

# **Capital Markets & Investments**

## **Sessions 12: Portfolio Choice (3) – Portfolio Optimization**

**Spring 2025  
Professor Simon Oh**

# Social Security a Ponzi Scheme?

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TAXES · ELON MUSK

Elon Musk calls Social Security ‘the biggest Ponzi scheme of all time’ as calls mount to remove contribution caps for billionaires

BY CHRISTIAAN HETZNER  
March 3, 2025 at 12:53 PM EST



DOGE head Elon Musk worries about the solvency of Social Security.

ANDREW HARNIK—GETTY IMAGES

# Social Security a Ponzi Scheme?

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**Matthew Yglesias** ✓  
@mattyglesias



Social Security is a Ponzi scheme in the sense that it depends on continuing economic growth but the same is true of investing in the stock market and everything else.

## Defining a “Ponzi-Like Structure”

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1. No actual profits (system does not produce value or income, just moves money around)
2. New money pays old investors (early participants get “returns” from later participant’s contributions)
3. If new investors stop joining, the scheme collapses
4. (Operators lie about how the money is being invested)

# Ponzi-like Element in Social Security

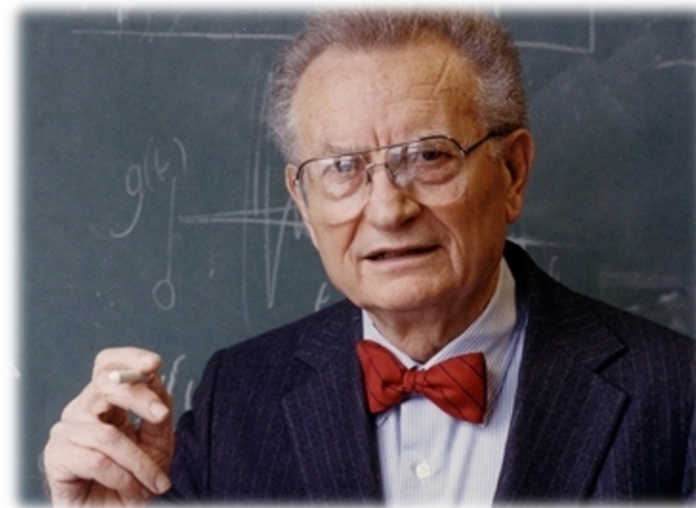
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The beauty of social insurance is that it is actuarially unsound. Everyone who reaches retirement age is given benefit privileges that far exceed anything he has paid in. And exceed his payments by more than ten times as much (or five times, counting in employer payments)!

How is it possible? It stems from the fact that the national product is growing at compound interest and can be expected to do so for as far ahead as the eye cannot see. Always there are more youths than old folks in a growing population. More important, with real incomes going up at some 3 percent per year, the taxable base on which benefits rest in any period are much greater than the taxes paid historically by the generation now retired.

Social security is squarely based on what has been called the eighth wonder of the world-compound interest. A growing nation is the greatest Ponzi game ever contrived.<sup>9</sup>

- Paul Samuelson (1967)



# Ponzi-like Element in Social Security

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Opinion

## Social Security Chimeras

By Milton Friedman

Jan. 11, 1999



The assurance that workers will receive benefits when they retire does not depend on the particular tax used to finance the benefits or on any "trust fund." It depends solely on the expectation that future Congresses will honor promises made by earlier Congresses -- what supporters call "a compact between the generations" and opponents call a Ponzi scheme.

The present discounted value of the promises embedded in the Social Security law greatly exceeds the present discounted value of the expected proceeds from the payroll tax. The difference is an unfunded liability variously estimated at from \$4 trillion to \$11 trillion -- or from slightly larger than the funded federal debt that is in the hands of the public to three times as large. For perspective, the market value of all domestic corporations in the United States at the end of 1997 was roughly \$13 trillion.

# Ponzi-like Element in Social Security

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I like Freeman's idea of providing each individual with a trust fund when young rather than retirement benefits when old, but we had better realize that this is a significant change in the character of the social insurance system. Social Security is structured from the point of view of the recipients as if it were an ordinary retirement plan: what you get out depends on what you put in. So it does not look like a redistributionist scheme. In practice it has turned out to be strongly redistributionist, but only because of its Ponzi game aspect, in which each generation takes more out than it put in. Well, the Ponzi game will soon be over, thanks to changing demographics, so that the typical recipient henceforth will get only about as much as he or she put in (and today's young may well get less than they put in).

- Paul Krugman (1996)






# Alternatives to “Ponzi-Like” System

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- Fully Funded Systems (e.g. Singapore, Central Provident Fund)



The graphic is a light blue rectangular box with a subtle background pattern of overlapping circles. In the top left corner, there is a small icon of two hands shaking with a plant growing from them. Below the icon, the text "CPF OVERVIEW" is written in a bold, black, sans-serif font. Underneath that, the title "How CPF works" is displayed in a larger, bold, black, sans-serif font. At the bottom of the box, a paragraph of text explains the CPF system.

**CPF OVERVIEW**

## How CPF works

The Central Provident Fund (CPF) is a key pillar of Singapore's social security system. CPF helps Singapore Citizens and Permanent Residents set aside funds to build a strong foundation for retirement.



# Alternatives to “Ponzi-Like” System

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- Privatization (e.g. Chile)

Chile’s justification for eliminating public pay-as-you go programs (like Social Security in the US) and sending workers into a privately managed system of individual accounts was twofold: First, private funds would grow more and compound faster due to better management, meaning more money for retirement; second, the change would keep down public costs.

Four decades later, Chile’s system hasn’t worked as promised or expected. The creators anticipated that the average worker would save enough to earn 70% of their salary in retirement; the reality has been **closer to one-third**. They thought the new system would expand the number of workers with retirement funds; instead nearly **40% of Chileans have nothing to fall back on**. Rather than improve the lives of Chile’s elderly, most pensioners live on **less than the minimum wage**, with women hit harder than men.