NATIONAL ACADEMY OF·SOCIAL INSURANCE

Quick Answers to Common Questions about Social Security

to accompany

Social Security Finances: Findings of the 2012 Trustees Report

Social Security Brief #39, April 2012

1. Social Security is going to spend more money this year on benefits than it will collect in payroll taxes. Does that mean it's going broke? No. Unlike in the early 1980s, and despite the recent deep recession and slow recovery, Social Security is continuing to build reserves through interest earned on the money in its trust funds. The reserves are projected to increase from $2.7 trillion at the end of 2011 to $3.1 trillion at the end of 2020. As in previous economic downturns, with large numbers of people out of work and many drawing Social Security retirement benefits earlier than they had planned, contributions from earnings grew less than anticipated while benefit payments increased more than anticipated. The program has responded in a counter-cyclical way – helping to stabilize the economy during severe downturns – just as it was designed to do.

2. But I keep hearing about Social Security's "cash-flow imbalance." Does that mean it's running out of cash? No. The term "cash flow" as used in the unified federal budget refers to the program's annual income and outgo without counting interest earned by the trust fund reserves. If interest is ignored, income was less than outgo in 2011. But interest is a very real part of Social Security's income. Interest income is a firm obligation of the Treasury to pay the interest due to the trust funds. It is just as firm as the nation's commitment to any other holder of U.S. Treasury bonds. With interest income included, Social Security had a $69 billion surplus in 2011, and projected income including interest will continue to exceed outgo through 2020.

3. Isn't all the money in the trust funds just worthless IOUs? No, the $2.7 trillion in reserves held by the trust funds is invested in special U.S. Treasury bonds. In financial markets, Treasury bonds are considered an extremely safe investment because they are backed by the full faith and credit of the United States.

4. Wasn't the money in the trust funds used to pay for other things, like tax cuts and wars? The Treasury bonds held by Social Security's trust funds represent a loan to the rest of the government, and the money must be paid back when it is needed to pay Social Security benefits. The current federal budget deficit is the result of an imbalance in general revenues, not in Social Security funds.

5. Everyone knows the U.S. has a deficit problem. Why shouldn't Social Security be on the table? Social Security did not cause the deficit and has not contributed to it. Since 1935, the program has collected $15.5 trillion and paid out $12.8 trillion, leaving a balance of $2.7 trillion in the trust funds at the end of 2011.

6. Will the retirement of the baby boomers bankrupt Social Security? No. The boomers' retirement did not catch Social Security by surprise. Changes that were enacted nearly 30 years ago and that are still phasing in, including gradually raising the age of eligibility for full benefits from 65 to 67, have slowed the growth of future benefits, and the boomers' contributions throughout their working years have helped cover the cost of their retirement. Social Security faces a long-term revenue shortfall, projected by the trustees to be 2.67% of all payrolls in employment covered by Social Security over the next 75 years. A moderate and manageable shortfall is not a crisis.

1776 Massachusetts Avenue, NW • Suite 400 • Washington, DC 20036
(202) 452-8097 • e-mail: nasi@nasi.org • web: www.nasi.org • twitter: @socialinsurance

7. We're all living longer, so why not raise the retirement age again? Wouldn't that eliminate the shortfall? Gradually raising the full-benefits retirement age to 70 could save about a third of the money needed to balance Social Security income and outgo over the long term.[1] But there are many concerns. First, not all Americans are living longer: it's mostly higher-income people who are enjoying greater longevity. Lower-income workers, those in physically demanding jobs, and some minority populations have shorter life expectancies. Second, it's not clear that jobs will be available for millions more workers in their late 60s, even if they are in good health, nor is it clear how keeping them on the job would affect employment opportunities for younger workers. Third, raising the full retirement age lowers benefits at any age benefits are taken.

8. Some people claim Social Security is headed for bankruptcy. Will younger workers ever see a benefit? Yes. Social Security has never missed a payment in 76 years. It is fully financed for the next 21 years, and in the highly unlikely event that Congress takes no action before 2033 to maintain the program in balance, it could still pay about 75% of scheduled benefits thereafter. Social Security will never become bankrupt as long as workers and employers continue to contribute to the program through deductions from earnings.

9. I worry that lawmakers will change Social Security, so I'm going to start taking benefits as soon as I can, at age 62. Is this a good strategy? You should think long and hard before you do that. Monthly benefits are up to 8% higher for every year you wait, up to age 70. If you are able to wait until you're 70 to take benefits, they will then be at least 76% higher than if you had started at 62. That's a huge difference, especially when you think about the importance of Social Security benefits as you grow older: unlike savings and other resources, Social Security benefits continue as long as you live and are not eroded by inflation.

10. Why should rich people get Social Security benefits? Why not limit it to people who really need it? First, one of Social Security's great strengths is that it is *not* based on a means test: you don't have to prove you have low income and few assets to qualify for benefits. Means testing discourages savings, because the more you save, the less you get. Second, Social Security is *insurance*, not welfare. You buy coverage and pay premiums with deductions from earnings. When an insured event occurs – disability, retirement, or death of a worker – the program pays benefits to the insured person or his or her survivors. Third, denying benefits to the rich would have minimal impact on Social Security's finances – because only about 2% of Social Security benefits go to individuals with non-Social Security incomes over $100,000 and because nobody, no matter how rich, gets more than the maximum monthly benefit, currently $2,513 for a worker retiring at age 66[2] – but denying benefits to anyone who has earned them would be unfair and make the program more like welfare. Finally, the benefits paid to high-income people are subject to taxation as income, and the revenue comes back to Social Security.

11. Suppose I think I can do better by keeping my payroll taxes and investing them myself. What's wrong with that? First, if you fail, others – your family and/or taxpayers – will have to support you. Second, you would need to save a lot of money to buy an annuity (a private insurance policy paying guaranteed monthly benefits) worth as much as a typical Social Security benefit. For example, to buy an annuity at age 65 that would match the average Social Security retirement benefit ($1,230 in January 2012), plus keep up with inflation and continue to pay your widowed spouse, you would need to pay about $430,000 up front in a lump sum.[3] In addition, if you had young children, you would need to buy over $450,000 in life insurance and nearly $330,000 in disability insurance at age 30 to match Social Security's family protections.[4] Few people are able to amass such savings. And Social Security is insurance; savings can't pool risks as insurance does. Finally, Social Security is secure: it has never missed a payment and can ride out market downturns and recessions.

---

[1] Reno, Virginia and Joni Lavery. 2009. *Fixing Social Security: Adequate Benefits, Adequate Financing*. Washington, DC: National Academy of Social Insurance.

[2] Social Security Administration. 2012. "Maximum Social Security retirement benefit." Retrieved April 16, 2012, from http://ssa-custhelp.ssa.gov/app/answers/detail/a_id/5/~/maximum-social-security-retirement-benefit.

[3] Thrift Savings Plan, 2012. "Annuity Calculator." Retrieved April 10, 2012 from https://www.tsp.gov/planningtools/annuities/annuityCalc_select.shtml, using interest rate index of 2.125%.

[4] Nichols, Orlo R. 2008. "The Insurance Value of Potential Survivor and Disability Benefits for an Illustrative Worker." Baltimore, MD: Social Security Administration, Office of the Chief Actuary.