

# PERSONALLY SPEAKING

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## IS SOCIAL SECURITY A PONZI SCHEME?

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By slamming Social Security as a Ponzi scheme, Texas Governor Rick Perry has brushed against the third-rail of American politics. Will his presidential campaign survive this high-voltage shock or succumb? More to the point, is Perry right or is he engaged in dangerous political rhetoric?

The Securities and Exchange Commission defines a Ponzi scheme as follows:

*... an investment fraud that involves payments of purported returns to existing investors from funds contributed by new investors. Ponzi scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk. In many Ponzi schemes, the fraudsters focus on attracting new money to make promised payments to earlier-stage investors and to use for personal expenses, instead of engaging in any legitimate investment activity.*

How does Social Security compare to a Ponzi scheme as identified by the SEC?

**Ponzi Scheme:** High investment returns with little or no risk; positive returns regardless of market conditions.

**Social Security:** High, low, or no returns depending on age at time of death and amount deducted for Medicare premium (net return = zero when Medicare premium > monthly retirement benefit).

**Ponzi Scheme:** Unregistered investments.

**Social Security:** Surplus monies in trust fund invested in "special-issue" Treasuries.

**Ponzi Scheme:** Unlicensed sellers.

**Social Security:** Participation mandated by Social Security Act.

**Ponzi Scheme:** Secretive/complex investment strategies.

**Social Security:** Quiet/simple investment strategy.

**Ponzi Scheme:** Paperwork issues.

**Social Security:** Trustees prepare annual report.

**Ponzi Scheme:** Difficulty receiving payments.

**Social Security:** *Payment difficulty occurs when government shuts down or trust fund monies are insufficient to pay benefits promised.*

**Social Security is no more a Ponzi scheme than a Chihuahua is a Great Dane. A Ponzi scheme is a private financial enterprise. Social Security is a public retirement program. Participation in a Ponzi scheme is voluntary. Participation in Social Security is mandated. A Ponzi scheme recruits both persons and organizations to participate. Social Security enrolls only persons. A Ponzi scheme provides no backstop in the event of failure. Social Security is backed by the full faith and credit of the federal government. A Ponzi scheme is illegal with the schemers subject to fine and imprisonment. Social Security is legally grounded in the Social Security Act of 1935. Ponzi schemes come and go. Social Security has worked for more than 75 years.**

**However, just as a Chihuahua and a Great Dane are alike in that both are canines, Social Security and a Ponzi scheme are alike in several significant ways. Both set up a system of individual accounts. Both establish an earmarked fund for monies received and payments made. Both make promises that are difficult to keep. Both recruit in order to survive. A Ponzi scheme recruits by promising very attractive returns. Social Security recruits by mandating that virtually all private sector workers and employers participate.**

**Both deny participants any role in investment strategizing. A Ponzi scheme operates in secret lest investors discover that their monies are not being invested but are being siphoned off to support the lavish life styles of the principals behind the scheme. Social Security quietly invests surplus funds in “special-issue” Treasuries that are not marketable to the public and are used to manage a federal budget deficit brought on by a federal government that is living beyond its means.**

**Both operate on a pay-as-you-go basis. A Ponzi scheme makes payments to existing investors by recruiting new investors. Social Security makes payments to retired workers from the contributions made by and for the current generation of workers.**

**Both are unsustainable and fail under the same set of circumstances. A Ponzi scheme fails when the monies gotten from new investors are insufficient to pay what has been promised to existing investors. Social Security fails when the contributions by and for the current generation of workers are insufficient to pay the benefits promised to the current generation of retired workers.**

**Is Governor Perry right? Is Social Security a Ponzi scheme? Yes, if you judge the two as essentially alike especially with regard to sustainability and the risk of failure. No, if you consider their sustainability and risk of failure as fundamentally different.**

**However one answers that question, Perry is helping elevate the issue of Social Security’s sustainability and risk of failure in the public discourse. For too many years, Congress and the president have avoided addressing the inherent weaknesses of Social Security for fear of offending elderly voters and being turned out of office. By the trustees’ own best estimates, left unattended Social Security will fail, will not be able to keep its promises, in roughly 25 years.**

**And if indeed failure comes, it won't matter whether it's called a Ponzi scheme or just another broken government program.**

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