It is long past the time that we face the fact that "Social Security" is facing a retirement crisis. In June 2022, we touched on this issue, discussing the stark realities confronting Social Security.

> *?The program?s payouts have exceeded revenue since 2010, but the recent past is nowhere near as grim as the future. According to the latest annual report by Social Security?s trustees,* ***the gap between promised benefits and future payroll tax revenue has reached a staggering $59.8 trillion****. That gap is $6.8 trillion larger than it was just one year earlier. The biggest driver of that move wasn?t Covid-19,* ***but rather a lowering of expected fertility over the coming decades.?*** *? Stark Realities*

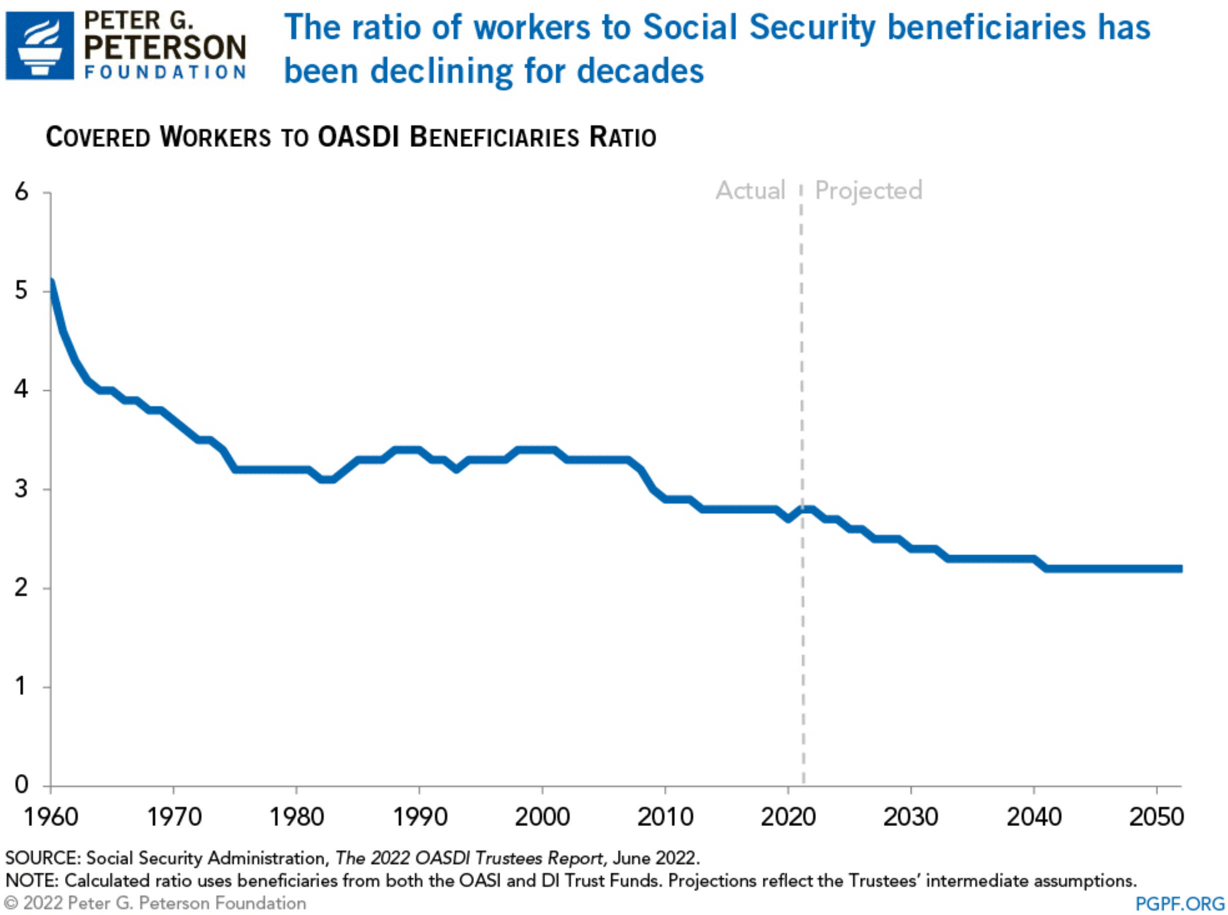
Note the last sentence.

