TO: Senators, Senate Budget Committee
FR: Chairman Johnson
DT: November 17, 2026
RE: Chairman's Hearing Memo "Social Security: The Reality… a Legal Ponzi Scheme"

The Social Security Act of 1935 was signed into law by President Roosevelt providing "Federal old-age benefits" to qualified workers who reached the age of 65. At the time, life expectancy was 62.[1] FICA tax of 1% was first deducted and collected from workers' paychecks in 1937. The first monthly benefits were paid in 1940.[2]

In 1939, the Social Security Amendments added benefits for dependents of retired workers and survivors of deceased workers. The program became known as Old-Age and Survivors Insurance (OASI). The OASI Trust Fund was established in 1937. The Social Security Amendments of 1956 added Disability Insurance benefits for permanently and totally disabled workers aged 50-64. The program was then renamed Old-Age, Survivors, and Disability Insurance (OASDI).

The history and name of the program are important because they specifically describe what the original program was designed for, and by default, what it was not designed to do. It was insurance. It was not a fully funded investment and retirement plan. It provided insurance in the event a worker outlived his or her life expectancy of 62 by three years and attained the age of retirement of 65. Only then did it pay an Old-Age benefit. Disability insurance was added in 1957.

For most of its existence, the program collected more in FICA tax revenue than it paid in benefits. That surplus was never invested in an asset that had value outside the federal government. Instead, the surplus was spent along with other tax revenue coming into the general fund, and special issue Treasury Bonds were placed in a four-drawer file in Parkersburg, West Virginia — the Social Security Trust Fund.



To an outside investor those bonds would have value. To the U.S. Government, they are simply an intergovernmental bookkeeping entry with no real value. In 1999, President Bill Clinton's Office of Management and Budget wrote this about the Social Security Trust Fund:

"Balances are available to finance future benefit payments and other trust fund expenditures—but only in a bookkeeping sense. … They do not consist of real economic assets that can be drawn down in the future to fund benefits."[3]

Unfortunately, politicians from both parties — either from their own ignorance or willful deception — have misled the American public for decades by promoting the fiction that their entire payroll deduction for Social Security was being invested in a real asset (often using the term "lockbox") to earn compound interest yielding an adequate amount for retirement. Nothing could be further from the truth.

Most Americans believe their FICA payroll taxes are comparable to contributions to a 401(k) or private pension plan. To prove how wrong this assumption is, consider what happens in the case of the untimely death of a worker with no spouse or dependents. If that worker has a 401(k) plan, whatever balance remains can be willed to a beneficiary. In the case of Social Security, nothing can be bequeathed.

Because the Social Security portion of the FICA tax is quite high (currently 12.4%), too many Americans also think their contributions should provide for a comfortable retirement, and accordingly do not save additional and sufficient amounts in a 401(k) or private pension plan. They are then surprised at the inadequate amount Social Security actually pays, creating enormous pressure on the political process to increase benefits. Politicians have responded to that pressure and exacerbated the problem.

