Is Social Security Secure for You?

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Recently, President Trump proposed that all Social Security benefits be exempt from income taxes, making Social Security like a Roth IRA in the sense that contributions to Social Security are made with after-tax dollars. Why does the government insist on taxing some of your Social Security benefits even though they were funded with after-tax dollars? In essence, that is double taxation!

President Trump's proposal to eliminate this double taxation makes sense, but there is resistance to such an idea. The opposition comes from fearmongers who claim that the shortfall in tax revenues will cause the Social Security Trust Fund to run out of money, which the AARP projects to occur around 2035. The threat is that the trustees of the System must reduce current or future benefits by about 17%! The government has collected payments from current workers to fund retirees' benefits since the Social Security system was founded in the 1930s. The investment of those funds has been limited to government securities, an asset that does not have a rate of return sufficient to fund future payouts. Current and future beneficiaries could be treated unfairly if the government tells us that they will not live up to the promises that created the system. Don't believe it; such an outcome is unlikely; the promises will be kept even if a re-elected President Trump fulfills his promise to eliminate taxes on Social Security.

The naysayers ask: Well, where will the money come from? For one, the government engages in massive payments to foreign governments, also known as "foreign aid." Should Americans who paid into Social Security for their lifetimes be subject to being a second-class citizen subject to payments to foreign governments that don't even like us? Second, President Trump asked Elon Musk to head up an efficiency committee to reduce government waste. There is another source of billions of dollars.

Most Americans who receive Social Security payments are not freeloaders; they have paid into the system for decades, and those contributions were not invested according to investment principles that govern private retirement funds. For investment advisors subject to the government fiduciary duty rules, the investments in a private retirement account must be commensurate with the expected returns and risks. The investment mix can be heavily weighted toward stocks for younger investors who are saving for retirement. If the government were required to invest those funds according to fiduciary principles, the Trust fund growth would likely provide investors with more money for distributions. History tells us that long-term investments in the stock market have been much more rewarding than the returns from an all government bond portfolio.