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Market Musings

A newsletter brought to you by Victoria Capital Management, Inc.

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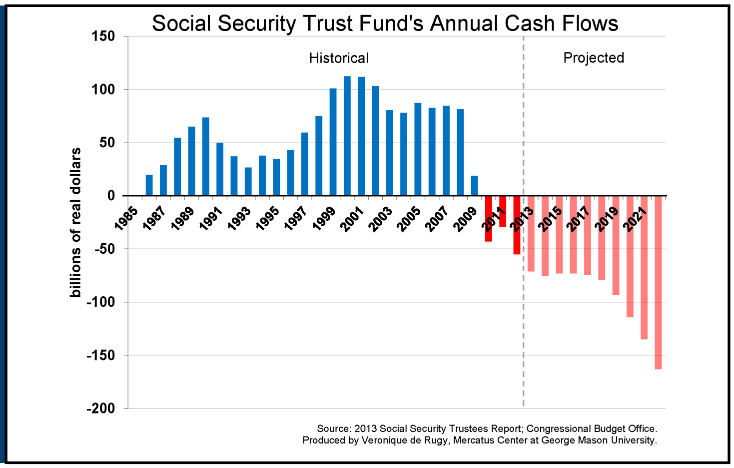
The chart to the right shows the historical and projected cash flows into the Social Security Trust Fund. Note that since 2010 there have been net outflows. These outflows are expected to increase for the foreseeable future. (source: Social Security Administration)



Is Social Security Going Bankrupt?

"The outlook for the combined OASDI trust funds is slightly improved from the 2018 report. The projected actuarial deficit for the combined trust funds over the next 75 years is 2.78 percent of taxable payroll, 0.06 percentage point lower than last year. As a share of the economy as measured by gross domestic product (GDP), the actuarial deficit over the next 75 years is projected to be 1.0 percent." Source: Social Security Administration

Periodically we get claims by both politicians and economists that Social Security "won't be there for our grandchildren." This claim is supported by recent actuarial calculations by the Social Security Administration as noted in the above quote and the chart. The pressure to either raise the retirement age for benefits or increase payroll taxes seems to be "solutions" to this growing problem.

The real problem facing the viability of the Social Security system is that the government requires, for individuals who have exceeded a certain age, to take a percentage of their savings in the form of a required minimum distribution (RMD) each year. The idea is to get that money out of the fund and into the hands of recipients where it is subject to ordinary income taxes for a second time. The first time around the government taxed workers' earnings that went into the trust fund. While beneficiaries can postpone distributions for a few years, they will have to take increased benefits at that time in retirement. As those distributions increase, they will further deplete the assets of the trust fund.

A similar required minimum distribution applies to private retirement plans giving the government additional tax revenues at the cost of depleting savers' retirement savings. While recent legislation has slightly extended the age at which retirees must take distributions, such an extension is more than offset by the new requirement that beneficiary IRAs must be completely distributed over a ten-year period versus the prior law that allowed that IRA to be distributed over the life expectancy of the beneficiary. For solvency of the system, eliminating the RMD could be the most efficient and acceptable way to restore the viability of the system.

"Don't tax you, don't tax me, tax the man behind the tree."

Russell B. Long

Market Commentary:

Equity markets around the world surged to record highs during the month of December shaking off the negative prospects of an ongoing tariff war as the U.S. and China entered into a Part 1 trade agreement. One piece of good news is many countries began using fiscal policy stimulus through planned and actual tax rate reductions. Pessimists quickly jump on the fact that the equity markets are high by historical standards and that the rally is old. While technically correct, this stock market run since the first quarter of 2009 has been fueled by low inflation, low unemployment, rising wages and strong corporate profit growth. Let's remember that investors sold equity mutual funds and exchange-traded funds at a record pace in 2019. Buyers could be attracted to a stock market advance that doesn't give up—maybe because corporate America will continue to buy back stock.

The U.S. spends 18% of its $21.5 trillion GDP on health care expenditures, more than double the 8.6% of GDP spent by 35 other major economies.

(source: OECD)