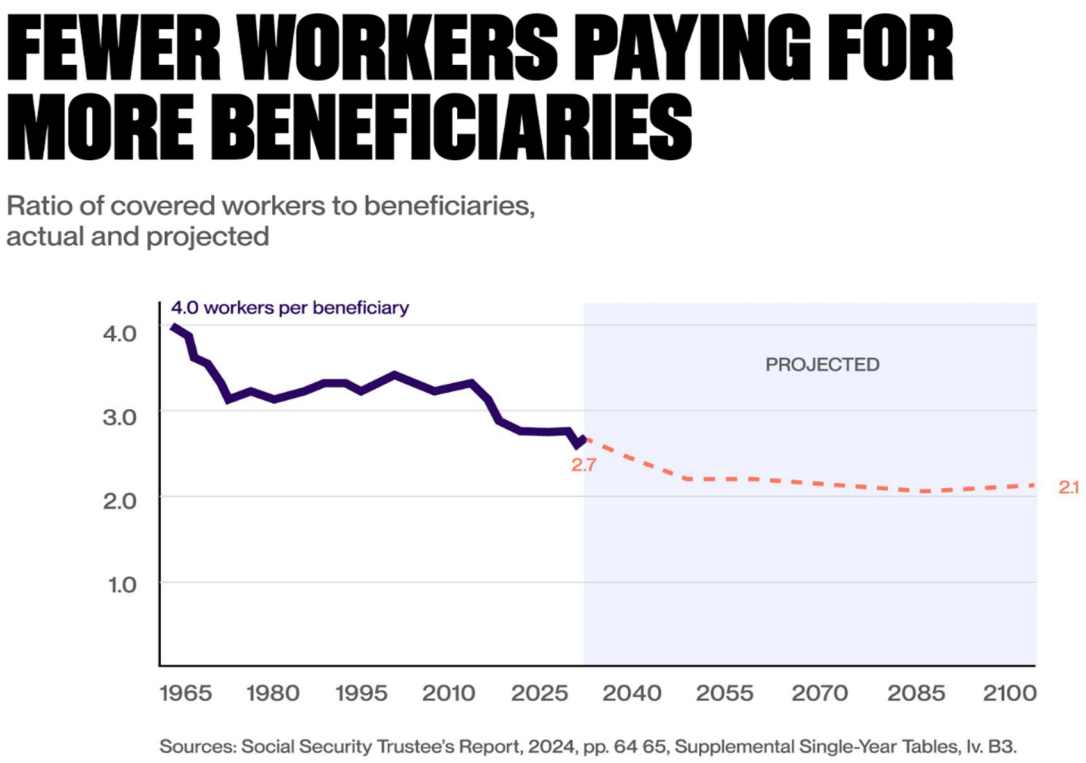
The table below details changes to Social Security and U.S. demographics since its inception:

Social Security Demographics and Financing (1937-2025)[4]

Year	Retirement Age	Life Expectancy	FICA Tax Rate	Workers Per Beneficiary	Workers (millions)	Beneficiaries (millions)
1937	65	61.5	1%	N/A	30.2	0
1940	65	63.6	1%	159.4 to 1	35.4	0.2
1950	65	68.4	1.5%	16.5 to 1	48.3	2.9
1960	65	70.0	4.5%	5.1 to 1	72.4	14.3
1970	65	71.0	6.3%	3.7 to 1	93.0	25.7
1980	65	73.7	7.05%	3.2 to 1	112.7	35.5
1990	65	75.4	12.4%	3.4 to 1	133.0	39.8
2000	65	76.7	12.4%	3.4 to 1	154.7	45.4
2010	66	78.5	12.4%	2.9 to 1	157.1	54.0
2020	66.2	77.0	12.4%	2.7 to 1	175.2	64.9
2025	67	79.1	12.4%	2.6 to 1	184.7	70.4

Since Social Security's inception, life expectancy has increased 17 years, but the retirement age has only recently been raised by 2 years. The worker to beneficiary ratio has decreased from 16.5

to 1 in 1950 to only 2.6 to 1 in 2025. By 2055 that ratio is projected to be 2.1 to 1.[5] Rather than acknowledging these dramatic demographic changes and adjusting the program accordingly, the primary reform designed to shore up Social Security's finances has been to increase the payroll tax from 1% of eligible wages to 12.4%.



