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Social Security and COVID-19

CNBC somewhat breathlessly reported yesterday that the Social Security trust fund will run out of money in 12 years, one year sooner than expected, according to an annual government report published Tuesday. This change, aggravated by the COVID-19 pandemic, may shrink retirement payments and increase health-care costs for older Americans. Should your blogger + partner (both of which in their early 70s) panic? What are the causes and what are the implications?

Social Security is a social contract under which the younger Americans take care of the older Americans. Retirees' Social Security benefits are paid for by those Americans who are working. A fund is built up over time, but the "viability" of the system depends on how much is coming into the system (from the workers), and how much is leaving the system (to the retirees).

COVID-19 has had some impacts. Since March 2020, lots of American workers did not work, and that had major impacts on the Social Security inflow; in short, it went down. Although the figures are not firm, it is also likely that at least some Americans, who might not otherwise have retired, have chosen to do so given the stress of working through a pandemic. So, the inflow decreased, and the outflow increased. Thinking of Social Security as a reservoir of water, there was less inflow, and more outflow. The reservoir level is going down, and this cannot continue indefinitely. Rather than the reservoir's going dry in thirteen years, it will only be twelve.

As was said above, Social Security is a social contract – neither YB nor anyone else has a Social Security "account." The elderly citizens depend on the youngsters to fund it, and the elderly VOTE. Politicians recognize this. It is not called the "third rail" of American politics (too dangerous to touch) for nothing. The Social Security system has run up against these kinds of problems before.

What will happen? First, as the economy improves (and assuming we don't have an indefinite number of COVID-19 variants), one can expect the inflows to increase again, and the outflows to decrease. Whether this will put another year back into the system is a question for actuaries to answer.

Second, if the fund continues to hemorrhage money, Congress will adjust the payouts. For example, at one time, Social Security income was untaxed. According to the Social Security (https://www.ssa.gov/history/InternetMyths2.html ) web site:

> The taxation of Social Security began in 1984 following passage of a set of Amendments in 1983, which were signed into law by President Reagan in April 1983. These amendments passed the Congress in 1983 on an overwhelmingly bi-partisan vote.

> The basic rule put in place was that up to 50% of Social Security benefits could be added to taxable income, if the taxpayer's total income exceeded certain thresholds.

Congress might also change the inflation indexing so as to adjust (i.e. reduce) outflow relative to inflow. Another visit to the Social Security web site indicates that prior to 1975, Social Security (OASDI) and Supplemental Security Income (SSI) benefit increases were determined only by periodic Congressional action. In other words, recipients had to depend on Congress for annual or periodic increases. The “right index” to use is an open and complex question, but modest tweaks to the index would serve to lengthen the amount of time until the system runs out of money. It has been done before, and it would likely occur again. Members of Congress cannot afford to have millions of angry elderly people voting again them if they let Social Security lapse … and they won’t.

A long-lasting pandemic could have longer-lasting impacts, and to the extent that COVID-19 has destroyed productive human capital, and potentially diverted resources into less productive investments, Social Security fund revenue growth rates may lag their previous potentials. Analysts should conduct such studies carefully. For now, however, while there has been a jolt, there is a recovery going on, and adjustments can be made to keep Social Security viable.

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