across-the-board benefit cuts or abrupt changes in tax or benefit levels.*** *This year?s report shows:*

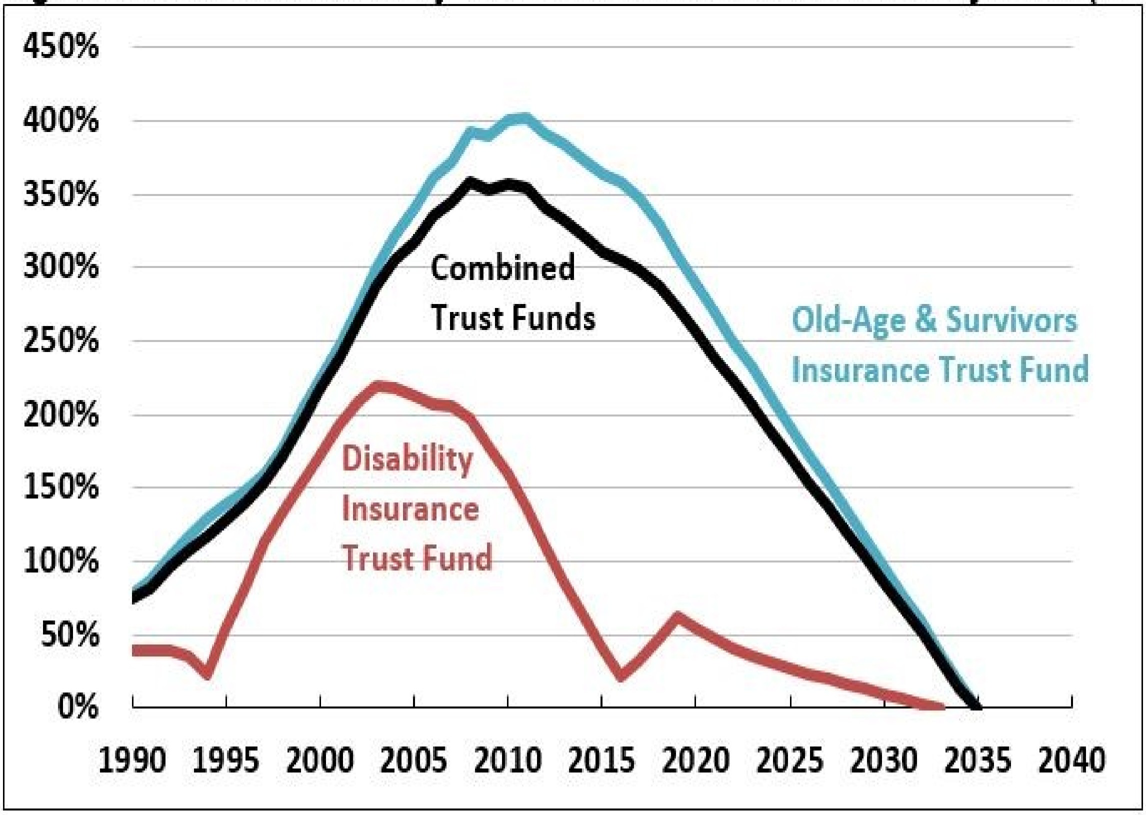
- ***Social Security Will Run Permanent Deficits.*** *For the first time since 1982, the program will spend more than it raises in revenue and collects in interest. The gap will total $900 billion over a decade. On a cash-flow basis, Social Security will run a deficit of $85 billion this year and $1.7 trillion over the next decade.*
- ***Social Security Faces Large Long-Term Imbalances.*** *The Trustees estimate Social Security faces a 75-year shortfall of 2.84 percent of payroll (1.0 percent of GDP), growing to 4.32 percent of payroll (1.5 percent of GDP) by 2092. That means payroll taxes will need to be increased by 22 percent or scheduled benefits cut by a sixth (or some combination) to ensure 75-year solvency; ultimately, taxes will need to be increased by a third or benefits reduced by 26 percent.*
- ***Social Security Will Be Insolvent by 2034.*** *The Trustees project depletion of the Disability Insurance trust fund by 2032 and the Old-Age & Survivors Insurance trust fund by 2034. On a theoretical combined basis, the trust funds will run out by 2034 ? the same as last year?s projections. At the time of insolvency, all beneficiaries will face a 21 percent across-the-board benefit cut.*
- ***The Problem Is Similar To Last Year, But Has Deteriorated This Decade****.• Social Security?s 75-year shortfall rose from 1.92 percent of payroll in 2010 to 2.83 percent last year and 2.84 percent this year. The 2034 insolvency date is the same as projected last year, but three years earlier than projected in 2010.*
- ***Lawmakers Should Start Making Changes Now****. Social Security insolvency is not that far away ? when today?s 51-year-olds reach the normal retirement age and today?s youngest retirees turn 78. Waiting 16 years to act would mean any tax hikes or benefit cuts have to be 35 to 40 percent larger.*