When President Roosevelt first enacted social security in 1935, the intention was to serve as a safety net for older adults. However, at that time, life expectancy was roughly 60 years. Therefore, the expectation was that participants would not be drawing on social security for very long on an actuarial basis. Furthermore, according to the Social Security Administration, roughly 42 workers contributed to the funding pool for each welfare recipient in 1940.

Of course, given that politicians like to use government coffers to buy votes, additional amendments were added to Social Security to expand participation in the program. This included adding domestic labor in 1950 and widows and orphans in 1956. They lowered the retirement age to 62 in 1961 and increased benefits in 1972. Then politicians added more beneficiaries, from disabled people to immigrants, farmers, railroad workers, firefighters, ministers, federal, state, and local government employees, etc.

While politicians and voters continued adding more beneficiaries to the welfare program, workers steadily declined. Today, there are barely 2-workers for each beneficiary. As noted by the Peter G. Peterson Foundation:

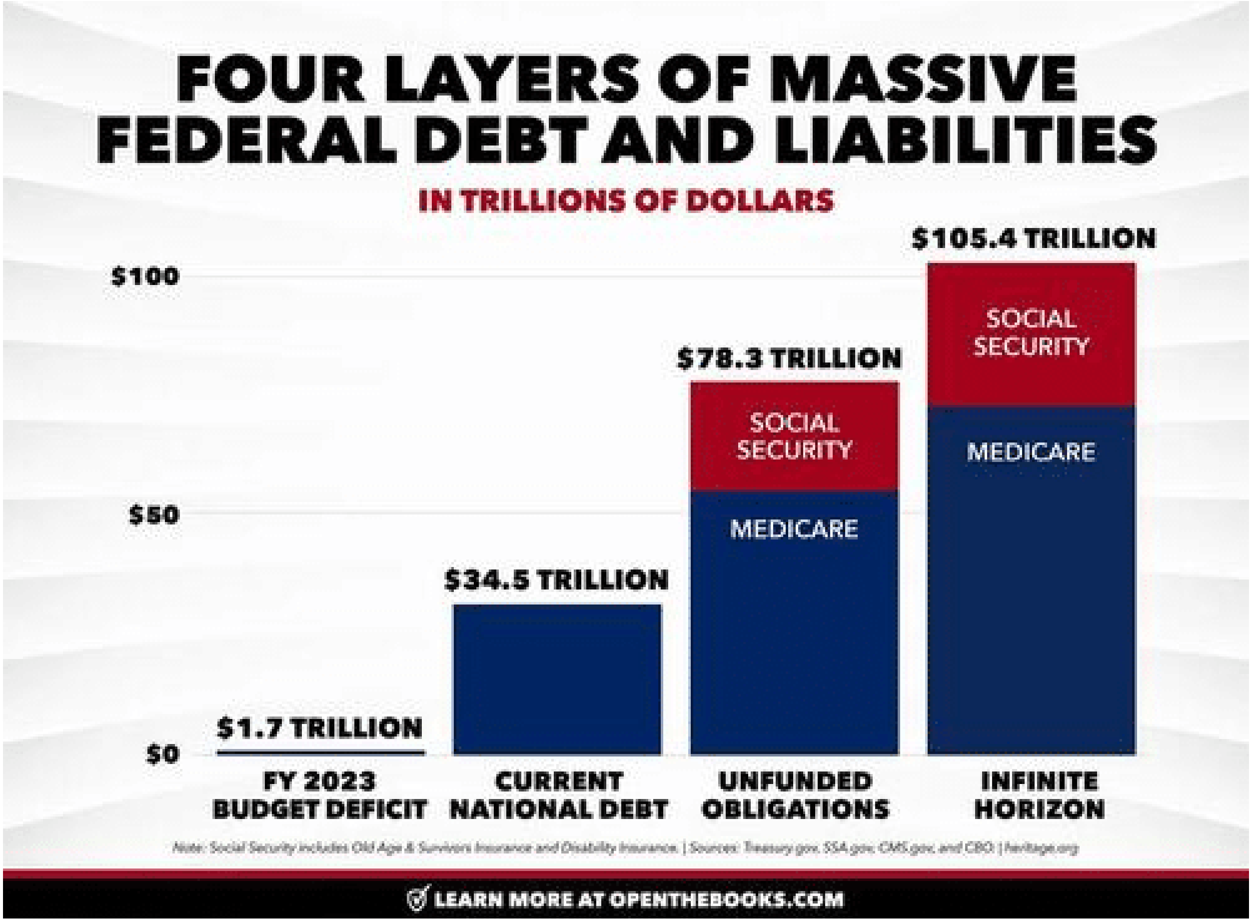
"Social Security•has been a cornerstone of economic security for almost 90 years, but the program is on unsound footing. Social Security's combined trust funds areprojected to be depleted by 2035•? just 13 years from now. A major contributor to the unsustainability of the current Social Security program is that the number of workers contributing to the program is growing more slowly than the number of beneficiaries receiving monthly payments. In 1960, there were 5.1 workers per beneficiary; that ratio has dropped to 2.8 today."



