# Social Security Surpluses

BY GERALD HYDE, CMA, CPA

As a reader of Social Security Trustees Reports since the system's financial problems in the early 1980s, I have been concerned about conflicting communications through the years regarding Social Security. This article gives the information that has allowed me to reconcile reports from Washington with my background in benefits administration.

In 2004, workers paid $58 billion more into the Social Security trust than was paid out in benefits. This figure pertains to the Old-Age and Survivors Insurance (OASI) Trust Fund and equals the contributions less benefit payments as reported in Table II.B1 of *The 2005 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (OASDI)*.

The main question is simple: Is this surplus spent to pay general obligations of the federal government, or is it held in trust by Social Security for future benefits for those workers? The answer appears to be both.

The U.S. Treasury Financial Statement includes these receipts and surpluses as part of the revenues of the U.S. government, reducing the annual deficit and the national debt. (See www.fms.treas.gov/fr/04frusg/40frusg.pdf, *2004 Financial Statement of the United States Government*, for fiscal years ended Sept. 30, 2004, and 2003. These are a consolidation of all departments and include accrual statements of operations and net financial position, reconciliation to the cash budget, and a balance sheet.)

*The Trustees Report on Social Security* shows a $1.5 trillion surplus held in U.S. Treasury Bonds. These bonds can be redeemed when revenues don't meet the system's expenditures (see OASDI Table II.B1).

But are these surpluses general revenues of the U.S. government or restricted revenues that are held in trust by Social Security? They can't be both—unless we've just discovered the perpetual funding machine where revenues can be counted twice.

The actual payment mechanism is quite transparent. Social Security revenues are paid into the U.S. Treasury, which then issues restricted bonds to Social Security for surplus funds (after payments to recipients). The restricted bonds are held by So-

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cial Security as the primary asset of the system. The cash that's collected from Social Security is used by the U.S. Treasury to pay the obligations of the government, including Social Security payments. Treasury bonds are sold on the open market to fund the deficits.

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The current national debt of $7.7 trillion doesn't include the $1.5 trillion in bonds that have been issued to Social Security. The official U.S. Government Financial Statement also doesn't include a liability for estimated benefits already accrued under Social Security. This information is provided as supplementary information, but it isn't considered a liability of the government (see *2004 Financial Statement*, balance sheet, p. 64; stewardship information (unaudited) for Social Security, p. 68).

What supports this method of accounting for Social Security? In 1960, the Supreme Court ruled in *Flemming vs. Nestor* [363 U.S. 603 (1960)] that payments made to Social Security do not provide the payers with "accrued property rights." Those rights would deprive the system of the "flexibility and boldness in adjustment to ever-changing conditions which it demands, and which Congress probably had in mind when it expressly reserved the right to alter, amend, or repeal any provision of the act." Congress controls the program and can change it in response to changing needs. Therefore, current benefit estimates aren't liabilities, and the program is considered part of the government and not a separate trust agency.

Social Security's financial results, therefore, are consolidated with those of the rest of the government. Once the consolidation is completed, the Social Security Trust Fund disappears. The Social Security bond assets are eliminated against the corresponding bond liabilities on the Treasury books, leaving a net balance of zero. (For example, see *2004 Financial Statement*, p. 19, "Debt government owes itself is eliminated upon consolidation.") The resulting $7.7 trillion in reported national debt doesn't include the Social Security bond debt, so, for consistency, the Social Security Trustees shouldn't show the corresponding asset in their reports.

The $1.5 trillion in bonds are a claim on the U.S. Treasury, but Treasury doesn't have the cash to honor them. When Social Security cashes one of its restricted bonds, Treasury needs to issue a Treasury Bond on the open market to get the cash. This means that as soon as Social Security benefits exceed contributions in year 2018, Social Security will start contributing to the U.S. government national debt and not in year 2041, when the Trustees Report indicates a funding deficit. The projected high point for the Trust Fund is about $3.2 trillion. (OASDI Table II.D2 shows projections of the year that payments exceed contributions and the year that the Trust Fund is exhausted under intermediate assumptions. OASDI Table VI.F7 gives the total of the combined OASDI fund in 2015 under intermediate assumption as $3.2 trillion in constant dollars.) This "surplus" is the amount of Social Security debt that will be funded by the Treasury by 2041 when the Trust Fund is "officially" broke. Social Security surpluses are now a boon to the government, masking the size of both the current deficit and the national debt. In 2018, the boon will become a drag as Social Security will add to—*not reduce*—both the current deficit and the national debt.

Professional standards urge accountants to report the "substance" of transactions accurately, not according to their "form." It would seem, therefore, that the Social Security Trustees are doing a disservice to the country by including the $1.5 trillion in bonds as assets that can be spent before there is a funding deficit in Social Security. If they showed the above reality, their reports would communicate a greater sense of urgency for fixing Social Security by indicating that the funding crisis will begin in 2018 and not in 2041, as currently shown. ■

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