Other significant reforms have exacerbated the problem by increasing benefits. In 1977, Congress adopted the current wage-indexed benefit formula over explicit warnings that it would lock in benefit growth requiring higher future taxes. An expert panel convened by the Congressional Research Service in 1976 sharply criticized proposals to adopt wage-indexing, saying it *"gravely doubts the fairness and wisdom of now promising benefits at such a level that we must commit our sons and daughters to a higher tax rate than we ourselves are willing to pay."*[6] Had Congress not adopted the current wage-indexed formula in 1977 and instead implemented the panel's recommendation to index the benefit formula to inflation, Social Security would likely be sustainable today. In fact, a 2023 study from John Cogan and Daniel Heil found that price-indexing as recommended by the CRS panel would have kept the program's finances manageable.[7]

Real Social Security outlays nearly tripled between 1990 and 2025. Growth in the number of beneficiaries accounted for 53 percent of that real spending growth, while more generous benefits per beneficiary accounted for 47 percent. The impact of more generous benefits becomes even more significant over the long term, once the remainder of the baby boom generation is participating in the program. Over the Trustees' full 75-year projection, beneficiary growth accounts for 27 percent of real cost growth and more generous benefits for 73 percent.[8]

Legal Ponzi Scheme

Social Security is a Legal Ponzi Scheme. This term offends most people who have had FICA taxes extracted from their paychecks for decades. But it is an accurate description of how grossly Social Security has been mismanaged over the decades. The federal government did not act as a high integrity fiduciary, instead, it conducted itself the same way a Ponzi Scheme operator would. Instead of being angry over the use of a term that accurately describes the deception of Social Security, people should be incensed over the fact that they've been scammed.

The Securities and Exchange Commission (SEC) defines a Ponzi scheme as "an investment fraud that pays existing investors with funds collected from new investors."[9] Delete the word "fraud" because Social Security is legally sanctioned, and that's exactly what Social Security does. People often say, "Don't touch Social Security, that's my money." Actually, it's not. Your money was spent to pay current beneficiaries or fund other government programs as soon as it was collected from your paycheck. Your future benefits will be paid with the money collected from your sons and daughters working at that time, plus money borrowed from the public now that Social Security is running deficits.

Once a Ponzi scheme begins to collapse, it can't be fixed. It can only be liquidated, with late investors often receiving only pennies on the dollar for their end-of-scheme investments. Their only hope is that an underlying financial entity can provide a backstop to limit their losses.

Similarly, at this late date, Social Security cannot be fundamentally fixed as a retirement investment fund because it never was one. It has always been a tax and spend program. Current law states that when the Trust Fund is depleted (currently estimated to occur in 2032), benefits will be reduced to the level of payroll tax revenue received. If benefits are to be maintained at promised levels, the shortfall will have to be filled from the general fund. Policy makers should be focused on shoring up the underlying financial entity — the federal government — to ensure it has the wherewithal to pay full benefits. With a ten-year projected deficit in excess of $24 trillion, the federal government's ability to fund Social Security's deficits is highly questionable.

What might have been

The real tragedy is that Social Security could be more than solvent had it actually been run as a high integrity savings and investment retirement plan. Stock index funds did not exist in 1937, but had Social Security invested its annual surpluses in something equivalent, the Trust Fund would currently be holding stock assets that had real value to the federal government worth approximately $18.8 trillion.

Stock index funds did exist in 1983 when Ronald Reagan and Tip O'Neill concluded their widely celebrated bipartisan Social Security "fix." Unfortunately, their deal did not acknowledge the reality of Social Security, and simply kicked the can down the road by primarily raising the FICA tax (from 7.04% to 12.4%) and making other minor tweaks to the fundamentally flawed program. Had they admitted that Social Security was a legal Ponzi Scheme and decided to end the deception and begin investing the annual surpluses in a Dow Jones index fund, the Trust Fund would now be holding stock assets worth approximately $14.5 trillion.[10]

