



The Muhlenkamp Memorandum

Muhlenkamp & Company, Inc.
Intelligent Investment Management
 12300 Perry Highway © Wexford, PA 15090
 (412) 935-5520 © FAX (412) 935-4720
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Social Security By The Numbers (Continued)

fact is that the Social Security Trust Fund has never had a significant amount of money in it. Social Security, like most federal tax and benefit programs, has always been "pay as you go." In the 1950's, there were over 10 workers per retiree. A retiree could get (and got) ten times what a worker contributed in a given year. Today, there are roughly three workers per retiree, which is why each retiree can receive up to three times what each worker pays. In twenty years, the ratio will be 2 to 1, so retirees will be able to get the promised benefits only if each of their children are willing to pay half. This is why 47 percent of Americans recently surveyed doubted that Social Security will be there to pay benefits when they retire. This is also why Social Security taxes (only politicians call them contributions) have increased dramatically in recent years (see table).

Today, for the first time, these higher taxes have begun to build a sizable balance in the "Trust Fund." Because the law states it must be invested in Treasury Bonds, the Fund has become a source of political rhetoric. Here's why: The Treasury borrows money (issues bonds) to pay the expenses of the federal government. It does so because the government spends more than it collects in taxes. Any buyer of Treasury bonds (including the Social Security Trust Fund) is, therefore, loaning money to the federal government to finance the deficit. As the federal accounts are currently kept, increases in the Social Security Trust Fund are netted against the federal deficit, making it look smaller. The late Senator Heinz of Pennsylvania introduced a bill to require the government to report the two items separately. This would have increased the (reported) deficit and imposed further spending discipline on Congress. Senator Moynihan's 1989 proposal to cut Social Security taxes would have had the same effect.

Any mention of changing Social Security always gets the public's attention. Each Senator's proposal would have required raising income taxes by an amount equal to the decline in Social Security taxes to avoid further increases in the reported deficit. The hypocrisy of it all is that our politicians speak of Social Security as if it were an insurance plan while continuing to operate it as just another program of taxing one person to benefit another. They will continue to do so as long as we let them.

Table 1

<u>YEAR</u>	<u>TAX</u> <u>(\$)</u>	<u>TAX</u> <u>(\$ 1992)</u>	<u>YEAR</u>	<u>TAX</u> <u>(\$)</u>	<u>TAX</u> <u>(\$ 1992)</u>	<u>YEAR</u>	<u>TAX</u> <u>(\$)</u>	<u>TAX</u> <u>(\$ 1992)</u>
Age 10								
1937	30	291	1957	95	466	1977	965	2213
1938	30	295	1958	95	454	1978	1071	2280
1939	30	300	1959	120	571	1979	1404	2686
1940	30	297	1960	144	675	1980	1588	2676
1941	30	283	1961	144	669	1981	1975	3018
1942	30	256	1962	150	689	1982	2171	3123
1943	30	240	1963	174	790	1983	2392	3335
1944	30	237	1964	174	779	1984	2533	3383
1945	30	231	1965	174	766	1985	2792	3599
1946	30	214	1966	277	1186	1986	3003	3799
1947	30	187	1967	290	1208	1987	3132	3821
1948	30	173	1968	343	1370	1988	3380	3961
1949	30	174	1969	374	1418	1989	3605	4031
1950	45	259	1970	374	1340	1990	3924	4175
1951	54	289	1971	406	1391	1991	4085	4165
1952	54	283	1972	468	1553	1992	4246	4246
1953	54	281	1973	632	1975			
1954	72	372	1974	772	2175	TOTAL	\$50529	\$83832

Maximum Social Security benefit received in 1992

Individual: \$13,536

Married couple with one non working spouse: \$20,305

Note: When both spouses work, the lower income spouse receives the greater of individual benefits, or non-working spouse benefits.

1955	84	436	1975	825	2129		X 2
1956	84	429	1976	895	2186	TOTAL TAX	\$167,664
							<i>(Including employer)</i>

Do you wonder why bank certificate of deposits are offering low rates today, or what effect you have on the saving public when you refinance you mortgage at a lower interest rate? Have you ever wondered about the relationship between interest rates and stock prices? If you are interested in learning how current market forces and trends affect your life and how to make these forces work to your benefit, attend our seminar at the Sheraton/Warrendale on November 11th.

For reservations, call us at (412)-935-5520.