

Pension Pains

By [The Mogambo Guru](#)

01/17/05

News from the financial world seems to be getting worse with each passing day...and you know it's especially bad when even our Mighty Masked Economist is so shaken he can barely force out a maniacal laugh.

If you want something that ought to send you screaming down the street, in an article, *Optional Reading*, Edgar J. Steele writes, "As of June 15, the value of stock options must be expensed by American business firms. With stock options, never is there a financial statement hit taken by the company. The hit always is borne by existing shareholders, whose stock values become diluted as the company merely issues new stock to employees exercising their options, a non-event for income-statement purposes."

So is there really a new economy, where stock options allow everybody to win and nobody loses? No. He goes on to say, "A direct lift from existing shareholder wallets, in other words."

But now (cut to a video of an asteroid smashing into the earth where dinosaurs are hurled into the air and they all have these surprised looks on their faces) all that has changed. Starting June 15, "The accounting entry is: Debit expense and credit liabilities, just like wages, which is what stock options are, after all." Wow! Talk about taking a hit to the income statement!

And not only that, which is plenty, but also he goes on to say, "P/E (Price/Earnings) ratios, already stratospheric by historical standards, will evaporate altogether for many firms (divide by zero or a negative and get infinity)." His advice? "Get out of stocks and bonds and do it now."

And it gets worse from there! According to an article by Dan Roberts in *The Financial Times*, "Actuaries at Towers Perrin estimate the average Fortune 100 company is now storing up more than \$3bn in deferred pension costs that have yet to show up in published profit and loss figures." Three billion apiece! They go on to note: "Towers Perrin, an independent consultant, calculates that the deferred cost for the 81 largest defined benefit pension schemes in the United States grew approximately five percent in 2004 to \$252bn."

And of course, no day is complete without somebody showing me that inflation is roaring back to life and is consuming us all. In his spare time, he has figured out, "In 2002 dollars, the Dow actually has gone from 8,000 to 6,000. You actually lost 25% of your nest egg over the past two years!" So, as an example, if you had \$100,000 in purchasing power two years ago, and now you have only \$75,000 in purchasing power, thanks to the devaluation of the dollar by 25%, and you want to privatize Social Security by forcing people to put money into the stock market? Hahahaha!

Social Security Reform Stupidity : Why Paul Krugman Is Wrong on Social Security Reform

And speaking of reforming Social Security, not that it is such a hot topic; everybody wants to run their mouths about it, including the horrid Leftist Paul Krugman, who recently penned A Fake Solution to a Made-up Crisis.

First off, he admits that Social Security is "running a surplus, thanks to an increase in the payroll tax two decades ago." Well, duh! Let me write this down! If you increase taxes, a government program will get more money, and if they get enough money, then they will run a surplus. Wow!! It seems so obvious when it is pointed out to me like that! I slap my forehead ("ouch!") at the revelation! Why didn't I realize that all you need to do to get more money (and I laugh at the utter simplicity of it all) is to raise taxes!

Taking the Krugman Economic Miracle ("increase taxes, show a surplus!") he announces, "As a result, Social Security has a large and growing trust fund." Then he hits us with the laughable line: "When benefit payments start to exceed payroll tax revenues, Social Security will be able to draw on that trust fund." Hahahaha! See, the way that he thinks it works is that this surplus goes into some trust fund, see, sort of like this big ol' box with a lock on it, and it is loaded with lovely cash or something, and then you just stick your hand in there and grab a fistful when you need some money.

Now that he has established the "facts" to suit himself, it isn't until a later paragraph that he reveals, with a slap at the people who want to privatize Social Security, "Privatizers say the trust fund doesn't count because it's invested in U.S. government bonds, which are 'meaningless' IOUs." Wrong, bonehead! It isn't just privatizers who recognize that the trust fund has no money! It's everybody! Those IOUs are gigantic, unfathomably huge, overwhelming amounts of money owed to lots of people, who are all counting on getting that money back, and so it is therefore FAAARRRRR from being "meaningless." Being IOUs, yes, but meaningless, no. Huge, yes; meaningless, no.

He never admits that the surplus in the Social Security system has been spent by Congress, and there is nothing in that stupid lockbox except those IOUs, although he does try and put a pretty face on it when he says that those IOU's "have the same status as U.S bonds owned by Japanese pension funds and the government of China." And that the taxpayer is required to pay off those IOUs, just the same as, "The bonds in the Social Security trust fund are obligations of the federal government's general fund." In case you were wondering what a "general fund" is, it is (and I am pointing right at you) you. Much like soldiers are called G.I.s, which is short for "Government Issue," you are "G.G.F." because you are expendable "government general fund" trash, and they are going to get money out of you. But, if it makes you feel any better, at least you are higher on the hierarchy above Mogambo Trash (MT), so at least you have THAT going for you.

Later on in the article, he admits that the problems of Social Security pale to insignificance beside the other two financial horrors, namely the current monstrous fiscal deficit and the Medicaid/Medicare nightmare, which rhymes, making it easy to remember in case this shows up

on a pop quiz in class today. He doesn't mention, strangely enough, the \$650 billion trade deficit, which is also a financial horror.

Social Security Reform Stupidity : Laura Tyson's Wrong Too

And, of course, we have Laura Tyson, the economist who was one of Clinton's insiders when he was running the country into the ground, and who is now the dean of the London Business School, running her little mouth in the Economic Viewpoint column in the January 17 issue of Business Week, in article entitled, "Social Security Crisis? What Crisis?" While first noting how many old people depend totally on Social Security (20%) and how many get a "majority" of their income from Social Security (67%), she notes that Social Security would be on sound footing with a decrease in benefit payment amounts and an increase in taxes. Hahahaha! This is the brilliant thinking that got her where she is today? Cut benefits and increase taxes? This is the best she can do? This is the fabled Leftist compassion? Hahahahaha! Such is the idiocy of the Left, who first create a huge government program, impose taxes to pay for it, continually raise taxes to expand the program and increase benefits. Then finally, after it has grown to be a huge, suffocating part of the economy where many people are dependent on it, and it predictably falls apart, that's when you decrease benefits and raises taxes! And then they wonder why I have so little respect for them that I write them hate mail (For example, "Dear Leftist jerk, Kiss my butt. Signed, Angry Stranger Who Is Not The Mogambo (ASWINTM)").

Then she says that the present value shortfall in the Social Security revenues over the next 75 years is \$3.5 trillion. Hahahaha! Adjusting for inflation, that piddly \$3.5 trillion over the next 75 years will balloon to hundreds of trillions of dollars, if not quadrillions of dollars, or whatever in the hell is beyond a trillion. Remember; the current dollar has lost 96% of its value in the last 92 years, thanks to the Federal Reserve. Now that they have really gotten the hang of it here lately, I am sure that they will devalue the dollar at an increasing rate from here on out. I will save you the trouble of laboriously computing the deficit over the next 75 years as the dollar loses ANOTHER 98%, or 99%, or 99.999% of its value. It is a lot, and future historians will look at Tyson's \$3.5 trillion dollar estimate and laugh at her and anybody who listened to her.

Regards,

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for The Daily Reckoning**