The Illusion of Printing Retirement

In 1934, as the effects of the great depression began to settle into America’s bones, cartoons from the newspapers provided, for most, the only levity of the day and none more aptly, poignantly or perhaps ironically than *Popeye*. Created by E.C. Segar, *Popeye* was introduced to most baby boomers by their fathers.

The catchphrase of *Popeye’s* favorite pal, Wimpy, became something of a depression slogan and the rallying cry of depression era Hoover-ites unhappy with FDR’s New Deal economics: “I will gladly pay you Tuesday for a hamburger today.”

But, of course, on Tuesday Wimpy would try to re-negotiate the deal.

We have seen several updates to Wimpy’s philosophy over the years. Lady Thatcher, then Prime Minister of the United Kingdom, famously said of entitlements that, “sooner or later you run out of other peoples’ money.”

Nearly twenty-two years ago, President Bill Clinton joined forces with Speaker Newt Gingrich to “end welfare as we know it,” by which they meant shrinking the welfare state to ensure they had enough of other peoples’ money to meet current public promises.

For today’s readers, if this seems foreign to you it’s because government no longer burdens itself with the responsibility of checking to see if they have the money to fulfill their promises. And, perhaps, they don’t have to.

Daniel Amerman, in a six-part article, explains that current retirees receiving Social Security benefits, net of Medicare premiums, experience an erosion of purchasing power every year that Medicare costs increase faster than social security cost-of-living adjustments. Additionally, because inflation is measured at one point in the year and social security benefits begin every day of the year, no one receives 100% of their benefit, merely some portion of it given that purchasing power starts eroding the minute eligibility kicks in.

No one is angrier than people at the end of their lives who may have seen as much as half of their social security benefit’s purchasing power eroded by Medicare inflation adjustments. What Amerman suggests, however, is that were young people to appreciate how little their benefit will be when it’s their turn to retire, there would be rioting in the streets.

Just a 2% inflation rate means your annual social security benefit runs out December 24th. If Medicare went up just 3% your social security benefits further erode to just 79% of their original purchasing power. This is retirement today.

Now we get to the question often posed by progressives, “how about printing more money to cover these obligations?” Well.

Inflating the currency means eroding its value. Debtors will love you; creditors – not so much. Channeling Amerman, retirees will hate you even more and here’s why:

Medical Inflation, which generally determines the greatest proportion of Medicare inflation adjustments, tends to rise faster than what most Americans’ simplistically call the inflation rate. Passage of the Tax bill means substitution of a family of inflation indices called the Consumer Price Index (CPI) with what’s called Chained CPI, and this will exacerbate the trend.

The difference, essentially, is that chained CPI has a more dynamic consumer behavior component, weighting consumer purchasing patterns based on cost, where regular CPI assumes prices don’t effect a consumer’s spending patterns at all. The Bureau of Labor Statistics (BLS) suggests that the switch means inflation adjustments based on chained CPI cost-of-living calculations result in between 0.2% and 0.3% lower net entitlement payments than if regular CPI factors had been used.

This doesn’t sound like a lot but add the steady march of time as a variable and the true horror becomes clear. From the AARP, with respect to veterans:

*“A severely disabled, unmarried veteran who claims Veterans Disability Compensation (VDC) benefits at age 30 in 2013 would be entitled to benefits of about $2,816 per month, or $33,792 per year. This veteran would experience benefit cuts (in real terms) of $121 per month by age 45 (a cut of 4.3% compared to current law), $274 per month by age 65 (a 9.7% cut), and $418 per month by age 85 (a cut of 14.8%). The cumulative cut to this veteran’s benefits would be $60,121 by age 65 and $144,189 by age 85.9.”*

You could assuage your guilty conscience about eviscerating a veteran’s benefit by trying to convince yourself that there’s not many Americans in this position but after 16 years of war in Iraq and Afghanistan, there are many more than you think. About 2.7 million Americans have deployed since 2001 and almost 1 million have an officially recognized disability, according to the Department of Veterans Affairs.

For regular Americans, the point of studying veterans’ benefits under CPI is to understand how social security payments will be similarly eroded. And that takes us back to Amerman’s original, depressing hypothesis: If chained CPI erodes social security, and Medicare becomes even more costly as medical inflation rises, there should be a day which arrives earlier and earlier every year, when your annual social security benefit runs out.

Will it be in December? Thanksgiving?

No one knows. But we do know there are only so many financial life-rafts available to combat the twin threats of lower-than-expected COLA adjustments and higher-than-expected real inflation rates: tax free savings plans of which only Health Savings Accounts (HSAs) affords any real hope. A major medical plan that allows savings to be deducted from income, allows investment build up tax-free while you work and allows distributions tax free for medical expenses is the last hope for Americans who have been over-promised financial security in exchange for votes by a political class that already has it.