As we will discuss, the collision of demographics and math is coming to the welfare system.

A Massive Shortfall

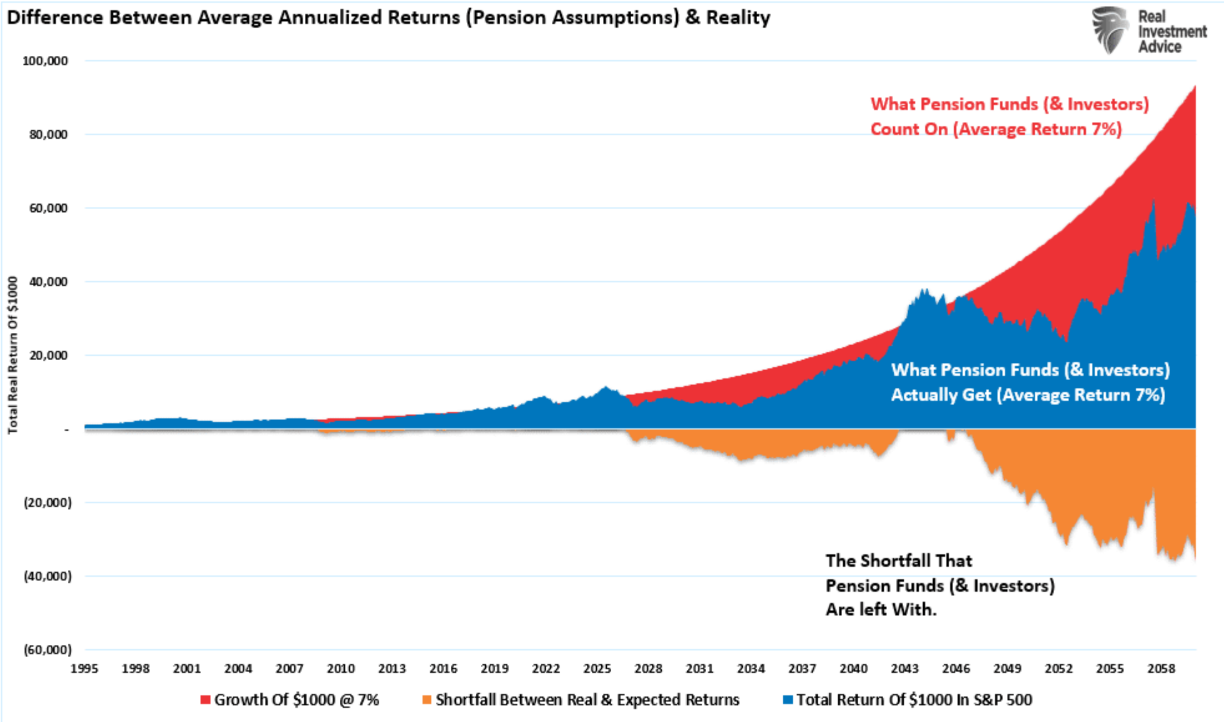
The new *Financial Report of the United States Government* (February 2024) estimates that the financial position of Social Security and Medicare are underfunded by roughly $175 Trillion. Treasury Secretary Janet Yellin signed the report, but the chart below details the problem.



