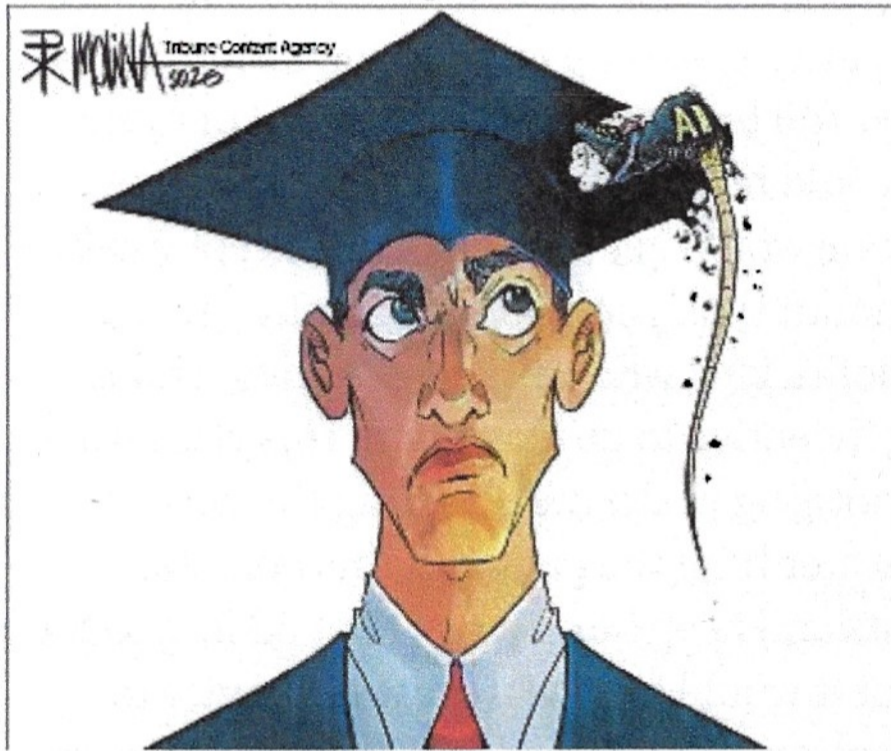


# Social Security insolvency is here

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Politicians from both parties have been able to avoid Social Security's impending insolvency for decades because bankruptcy was still years away. It was a little over the horizon, and for our irresponsible politicians, out of sight has been out of mind. But according to the latest Social Security trustees report this week, bankruptcy is upon us now. The Social Security trust fund is estimated to run out of money in 2032. That means whoever wins the next presidential election in 2028 will have no choice but to confront Social Security in the final year of a first term. Whoever is in office then will have surprising flexibility in deciding what happens next.



First passed in 1935, Social Security did not begin collecting taxes until 1937 and didn't pay out any benefits until 1940. Payments into the system far outstripped benefits paid out in the early years, and Congress created the Old Age and Survivors Trust Fund in 1939 to manage excess funds.

As originally sold to voters, Social Security was supposed to be self-financing. But starting with President Harry S. Truman in 1950, presidents from both parties pandered to elderly voters by boosting benefits. Stagflation sent the trust fund to the brink of bankruptcy in the 1970s, and Congress responded by raising payroll taxes and cutting benefits in 1977.

Those fixes bought only five years' relief, and in 1982, the trust fund was bankrupt again. Congress did not act proactively, and the Reagan administration, with permission from Congress, was forced to borrow funds from the Medicare and Disability trust funds to meet Social Security obligations. Finally, a second bipartisan agreement was reached in 1983, again raising taxes and cutting benefits. This kept revenues higher than benefits for almost 30 years.

When the 1983 reforms were passed, however, the birthrate had hovered around replacement level (70 births per 1,000 women of childbearing age per year) for more than a decade. That rate began declining in the mid-1990s and has never recovered. There are now far fewer workers supporting far more retirees than demographers predicted in 1983. As a result, in 2010, the Social Security system began paying out more in benefits than it took in in taxes.

During the time, now long ago, that Social Security took in more revenue than it paid out, the surplus was put into the Social Security trust fund. This, however, was an accounting fiction. The fund is filled with IOUs. You can drive out to Parkersburg, W.Va., and see \$3 trillion in these nonmarketable, special-issue Treasury bonds, but they are worthless. The only entity that will honor the special-issue bonds is the Treasury, and to do that, the Treasury must borrow. It means that since 2010, when Social Security began paying out more than it took in, Social Security has been adding to the national deficit every year. It has indeed been a main driver of our debt.

But while the Social Security trust fund is an accounting fiction, it contains a real legal trigger when it runs out, which is now due to happen in 2032. By law, when the fund hits zero, the federal government will no longer be authorized to meet all its Social Security obligations, and, according to the trustees, total benefits will have to be cut by 22%.

Some people claim that if the trust fund runs out, all Social Security beneficiaries will receive an identical 22% reduction in their benefits. This is a possibility, but it is not mandated by law. The more worrying reality is that federal law is silent on how Social Security spending cuts should be implemented. Whoever is president at the time could pay everyone their full benefits, but late. Instead of receiving a full check on the same day every month, beneficiaries could receive one every five weeks. Another option could be capping the maximum benefit so that everyone would get paid on time, except wealthier retirees who might receive a check for a much smaller amount than they were originally getting. That last option, one suspects, would be the most likely for politicians who demagogue envy. Those who receive benefits in full and on time would have a strong incentive to go along with this class warfare. But all of these options would be legal because there is nothing in statute directing the government on how payments should be made if what is owed is greater than the payments authorized. One easy out for Congress would be to authorize the payments and keep borrowing, thus adding to the debt every year. This would be the path of least resistance, but it would also be a great disservice to younger people, putting them in deeper debt and stoking inflation and interest rates. It would also create systemic risks for everyone in the form of possible default and economic collapse.

The performance of our past two presidents is not encouraging. Both have added to Social Security's financial insolvency rather than fixing it. President Joe Biden expanded benefits to certain government workers who did not pay into the system. President Donald Trump cut taxes paid on Social Security benefits. The trust fund's impending insolvency will now come about two years sooner due to the combined effect of these changes.

This means that whoever is elected president in 2028 will be forced to address the crisis in 2032, the fourth and final year of their first term. One hopes that there will be at least one candidate who tackles Social Security financial imbalance as not just a problem to be solved, but an opportunity to return our nation's financial future to a path of stability that also addresses the underlying problem of our rapidly declining ability to reproduce. WASHINGTON EXAMINER

NATIONAL EDITORIAL

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