

ST. LOUIS POST-DISPATCH

Social Security Sets the Stage for Generational Warfare

By Thomas Grady

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Aside from the politicians, there are two groups involved in the Social Security dilemma and its solution: baby boomers and their kids. The dilemma is very clear -- the program is running out of money. The Social Security trustees' report tells us that, if nothing is done to fix the deficit, negative cash flow will commence in 2017, and all the money will be gone in 2040.

At this moment, each of the two groups is a contributor. But five years from now, in 2011, the boomer vanguard, born in 1946, will stop contributing and start siphoning. The rest of the boomers will gradually pile into the program until 2029. Slowly but surely, 76 million contributors will switch to benefactors. This financial weight will be unbearable on an economy under the management of the boomers' kids.

Here are some basics: let's say that if a boomer's average salary the year before retirement is \$75,000, he and his employer will pay into the pot roughly \$11,500. When the boomer retires the very next year, that contribution ceases. The boomer suddenly "flips" his role and starts hauling out of the pot, on average, \$17,000 per year. (Currently, the average is \$12,000, but that will increase dramatically because most boomers have been in the system all their working lives, and their salaries were much higher than those at the \$12,000 level.) Starting in 2011, this

flip will happen roughly 4.2 million times every year for 18 years. This is ballpark math, but you get the idea.

We all balance our household bank book, so we know somebody will have to make up the \$5,500 (\$17,000 minus \$11,500) difference for each of the 76 million retiring boomers. And that somebody is one of our two groups: the boomers or their kids. If we, and by extension our politicians, aren't careful about who that somebody is and how it's done, generational friction will certainly ensue.

There are some scenarios now on the political table that would either diminish the potential battle or throw it into full engagement.

Scenario 1: In 1935, when Franklin D. Roosevelt signed Social Security into law, the life expectancy of a 65-year-old was 12.5 years. Today it is 17.5 years. That means if the act were signed into law today, retirement age for gaining benefits would be 70, not 65.

Boomers should keep this in mind when they're asked by politicians to increase the age of retirement benefits to something higher than 65. And don't be surprised to see that retirement age pegged to future life expectancy rates. Doing so will help heal the system, but is a bite-the-bullet scenario.

Scenario 2: At age 65, should Bill Gates demand his Social Security payment? Sure, he paid into the system, but because the money he paid in is long gone, an affirmative answer is questionable. If the system is unchanged, he will get his payment. But does he need it? Because the payment he would receive would come indirectly from his kids' wallet, he might reconsider his demands.

Such a reconsideration is the core merit of a concept called "means-testing." Means-testing will determine which boomers really need the benefit to live on. Those who don't, like Bill Gates, won't receive payments. Boomers who reject means-testing as unfair are, by default, in favor of taxing their own kids. This scenario is another bite-the-bullet one for many boomers.

Scenario 3: Boomers taxing their kids brings us to the final possibility. At this moment a 15.3 percent payroll withholding tax is sent to Washington to fund Social Security. One-half of that comes from the

employer and the other half from the employee. According to the Social Security Administration, that tax must increase to almost 16.7 percent in order to merely keep pace with payments to boomers. No build-up of reserve is being done here, just money going into the system and right back out.

A 1.4 percentage point increase seems like a small number. But, if put into effect, it represents a massive tax burden on the economy over the next 22 years. The first year's extra tab would be \$54 billion. In the 22nd year, the additional taxes would be more than \$1 trillion. For the entire 22-year period, extra taxes taken from the economy would be -- get ready -- almost \$1.7 quadrillion (or \$1,700 trillion).

Because boomers' kids neither created the Social Security problem nor let it fester for more than 40 years, the problem is potentially one of generational warfare. And boomers' kids would hold the moral high ground by reminding their boomer parents about being taught to take responsibility for one's own mistakes.

But you think Americans have it bad? Next week we'll take a look at Europe's social welfare programs.

Top of page

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