The obvious problem is that the welfare system's liabilities massively outweigh taxpayers' ability to fund it. To put this into context, as of Q4-2023, the GDP of the United States was just $22.6 trillion. In that same period, total federal revenues were roughly $4.8 trillion. In other words, if we applied 100% of all federal revenues to Social Security and Medicare, it would take 36.5 years to fill the gap. Of course, that is assuming that nothing changes.

However, therein lies the actuarial problem.

All pension plans, whether corporate or governmental, rely on certain assumptions to plan for future obligations. Corporate pensions, for example, rely on certain portfolio return assumptions to fund planned employee retirements. Most pension plans assume that portfolios will return 7% a year. However, a vast difference exists between *"average returns"* and "*compound returns"* as shown.



Social Security, Medicare, and corporate pension plans face a retirement crisis. A shortfall arises if contributions and returns don't meet expectations or demand increases on the plans.

For example, given real-world return assumptions,**pension funds SHOULD lower their return estimates to roughly 3-4% to potentially meet future obligations and maintain some solvency.** However, they can't make such reforms because•"*plan participants*"•won't let them. Why? Because:

1. ***It would require a 30-40% increase in contributions by plan participants*** *they can not afford.*
2. *Given many plan participants will retire LONG before 2060,***there isn't enough time to solve the issues***•and;*
3. ***Any bear market will further impede the pension plan's ability to meet future obligations***•*without cutting future benefits.*

Social Security and Medicare face the same intractable problem. While there is ample warning from the Trustees that there are funding shortfalls to the plans, politicians refuse to make the needed changes and instead keep adding more participants to the rolls.

However, all current actuarial forecasts depend on a steady and predictable pace of age and retirement. But that is not what is currently happening.