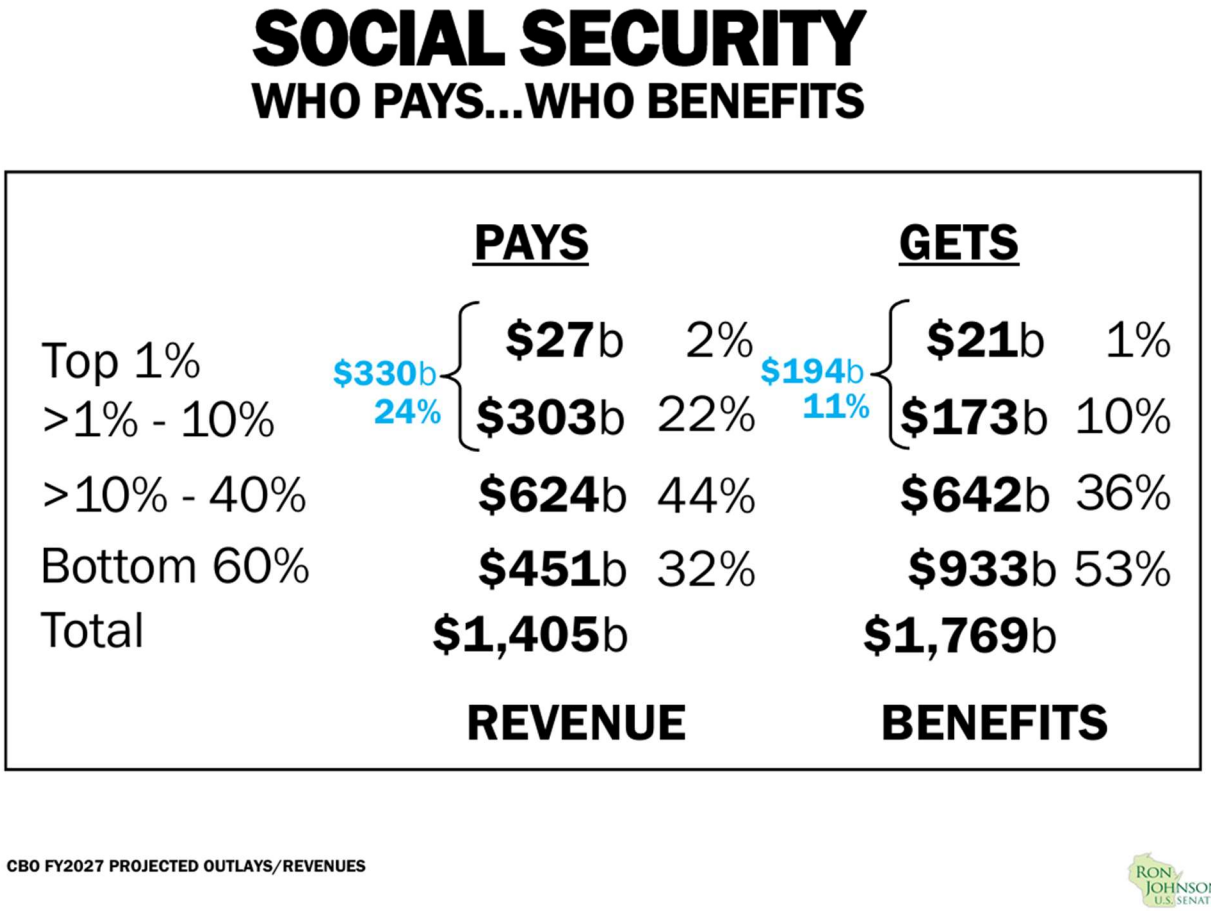
In 2005, President Bush proposed a minor adjustment by letting young workers invest part of their FICA tax in a personal investment account. That more than reasonable proposal was savaged by demagogues who derided it as "privatizing Social Security." Recent studies show how much better shape Social Security would be in today had that modest reform been enacted. A 2025 study by Andrew Biggs found that, had Bush's Social Security reform plan become law, 71 percent of retirees would receive greater Social Security benefits than they are currently scheduled to receive. Personal accounts would have prevented the Federal Government from spending Social Security surpluses on other government spending and instead directed the surpluses towards building a funding base for the program made up of real assets of value.[11]

Unfortunately, the above reforms were never enacted and Social Security benefits began exceeding FICA tax revenue in 2010. In order to make up the difference, the Social Security Trust Fund presents the special issue Treasury Bonds to the Treasury Department who in turn has to borrow the money from the public by issuing marketable Treasury Bonds. The accounting balance in the Trust Fund is estimated to be depleted in 2032. Nothing substantively changes when the special issue bonds are depleted — the Treasury Department will still have to borrow money from the public to cover the shortfall. The only thing that changes is caused by the law that limits benefits to match revenue.

