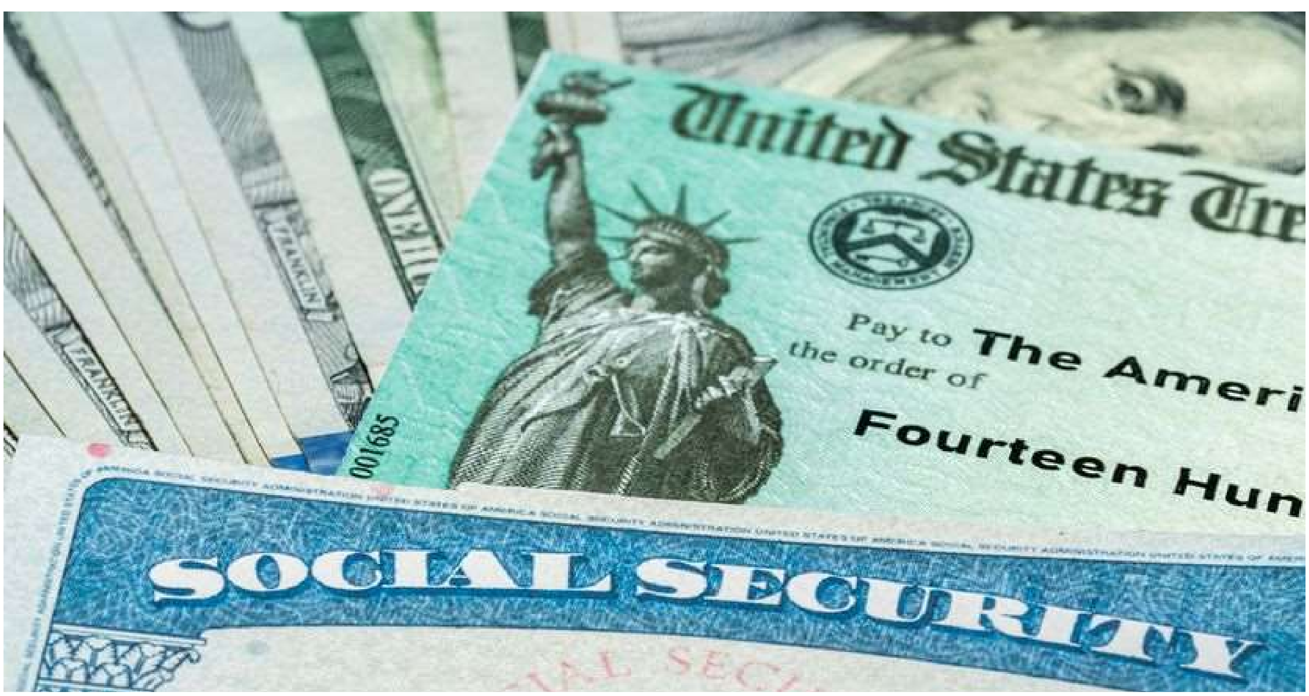
BUSINESS > PERSONAL FINANCE

Social Security has a money in, money out problem

Many people are surprised to learn that after decades of being cash positive, Social Security now depends on Treasury borrowing.



By Scott Burns
6:00 AM on Sep 26, 2021

The annual **report** from the trustees for Social Security was late this year. Usually released in the spring, it didn't arrive until Aug. 31. But then, COVID-19 notwithstanding, we got the good news.

COVID-19 hasn't brought the distant disaster for the program that much closer.

Now, the fiscal asteroid won't hit Planet Social Security until 2033. The $2.8 trillion Social Security trust fund will be depleted a year earlier than the last report. When that happens, benefits will have to be cut by 22%.

Don't worry, be happy!

negative since 2010. After decades of being cash positive, Social Security now depends on Treasury borrowing.

Surprised?

Most people are.

But this is not a new subject. It has been covered every year since 2003 in the annual report of the Medicare Trustees. That's where, in an **appendix**, it reveals the difference between trust accounting (which makes things look pretty good) and federal cash accounting (which shows where the rubber meets the road).

When you measure Social Security in terms of actual cash in and cash out, you can see why we need to be concerned. You can also see why Social Security will be a major problem well before 2033.

In this year's report, we can "follow the money" online by downloading **Table VI.G10**. It's a year-by-year history and projection of the cash flow of both Social Security (OASDI) and hospital insurance (HI).

So what's in Table VI.G10?

It compares the total "non-interest" income of Social Security with its total annual cost. Then it shows us the net surplus or deficit. "Non-interest income" includes our employment tax payments and the rapidly rising revenue from the taxation of benefits. It excludes interest on the holdings of the trust fund because they are book entries, not cash.

Benefits are paid with cash, not book entries.

Here's what we learn from the table:

Before 1984. Social Security operated at a nominal break-even in the good old days. It lost between $1 billion and $14 billion a year between 1973 and 1983. The growing losses led to a commission to propose reforms that would make the system solvent for at least 75 years.

Immediately after the reforms. With reforms passed, employment tax revenue increased, and the program started running a cash surplus. It was only $3 billion in 1984. It peaked at $90 billion in 2001 but continued positive until 2010. During that entire period, the surplus collected totaled $1,214 billion.

That cash made our friends in Congress feel rich. Republicans decided it was time to cut taxes. Democrats thought of new spending programs. The important thing is that it was $1,214 billion that didn't have to be borrowed in public markets. Politicians love to make it seem that money appears by magic.

The program ran a surplus from 1983 to 2009. All figures are in billions.

Year	Non-interest income	Cost	Balance
1984	$183	$180	$3
1985	$201	$191	$10
1986	$213	$202	$11
1987	$226	$209	$17
1988	$255	$223	$32
1989	$277	$236	$41
1990	$298	$253	$45
1991	$308	$274	$34
1992	$317	$292	$25
1993	$328	$309	$19
1994	$350	$323	$27
1995	$365	$340	$25
1996	$386	$354	$32
1997	$414	$369	$45
1998	$440	$382	$58
1999	$471	$393	$78
2000	$504	$414	$90
2001	$529	$439	$90
2002	$547	$462	$85
2003	$547	$479	$68
2004	$569	$502	$67
2005	$608	$530	$78
2006	$642	$555	$87
2007	$675	$595	$80
2008	$689	$625	$64
2009	$689	$686	$3
Total net			**$1,21**

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Since the 2008-09 financial crisis, Social Security has operated at a cash loss. It began with a $49 billion loss in 2010. It is expected to be $147 billion this

That's a lot of money, and every dime will need to be borrowed.

That's how the entire $2.8 trillion trust fund will disappear. Equally important, Social Security will have gone from being an $80 billion "cash cow" in 2007 to a $449 billion cash suck in 2033, with more to come.

But what about the trust fund?

Well, let's follow the money. When Social Security was in surplus, the excess cash went to the U.S. Treasury in exchange for interest-bearing, special Treasury notes. Those notes are what's in the trust fund.

Accumulating the interest on the notes, the surplus rose to about $2.8 trillion. The trust fund, however, is only an accounting artifact. It tells us how much the U.S. Treasury owes the trust fund.

What does that mean?

Simply this: When Social Security redeems its special Treasury notes for the cash needed to make benefit payments — as it will be doing in greater and greater amounts — the Treasury will have to borrow the cash in the public markets. It will be adding to the amount of money the Treasury already needs to borrow to cover the deficit from everything else. It's not a pretty picture.

Is there any relief from this gloom?

Only if you're into dark, hysterical humor.

There was a time, long ago, when the coming crisis for Social Security looked like a major matter.

But things change.

Don't worry. Be happy.

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