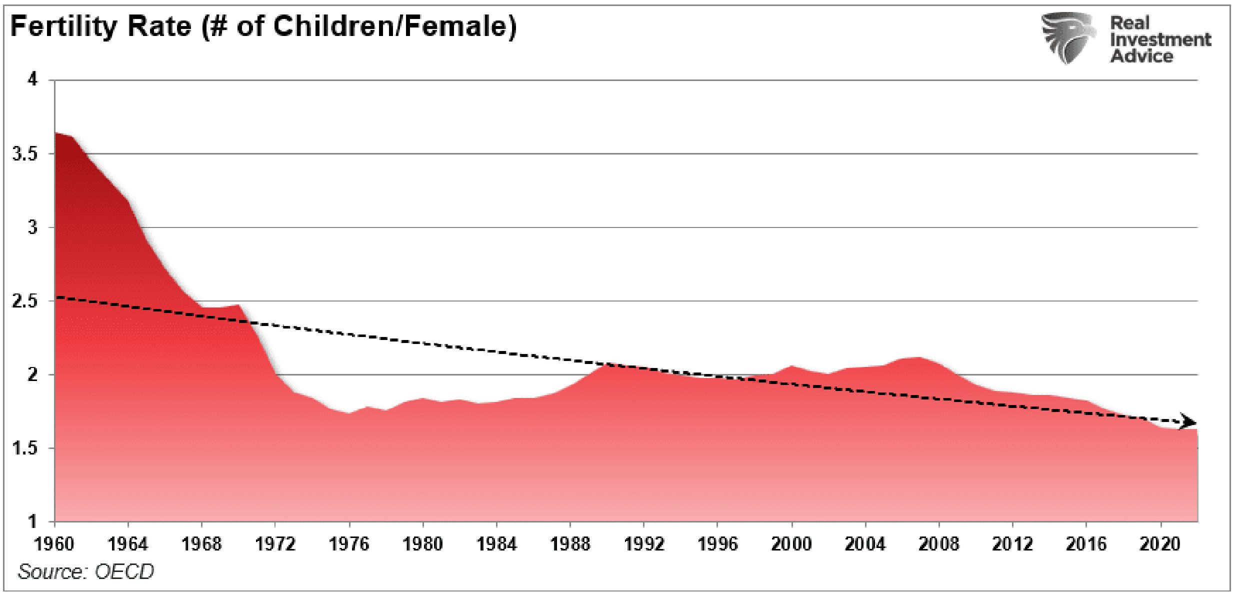
A Retirement Crisis In The Making

The single biggest threat that faces all pension plans is demographics. That single issue can not be fixed as it takes roughly 25 years to grow a taxpayer. So, even if we passed laws today that required all women of birthing age to have a minimum of 4 children over the next 5 years, we would not see any impact for nearly 30 years. However, the problem is running in reverse as fertility rates continue to decline.

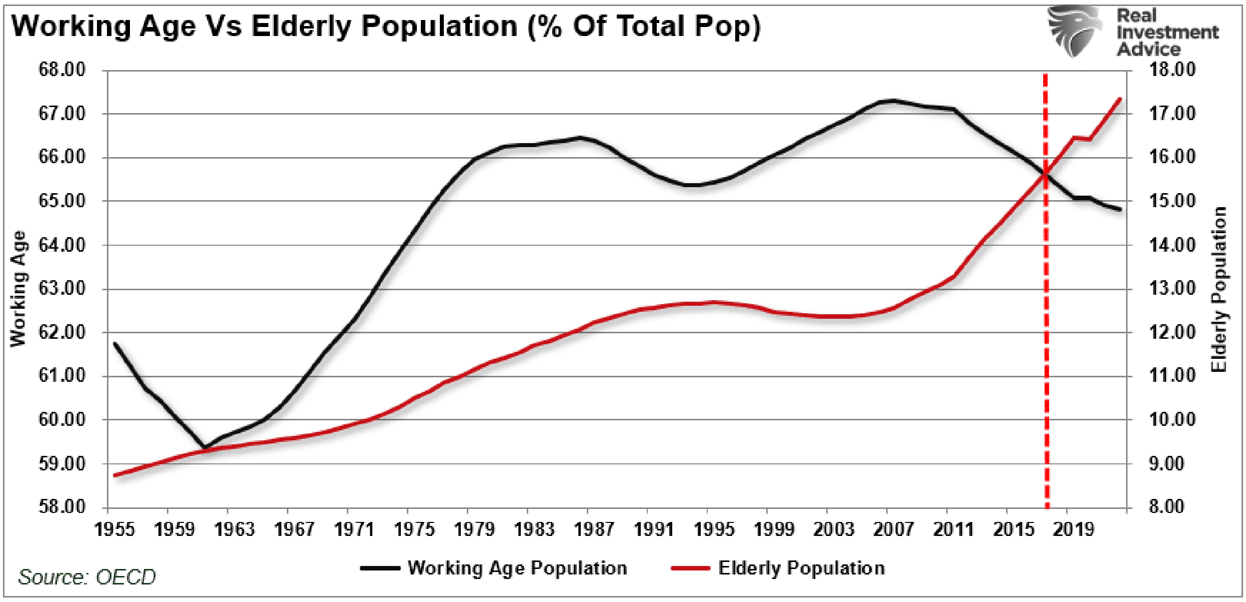
Interestingly, researchers from the Center For Sexual Health at Indiana University put forth some hypotheses behind the decline in sexual activity:

- *Less alcohol consumption (not spending time in bars/restaurants)*
- *More time on social media and playing video games*
- *Lower wages lead to lower rates of romantic relationships*
- *Non-heterosexual identities*