A "Fix" that does more harm than good

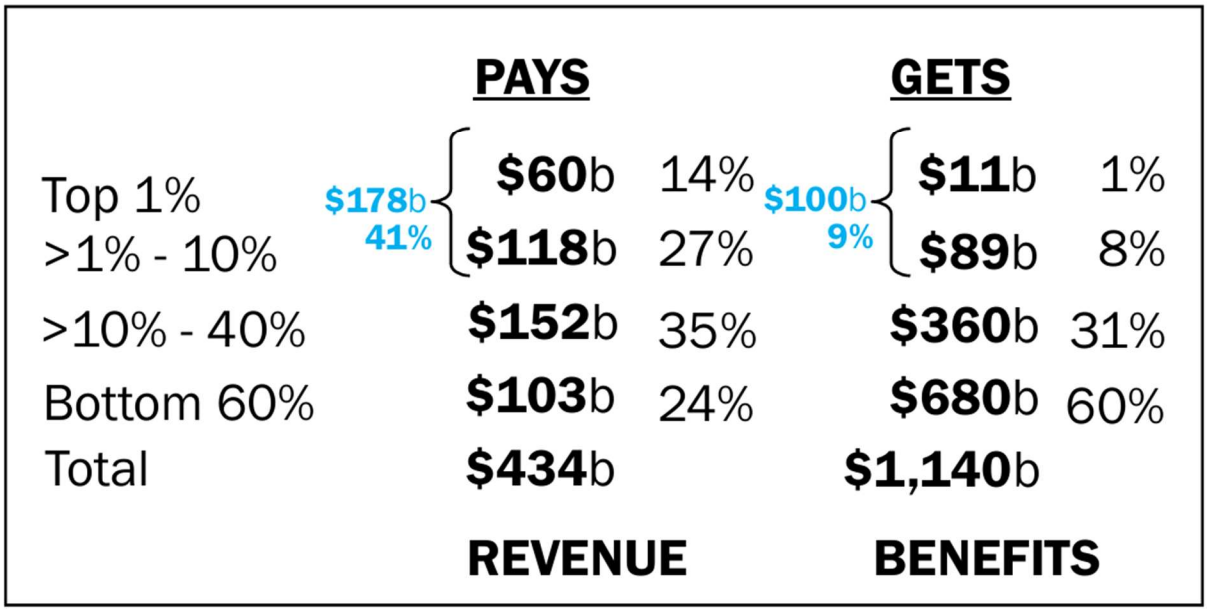
It is highly doubtful that any Congress or President will allow benefits to be reduced to match revenue, but the threat of benefit reductions is being used by those who want to "fix" Social Security by dramatically raising taxes. One proposal would eliminate the income cap on the payroll tax and completely eliminate any connection between contributions and benefits for higher income individuals. Not only would that be grossly unfair and contrary to the basic (albeit deceptive) premise of Social Security, it would be economically harmful. How hard would individuals work if the federal government claimed 53 cents of every additional dollar they make?

The charts below destroy the rhetorical argument that the "rich" don't pay their fair share.[12]



Because there are no individual investment accounts, it is impossible to precisely compare what individuals contribute to how they benefit. But the chart above does provide a pretty good macro accounting. The top 10% of income earners pay approximately 24% of the payroll taxes and receive approximately 11% of Social Security benefits. By eliminating the income cap on FICA taxes, the distribution of who pays versus who benefits would look even worse than Medicare, where there is no income cap on the Medicare payroll tax. It would be a more unfair distribution because of the much higher Social Security tax rate (12.4% vs 3.8%).