Protecting Social Security?s solvency is vitally important for the country?s

overall fiscal outlook and the 86 million beneficiaries who will be on the program when the trust funds are exhausted in 2034. *Swift action is needed to prevent seniors, surviving dependents, and people with disabilities from facing abrupt cuts in just a few years."*

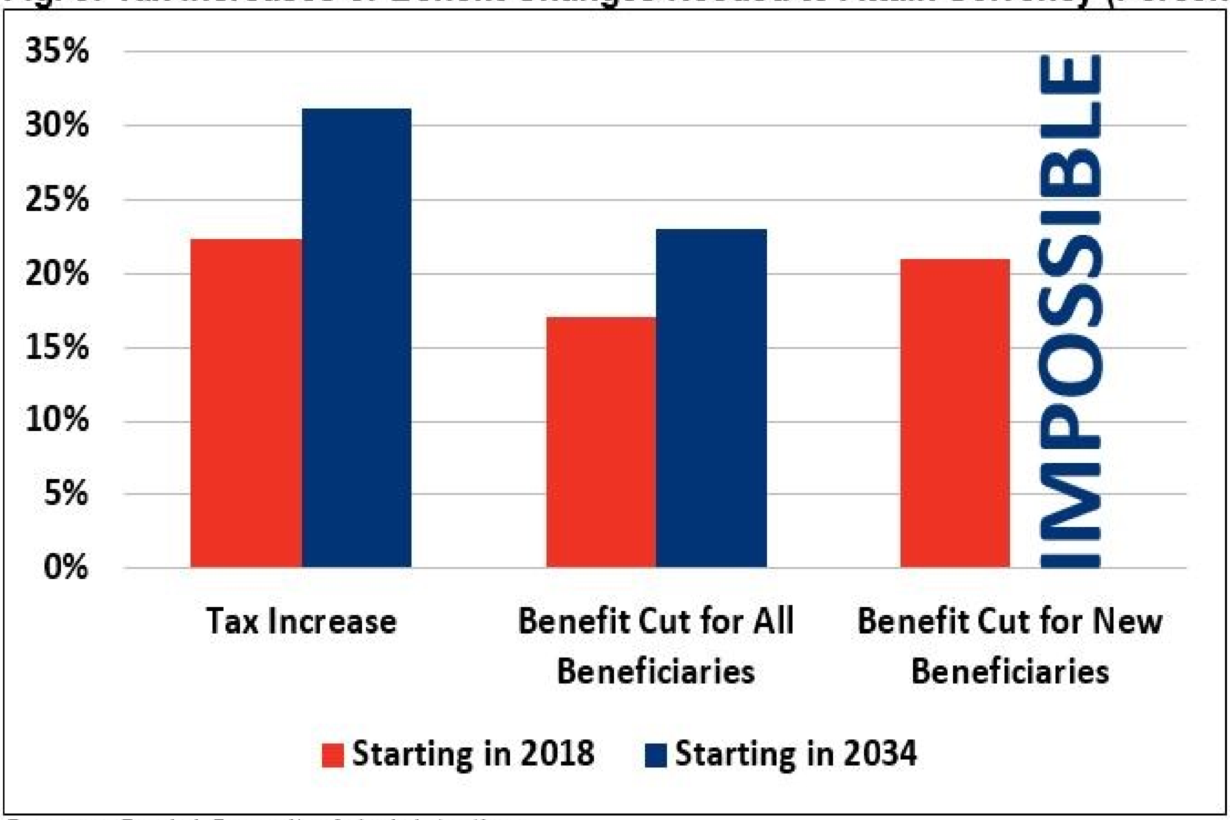
Here are the only two charts you need to see to understand the overarching problem.

Fig. 2: Ratio of Social Security Trust Fund Reserves to Benefit Payments (Percent of Benefits)



Source: Social Security Administration.

Fig. 5: Tax Increases or Benefit Changes Needed to Attain Solvency (Percent Change)



Source: Social Security Administration.

As stated above, the biggest problem for Social Security is that it has already begun to pay out more in benefits than it receives in taxes.•As the cash surplus is depleted, which is primarily government I.O.U.?s, Social Security will not be able to pay full benefits from its tax revenues alone. It will then need to consume ever-growing amounts of general revenue dollars to meet its obligations?money that now pays for everything from environmental programs to highway construction to defense.**Eventually, either benefits will have to be slashed or the rest of the government will have to shrink to accommodate the** ***?welfare state.?***•It is highly unlikely the latter will happen. **Demographic trends are fairly easy to forecast and predict.•Each year from now until 2025, we will see successive rounds of boomers reach the 62-year-old threshold.** •There are several problems that no one wants to address:

- *Each boomer has not produced enough children to replace themselves which leads to a decline in the number of taxpaying workers.* ***It takes about 25 years to grow a new taxpayer.***•*We can estimate, with surprising accuracy, how many people born in a particular year will live to reach retirement.* ***The retirees of 2070 were all born in 2003, and we can see and count them today.***
- *In 1950, each retiree?s benefit was divided among 16 workers. Today, that number has dropped to 3-workers per retiree, and by 2025, it will reach?and remain at?about two workers per retiree.*• ***In other words, each married couple will have to pay, along with their own family?s expenses, Social Security retirement benefits for one retiree.•***
- ***In 1966, each employee shouldered $555 dollars of social benefits. Today, each employee has to support roughly $18,000 of benefits.***•*The trend is obviously unsustainable unless wages or employment begins to increase dramatically and based on current trends that seems highly unlikely.*

The entire social support framework faces an inevitable conclusion where no amount of wishful thinking will change that outcome.•**The ONLY question is whether our elected leaders will start making the changes necessary sooner, while they can be done by choice, or later, when they are forced upon us.** Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **Analysis Of The 2018 Social Security Trustees' Report**•by CRFB
- **G7 United Against Trump's Trade War**•by Caroline Baum via MarketWatch
- **Strong Jobs Market? Dig A Bit Deeper** by Danielle Dimartino-Booth via Bloomberg
- **Who Deserves Credit For *"Roaring Economy?"*** by Robert Samuelson via IBD
- **If Economy Is So Great, Why Are 78 Million Working Gigs**•by Rex Nutting via MarketWatch
- **The Dirty Secret Behind The GOP Push For Deregulation**•by Pedro Da Costa via BI
- **What Bush Tax Cuts Can Teach Us About Trump's**•by Jerry Bowyer via Vident Financial
- **Really, How Was That Employment Report**•by Macromon via Global Macro Monitor
- **Employment Below 4% - Uh Oh!** by Brian Maher via The Daily Reckoning
- **POTUS Employs "Whack A Mole" Trade Tactics**•by Patrick Hill via The Progressive Ensign
- **Unemployment At 50-Year Lows**•by Raul Elizalde via Forbes
- **Why Are There More Jobs Than Unemployed Workers** by Tyler Durden via Zerohedge
- **Recession Is Coming & The Fed Can't Stop It** by James Rickards via Daily Reckoning
- **Krugman And Keynes Are Wrong About Debt** by Bart Remes via FEE

Markets

- **Dalio: We Are Bearish On Almost All Financial Assets** by Tyler Durden via ZeroHedge
- **Efficient Markets, Not So Much** by Kevin Muir via The Macro Tourist
- **Bull Rebuttal** by Sven Henrich via NorthmanTrader.com
- **Emerging Markets Have A Dollar Problem** by Simon Constable via WSJ
- **Income Investing That Avoids Rising Rate Risk** by Paul Katzeff via IBD
- **Are Winds Shifting Back To Bond Bulls Favor?** by Dana Lyons via The Lyons Share
- **The Next Junk Bond Crash Will Be Really Bad** by Jonathon Rochford via MarketWatch
- **Everything Is Fine, Until It Isn't** by Sam Potter & Tracy Alloway via Bloomberg
- **Why Have Oil Markets Turned So Bearish?** by Tsvetana Paraskova via OilPrice.com
- **A Dozen Ways To Make Money From Investing** by Brett Arends via MarketWatch
- **More Stormy Weather Ahead For Stocks** by Howard Gold via MarketWatch
- **1969 Can Tell Us A Lot About A Key Recession Indicator** by Jeffrey Rosenberg via Blackrock Blog

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Most Read On RIA

- **The Myth Of Buy And Hold Investing - Part I** by Lance Roberts via Business Insider
- **Our Two Cents On The Dollar** by Michael Lebowitz
- **The Coming Collision Of Debt & Rates** by Lance Roberts
- **4-Mistakes In Your Financial Plan** by Richard Rosso
- **Kass: An Italian Job?** by Doug Kass

Research / Interesting Reads

- **Huge New Prop Under Stocks Is A One-Time Affair** by Wolf Richter via Wolf Street
- **Are We On The Verge Of Another Debt Crisis** by Martha White via NBC
- **No Savings, Imprisoned & Homeless** via Upfina
- **Moves Retirees Should Make Before Retiring** by Maurie Backman via Motley Fool
- **The Hallmark Of An Economic Ponzi Scheme** by John Hussman via Hussman Funds
- **Psychology Of Money - 20 Things To Know** by Morgan Housel via Collaborative Fund
- **Rewarding Failure Is Now An Epidemic** by Bethany Mandel via New York Post
- **Time To Worry?** by John Cochrane via The Grumpy Economist
- **Robot Revolution Has Only Begun** by Sanjit Dang via TechCrunch
- **Tech Bubble 2.0** by EconMatters

> ***?•I guess I should warn you, if I turn out to be particularly clear, you've probably misunderstood what I've said." - Alan Greenspan***

Questions, comments, suggestions ? please email me.