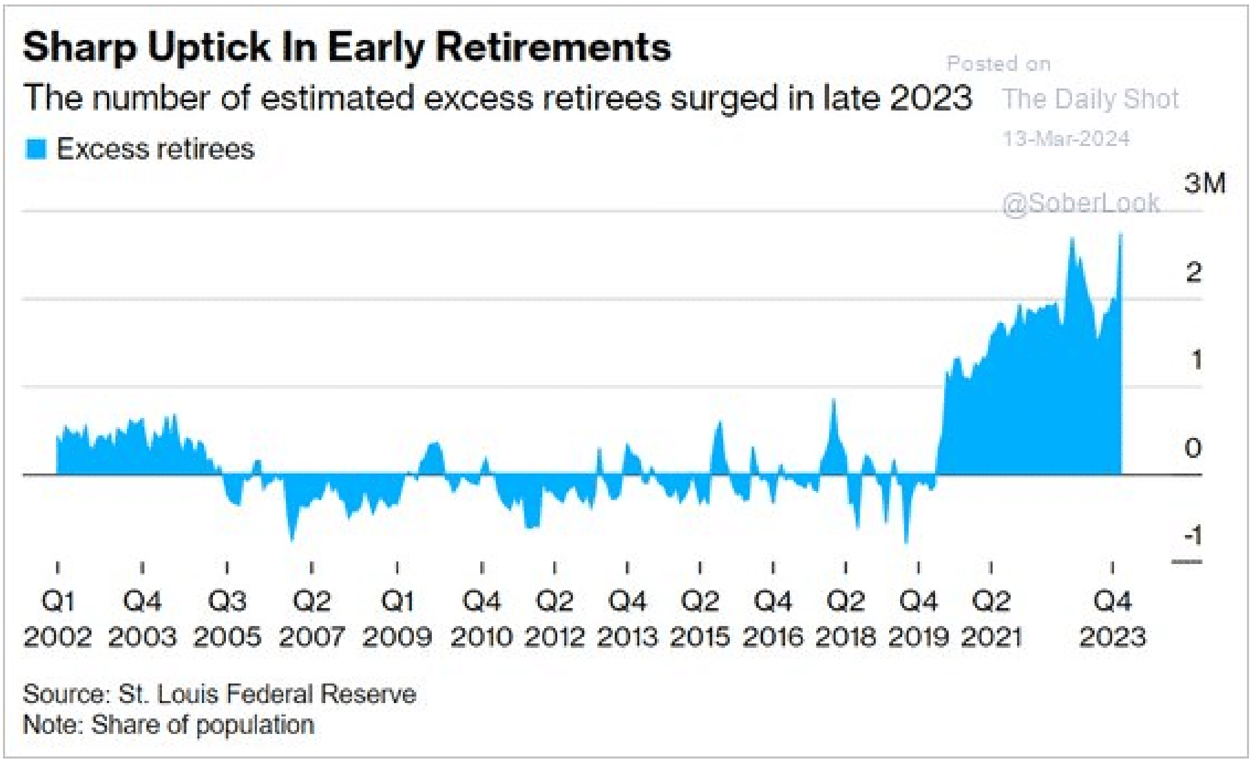
The apparent problem with less sex and non-heterosexual identities is fewer births.



No matter how you calculate the numbers, the problem remains the same. Too many obligations and a demographic crisis. As noted by official OECD estimates, the aging of the population relative to the working-age population has already crossed the *"point of no return."*



To compound that situation, there has been a surge in retirees significantly higher than estimates. As noted above, actuarial tables depend on an expected rate of retirees drawing from the system. If that number exceeds those estimates, a funding shortfall increases to provide the required benefits.



The decline in economic prosperity [discussed previously](#) is caused by excessive debt and declining income growth due to productivity increases. Furthermore, the shift from manufacturing to a service-based society will continue to lead to reduced taxable incomes.

This employment problem is critical.

By 2025, each married couple will pay Social Security retirement benefits for one retiree and their own family's expenses. Therefore, taxes must rise, and other government services must be cut.

Back in 1966, each employee shouldered **$555 of social benefits. Today, each employee has to support more than $18,000 in benefits.** The trend is unsustainable unless wages or employment increases dramatically, and based on current trends, such seems unlikely.

The entire social support framework faces an inevitable conclusion where wishful thinking will not change that outcome. **The question is whether elected leaders will make needed changes now or later when they are forced upon us.**

For now, we continue to *"Whistle past the graveyard"* of a retirement crisis.