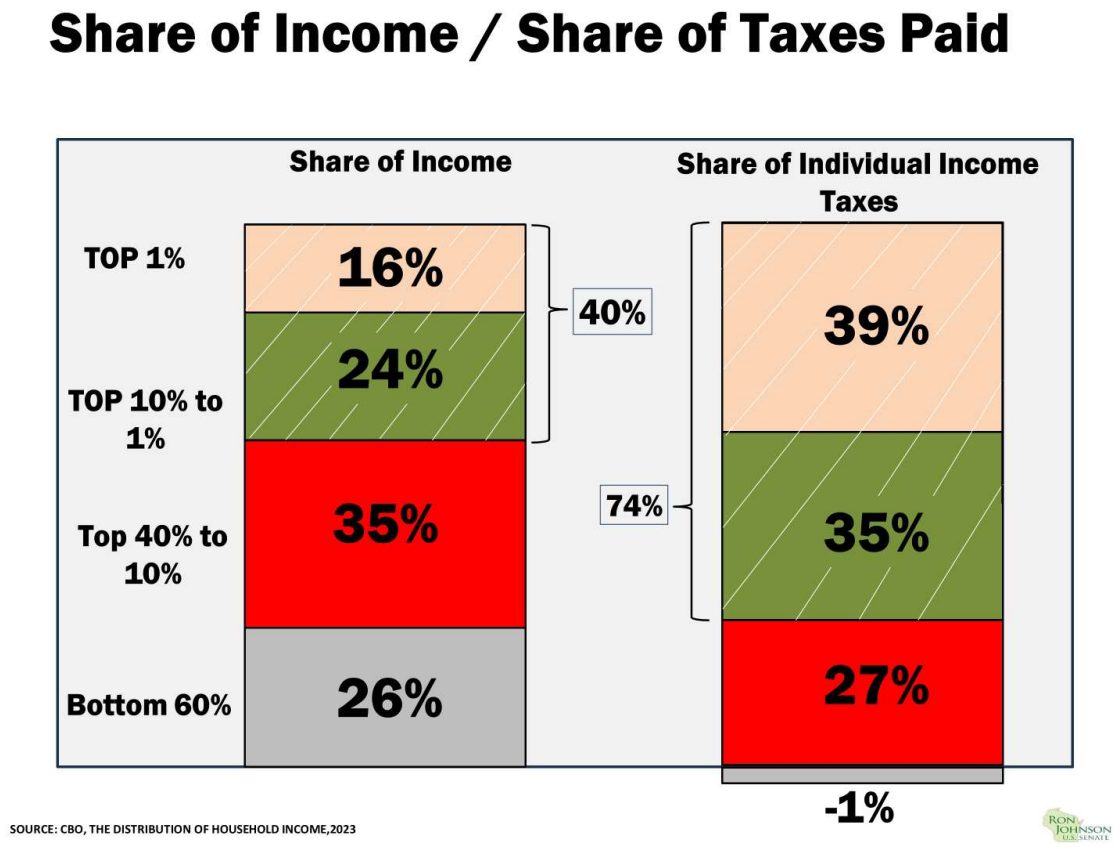
MEDICARE
WHO PAYS...WHO BENEFITS



CBO FY2027 PROJECTED OUTLAYS/REVENUES

RON JOHNSON U.S. SENATE

For Medicare, the top 10% of income earners pay approximately 41% of Medicare payroll taxes and receive approximately 9% of Medicare benefits.



In terms of income taxes, the top 1% earns 16% of total income, but pays 39% of income taxes. The top 10% earns 40% of total income but pays 74% of income taxes.[13] At some point, even the demagogues should admit the "rich" are paying more than their fair share.

