



The Basics

## 5 myths about Social Security

System reform is a hotbed of controversy. But to move ahead, we've got to identify the myths, toss them aside and refocus on realities.

By [Liz Pulliam Weston](#)

You can't write about Social Security and not get flooded with angry e-mails representing all points of the political spectrum. From those who dub it "Socialist Insecurity" to those who hold their checks to be an inalienable right, people often have passionate and firmly held beliefs about the system.

Unfortunately, sometimes those beliefs are based on myths. In the interest of more honest debate, let's review some of these legends.

### Looking for the cash hoard

**Myth No.1: There is no Social Security trust fund.** You may have heard this assertion so often that you'll be surprised to learn that there really IS a Social Security trust fund that collects our payroll taxes and invests the surplus. It's called the Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

What isn't in the trust fund is a big hoard of cash.

Three-quarters of the money that's collected in Social Security taxes goes right out the door again in the form of benefits to Social Security recipients. The surplus that isn't needed to pay benefits is loaned to the federal government to pay for other programs.

In return for this loan, the trust fund gets IOUs in the form of special-issue, interest-paying Treasury bonds. The interest isn't paid in cash, however; the Treasury issues the fund additional bonds for the interest amount. Last year, the fund was credited with \$80 billion in interest; the total value of the securities is about \$1.5 trillion.

Critics often deride these bonds as "a bookkeeping entry" or a fiction, but they're real obligations of the U.S. government, said Steve Goss, Social Security's chief actuary. In the past, they've been cashed in when Social Security or its sister program, Medicare, temporarily ran low on funds. The last time was in the early 1980s.

"They're backed by the full faith and credit of the U.S. government," Goss said. "They're every bit as real . . . as any savings bond or Treasury bond any individual might hold in society."

The problem, of course, is that the government now owes the trust fund so much money -- and relies on its surplus so heavily -- that real problems will be created when it comes time to cash in those IOUs. Uncle Sam is going to need to find another source of income to replace the surplus (or cut spending, or borrow money from somewhere else), plus come up with cash to pay the bonds it's already issued.

**Myth No.2: Congress doesn't pay into Social Security, so it doesn't care about fixing the crisis.** The idea that U.S. lawmakers don't pay into Social Security is 20 years out of date. Before 1984, U.S. representatives and senators -- like all other federal employees -- weren't covered by Social Security and didn't pay into the system. Congress passed a law in 1983, which took effect the next year, requiring all its members (and all federal employees hired after that year) to participate in the system.

This myth is often accompanied by the assertion that Congress participates in a private pension scheme that pays them their salaries for the rest of their lives. In fact, the Civil Service Retirement System, which covered federal employees in earlier decades, was closed to new participants after 1983. The pensions available under this old system depend on the federal worker's pay and tenure with the government, but by law can't exceed 80% of the final year's pay. Benefits paid under the system are reduced by the amount of Social Security the participant receives.

The reason Congress hasn't fixed the Social Security crisis is politics. The most likely solutions -- raising taxes, cutting benefits, establishing private accounts or some combination of the three -- all face strong opposition. In addition, the people currently receiving benefits are represented by one of the strongest, most politically-connected lobbies in existence: AARP. The 20-something workers who likely will pay the cost for congressional inaction don't have nearly the same clout.

### Life expectancy and disappearing assets

**Myth No.3: Age 65 was picked as the retirement age because when Social Security was started in the 1930s, most people were dead by then.** The average life expectancy for a baby girl born in 1935 was about 63 years. For a baby boy, it was about 59 years.

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