What Is Social Security (for People Under 50 Only)?

Richard B. Swint, M.D.

A cartoon showed two characters discussing the lottery.
"Why do they call it gaming?" asked one.
"Because there is no gamble for the other party," responded the other.

Fifteen years ago, I wrote to the U.S. Postal Service inquiring about a federal law prohibiting the use of the U.S. mail in pyramid games and lotteries.

Abstracting the reply:

"An endless chain is a scheme whereby a participant pays a valuable consideration for a chance to receive compensation for introducing one or more additional persons into participation in the scheme….

"The basic fraud underlying a typical pyramid scheme is that every participant cannot recruit enough other people to recoup his or her investment, much less make a profit, since the pool of participants is soon exhausted. As an example, many promotions use the example of 'multiplication by fours.' That is, the participant needs only to recruit four new dealers to recoup his investment (and then can begin to receive overrides as his recruits begin to recruit others) and allegedly can do so in a week or two, and those four need only recruit four more dealers each the next week, who, in turn, recruit four more dealers each the following week, and so on. A simple exercise on a pocket calculator will show that assuming that every man, woman, and child in the United States (in other words the pool of available participants) can afford and is willing to become a participant, in the 14th week there will be 67,108,864 [4^{13}] investors recruited and 89,534,485 total participants. Assuming the population of the United States is 220 million, then all of the new recruits from the 14th level (67,108,864) will not be able to recoup their investment, because if there are 89,534,485 participants out of a total pool of 220 million, then only 130,465,515 potential participants remain. In order for the new recruits on the 14th level to just recoup their investment (and not make any profits from any overrides), they would be required to recruit 268,435,456 additional people (67,108,864 times 4 recruits each) which exceeds the pool by 137,969,941 people. Therefore, *the participants as a class must lose.* If the chain is broken at an earlier point, as it will be because not everyone in the United States can afford or even wants to be involved, then the percentage of those who cannot recoup their investment becomes even greater….

"If an investor is induced to invest because he believes he only has to find four new investors to break even, then begin to profit, then he has acted on a false representation because he has no way of knowing how many people have been recruited and how many remain to be recruited. Therefore, he cannot make a knowledgeable decision….

"The probability that any one investor or participant can recruit the next participant depends on the current size of the pyramid and DECREASES as the pyramid grows….

"A person who participates in a pyramid scheme and is 'lucky' enough to get in early enough to make a profit is only perpetuating the pyramid and is, therefore, helping to defraud other investors…, who will lose their total investment…."[1]

These laws are delineated in Title 18, United States Code, Section 1341, Frauds and Swindles, and Title 18, United States Code, Section 1302, Mailing Lottery Tickets or Related Matter, and Title 39, United States Code, Section 3005, False Representation and Lotteries.

Lotteries depend on a large group of people losing all of their money, and pyramid games are dependent on people continuing to pay into the game until the game collapses.

Interestingly, in these laws, a significant provision is that lotteries conducted by states are legal and not subject to fine, imprisonment, or punishment. Government is shielded from prosecution for actions that would send ordinary citizens to prison.

What about the Social Security scheme? It differs from a pyramid scheme in important respects, most importantly in that Social Security is involuntary. Everyone with income from employment must "contribute."

The scheme was sold as (and is generally believed by retirees to be) a savings or investment plan, under which the government will distribute the principal and earnings to the "investors" after they retire. This fiction is reinforced by periodic statements about "contributions" and expected returns, which are partly based on contributions, and political statements about a "trust fund" or "the lockbox."

In fact, money paid into Social Security is not deposited into a personal account, and unlike a true pension plan is unfunded. Like in a pyramid scheme, all the distributions come from new "investors." The early participants received much more than they put in. Initially, in 1940, the ratio of "covered workers" to beneficiaries was 159:1. By 1945, it had fallen to 42:1. Since 1965, it has been less than 4:1, and in 2010 fell to 2.9:1.[2] For decades, there was a surplus of revenue over distributions, but this was immediately spent on other government programs, and the "trust fund" was credited for funds that constitute a liability for the U.S. Treasury. Thus, all distributions come out of current contributions either from covered workers and, if that is insufficient, from other taxpayers.

Social Security as designed is unsustainable. It depends on early death of beneficiaries who will lose virtually all their money, like most participants in a lottery. Like a pyramid scheme, it requires constant growth of the working population. Increased longevity and lower post-Baby Boom birthrates are narrowing the base of the age pyramid, spelling an earlier end to Social Security than was anticipated. But like a pyramid scheme, it would inevitably run out of enough new "investors," as it is impossible for any population to increase without limit.

In addition to the aging population, more working-age Americans are dropping out of the labor force. The U.S. now has 90.6 million "non-institutionalized" men and women over age 16 who are not working, with total employment at 144.3 million.[3]

Workers are hoping (but are not guaranteed even a penny) that successive generations of people will pay more money into a big fund, and that the money is not spent by politicians, so that they will receive a prize of money upon retirement.

What should working people call Social Security? A gamble? Gaming? A swindle? Will they continue to participate if they can avoid it? What does it mean for past "investors" dependent on continued payouts? For similar schemes, Charles Ponzi and Bernard Madoff went to prison.

But remember, governments that run a lottery are immune from punishment under the law.

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Healthcare Is Not an Insurable Risk

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When the U.S Supreme Court noted in *National Federation of Independent Business v. Sebelius* that virtually everyone would at some point use healthcare, it essentially admitted that healthcare is not an insurable risk because insurable risks are random and infrequent.

If one demands that the free market deliver health insurance for all, then it must fail because the demand is impossible to meet. The government cannot do the impossible either. What it calls national health insurance, or universal healthcare, is not actually insurance, but a socialist scheme to redistribute wealth.

What Is an Insurable Risk?

Insurable risks involve a pure loss. Unlike a speculative risk, an insurable risk is not offset by potential gains. The loss must be determinable and measurable. For example, loss of life (death) or a fire either occurs, or it does not occur. The loss must be accidental or random and unintentional. Those who engage in dangerous activities assiduously try to avoid deadly accidents, preserving an acceptable degree of randomness. Suicide (intentional death) is excluded in many life insurance contracts, and arson of course is excluded in fire insurance contracts. Catastrophic losses are also uninsurable; these would include war and "acts of God."

The loss to be indemnified in casualty insurance is specified in the contract. A value is set on the loss of a key person such as a breadwinner. The replacement cost of a house or car is specified. In case of high-frequency losses, economic feasibility applies. To insure the life of a 99-year-old man would require premiums, including reserve provisions and administration costs, greater than the benefits. When the chance of loss exceeds about 40 percent, the expense generally exceeds the indemnification.[1]

Why Healthcare Costs Are Not Insurable

People want good medical care because they want good health, a condition that is never completely achieved but can be improved with diminishing returns by increasing medical care. Can one calculate the risk of loss and hence the premiums?

Life tables over a century of a population history fail to reveal the underlying heterogeneity that causes individual deaths to depart from the statistics of the whole population. Insurance companies seek to adjust for some of these individual variations through medical examinations and histories that can lead to changes in premiums or even refusal to insure.

But consider the "cost of medical care." The heterogeneity