Social Security benefits are already means tested

The charts above provide macro evidence that Social Security benefits are not solely based on an individual's contributions. The fact that the top 10% of earners pay approximately 24% of the payroll taxes and receive approximately 11% of Social Security benefits while the bottom 60% of earners pay approximately 32% of the payroll taxes and receive approximately 53% of the benefits proves the point.

On a more granular level, the Social Security Administration publishes data showing that benefits are not directly tied to contributions and investment returns. If they were, for every dollar paid into the system, individuals across income categories and household status should receive similar returns. They do not. The table below shows that the return on Social Security tax paid varies drastically between different income levels and household categories. For example, a one-earner very low-income couple will receive on average $3.86 in benefits for every $1 they pay in payroll taxes, whereas a single man with maximum income will receive only $0.67 in benefits for every $1 he pays in taxes.

Social Security Benefits Received Per Dollar of Tax Paid
(Hypothetical Workers Born in 1955)[14]

Income Level	Single Man	Single Woman	One-Earner Couple	Two-Earner Couple
Very Low	1.67	2.26	3.86	2.15
Low	1.3	1.63	2.7	1.56
Medium	0.95	1.16	1.88	1.1
High	0.83	0.97	1.55	0.92
Maximum	0.67	0.75	1.2	0.72

Conclusion

In 2032 when the Trust Fund is currently estimated to be depleted, the Social Security deficit is projected to be $511 billion — 21% of the total projected federal deficit of $2.4 trillion. Even if attempts to "fix" Social Security with a massive tax increase succeed, 79% of the looming budget deficit problem would remain. By fixating on Social Security, not acknowledging the multi-decade deception, and not focusing on the larger problem — a 10 year projected deficit of $24.4 trillion — we will be doing a huge disservice to future generations and in the end, fix nothing.

A better solution would be to repeal that portion of the law that reduces Social Security benefits and quit scaring seniors. We should then roll up our sleeves and begin seriously addressing the main problem — our massive debt and deficits.

