

Social Security Can Be Good for Your Health

AN OPEN LETTER FROM DWIGHT R. LEE

Until recently I took every opportunity to inform my students about the financial fraud of Social Security. Given demographic realities and the Ponzi-scheme nature of Social Security, those about to enter the work force will receive an anemic return on their “investment,” assuming they receive any return at all. They would be far better off, and so would the economy, if they put the amount that will be taken from them by the Social Security Administration into a real investment, such as a broad-based mutual fund.

But I’m having second thoughts about presenting only the negative side of our national retirement program to the youth of America. I’ll be eligible to begin collecting Social Security payments in a few years, so I’ve decided to take a more positive attitude. The Social Security taxes I have already paid are sunk costs, and therefore are not costs at all. Only the future taxes and income from Social Security are relevant to my return on the program, a return that is getting better all the time. What a shame to jeopardize that return by turning the taxpayers of the future against the Social Security program, which can also be there for them some day if only they consider the bright side of the financial mugging heading their way. In the hope that the young people of today can be encouraged to stay the course with their Social Security “contributions,” I am writing them an open letter telling them the rest of the story. You see,

The news is better than some of you believe, especially those of you who believe an invasion by the space aliens who kidnapped Elvis Presley is more likely than Social Security being solvent when you retire.

Social Security is about more noble objectives than achieving financial success.

—DRL

Dear Young People,

There simply is no better feeling in the world than sacrificing for the benefit of others. That is particularly true when your sacrifice benefits me. I want you young college students to keep that in mind the next time you hear someone criticizing the Social Security system. I will be retiring about the time you are paying large sums into Social Security, and your tax payments, I mean contributions, will be sent directly to my buddies and me so we can afford to drive enormous motor homes to the local shuffleboard courts. None of it will be invested into your own personal account for your retirement.

Some of you may be asking, but then what kind of financial return can I expect from Social Security? That is the type of question we have to expect from those who, because of the damaging effects of natural selection, insist on thinking of themselves first. But let me consider the return a college graduate about to enter the work force can expect from Social Security. The news is better than some of you believe, especially those of you who believe

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an invasion by the space aliens who kidnapped Elvis Presley is more likely than Social Security being solvent when you retire. Let me give you my unwritten, but completely unenforceable, guarantee: you will receive Social Security checks when you retire. That is assuming you live past age 67, which you probably will because of a wonderful incentive built into the Social Security program for your benefit. Because of this incentive, your rate of return can be far better than the experts are now predicting. Let me explain.

Assume you work from age 22 to 67 and make only the median family income during your career. In this case your Social Security contribution will be about \$3,000 a year, recognizing that you will generously help your employer with his contributions to your Social Security by accepting wages lower than you would otherwise have received. These contributions will make you eligible for Social Security payments at age 67. How much will you get? The maximum you can receive (as I write this) is \$23,868, which assumes that your spouse is still alive, or at least appears to be, and also 67 or older. When you are 67, 45 years from now, the payments will be higher, assuming they keep up with inflation (your Social Security contributions will also increase with inflation, but let's ignore that minor inconvenience). Let's be optimistic and assume they will. Assuming a 3.1 percent inflation rate (the average over the last 70 years), then your annual income from Social Security will be \$91,453 at age 67. And you thought Social Security was a lousy deal.

I'm tempted to rest my case right here, except someone is probably asking, "But how better off would I be if, instead of contributing to Social Security, I put the \$3,000 a year into the stock market for the next 45 years? At the risk of encouraging people to think of

Social Security only in crass financial terms, I will answer this question.

Over the last 70 years the stock market (as measured by the Standard & Poor's 500 index) has grown at an average annual rate of 10.9 percent. At that return, your \$3,000 a year will be worth \$3,182,779 when you are 67. With that amount of money, you could buy a lifetime annuity that pays over \$356,000 a year. So a cynical, but completely accurate, conclusion is that the Social Security system will bamboozle you out of over \$264,547 a year (the difference between \$356,000 and \$91,453) during your retirement.

Social Security is right up there with conferences on global warming as a way of promoting long life.

But why be so negative? After 45 years of 3.1 percent annual inflation, \$264,547 will be worth only about \$69,000 in today's dollars. Also, think of the incentive Social Security gives you to take good care of yourself. You can make Social Security pay if you live long enough. The present value of your Social Security income will be worth the \$3,182,779 your private investment would have provided,

if you simply refuse to die until you are 125 years old. (This assumes that your annual Social Security income of \$91,453 grows at 3 percent a year—good luck—and you discount the future value of that income stream by 5 percent—ask your favorite finance professor why discount is necessary.)

So Social Security is right up there with conferences on global warming as a way of promoting long life. I'm certainly keeping myself in peak condition in anticipation of benefiting as long as possible from your Social Security contributions. I don't want to go face down in my oatmeal until you young folks retire.

Sincerely,

Dwight R. Lee

Ramsey Professor of Economics 