WHAT MIGHT HAVE BEEN…
HAD SOCIAL SECURITY SURPLUSES BEEN INVESTED NOT SPENT

Year	Beginning Reserve Balance ($ millions)	DJIA Annual Return	DJIA Dividend Return	Total Annual Investment Return ($ millions)	Total Dividend Return ($ millions)	Social Security Surplus End of Year Balance ($ millions)	Accumulated End of Year Balance ($ millions)
1986	0	22.58%	0.00%	0	0	11,441	11,441
1987	11,441	2.26%	0.00%	259	0	16,608	28,308
1988	28,308	11.85%	0.00%	3,354	0	32,788	64,450
1989	64,450	26.96%	0.00%	17,375	0	40,514	122,339
1990	122,339	-4.34%	0.00%	(5,312)	0	45,063	162,091
1991	162,091	20.32%	0.00%	32,937	0	33,578	228,606
1992	228,606	4.17%	0.00%	9,543	0	25,361	263,510
1993	263,510	13.72%	0.00%	36,159	0	18,951	318,620
1994	318,620	2.14%	0.00%	6,820	0	26,996	352,435
1995	352,435	33.45%	0.00%	117,895	0	24,705	495,036
1996	495,036	26.01%	0.00%	128,776	0	32,165	655,976
1997	655,976	22.64%	0.61%	148,523	4,007	44,774	853,280
1998	853,280	16.10%	2.06%	137,374	17,585	57,627	1,065,866
1999	1,065,866	25.22%	1.88%	268,827	20,080	78,208	1,432,981
2000	1,432,981	-6.18%	1.46%	(88,527)	20,963	88,843	1,454,261
2001	1,454,261	-7.10%	1.65%	(103,183)	24,008	90,191	1,465,277
2002	1,465,277	-16.76%	1.79%	(245,620)	26,242	85,070	1,330,969
2003	1,330,969	25.32%	2.93%	337,032	38,999	67,874	1,774,874
2004	1,774,874	3.15%	2.16%	55,873	38,337	67,102	1,936,186
2005	1,936,186	-0.61%	2.33%	(11,762)	45,071	77,568	2,047,062
2006	2,047,062	16.29%	2.76%	333,421	56,425	87,033	2,523,942
2007	2,523,942	6.43%	2.45%	162,348	61,763	80,211	2,828,264
2008	2,828,264	-33.84%	1.91%	(957,002)	54,068	63,857	1,989,186
2009	1,989,186	18.82%	3.86%	374,353	76,816	3,341	2,443,696
2010	2,443,696	11.02%	3.04%	269,364	74,281	(48,895)	2,738,446
2011	2,738,446	5.53%	2.85%	151,392	78,144	(45,381)	2,922,602
2012	2,922,602	7.26%	2.99%	212,082	87,307	(54,733)	3,167,257
2013	3,167,257	26.50%	3.15%	839,304	99,867	(70,725)	4,035,703
2014	4,035,703	7.52%	2.52%	303,449	101,809	(73,158)	4,367,802
2015	4,367,802	-2.23%	2.45%	(97,546)	106,815	(70,281)	4,306,790
2016	4,306,790	13.42%	3.08%	577,756	132,722	(53,179)	4,964,089
2017	4,964,089	25.08%	3.03%	1,245,033	150,258	(41,016)	6,318,364
2018	6,318,364	-5.63%	2.15%	(355,743)	135,895	(80,145)	6,018,372
2019	6,018,372	22.34%	3.01%	1,344,408	180,882	(78,344)	7,465,318
2020	7,465,318	7.25%	2.48%	540,974	184,968	(65,203)	8,126,057
2021	8,126,057	18.73%	2.22%	1,521,807	180,236	(126,369)	9,701,732
2022	9,701,732	-8.78%	1.92%	(851,958)	186,186	(88,516)	8,947,444
2023	8,947,444	13.70%	2.48%	1,226,104	221,825	(108,296)	10,287,077
2024	10,287,077	12.88%	2.11%	1,325,048	216,718	(136,127)	11,692,715
2025	11,692,715	12.97%	1.95%	1,516,838	227,926	(229,085)	13,208,394
July 2026	13,208,394	10.66%	0.00%	1,407,751	0	(92,404)	14,523,741

Note: Calculations based on Social Security financial data and stock market records obtained via Congressional Research Service (CRS)

[1] https://www.ssa.gov/history/lifeexpect.html
[2] https://www.arkansasonline.com/news/2010/mar/16/social-security-start-cashing-25-trillion-20100316/
[3] https://www.govinfo.gov/content/pkg/BUDGET-2000-PER/pdf/BUDGET-2000-PER.pdf#page=326
[4] https://www.ssa.gov/oact/tr/2026/; https://www.ssa.gov/oact/HistEst/PerLifeTables/2024/PerLifeTables2024.html; https://www.ssa.gov/oact/progdata/taxRates.html; https://www.ssa.gov/history/ratios.html
[5] Chart Source: No Labels; https://www.ssa.gov/oact/tr/2026/;
[6] https://www.ssa.gov/history/reports/hsiao/hsiaoIntro.html
[7] https://hoover-s3-website.s3.us-west-2.amazonaws.com/s3fs-public/research/docs/23116-Cogan-Heil.pdf
[8] Calculations based on CBO, OMB, and OASDI Trustees data
[9] https://www.investor.gov/protect-your-investments/fraud/types-fraud/ponzi-scheme
[10] Calculations based on Social Security financial data and stock market records obtained via Congressional Research Service (CRS)
[11] https://www.aei.org/wp-content/uploads/2025/06/What-If-George-W.-Bushs-Social-Security-Reforms-Had-Passed.pdf?x57549
[12] https://www.cbo.gov/publication/62761
[13] https://www.cbo.gov/publication/62761
[14] https://www.ssa.gov/oact/NOTES/ran7/an2025-7.pdf