

SOCIAL SECURITY FACTS

How is Social Security Funded?

A Social Insurance Program: Social Security provides benefits to 47 million people. One out of every four households gets a monthly Social Security check. Many kinds of individuals, children and spouses get benefits. They include people who retire, people who become disabled and their families, and family members after workers die. Most workers contribute to the program through their payroll taxes. When workers become disabled, retire or die, they and their family members are entitled to guaranteed monthly payments. This is what makes Social Security a “social insurance” program: people who pay into it get protection for themselves and their families.

The Social Security Trust Fund: Workers and employers pay a special tax on wages to fund Social Security. This is known as the “FICA” [Federal Insurance Contributions Act] contribution. Each worker pays 6.2 percent of wages and the employer pays 6.2 percent, for a total of 12.4 percent, up to a certain income limit [\$90,000 in 2005]. People who are self-employed pay the whole amount. These taxes go into Trust Funds, special accounts in the U.S. Treasury. The Old Age and Survivors Insurance [OASI] Trust Fund pays retirement and survivors benefits. The Disability Insurance [DI] Trust Fund pays disability benefits. When people talk about the “Trust Funds,” they see them as one account. People with disabilities receive benefits from both trust funds.

Administration of the Trust Fund: Social Security is funded largely as a “pay as you go” system. This means that most of the money coming into the Trust Fund is used to pay current beneficiaries. Current “administrative costs” are very low: Social Security spends less than 2 cents of every dollar it receives to administer the entire program for everyone.

Long-term Status of the Trust Fund: People want to know if the Trust Fund will have enough money to pay benefits in the future. Another way to ask this question is, “Will Social Security be solvent?” The Trust Fund now takes in more money than it needs to pay benefits so there is a surplus after current benefits are paid. Whatever is left over is invested in U.S. Treasury bonds. The interest earned on the bonds goes into the Trust Fund. When the bonds “mature” or are needed to pay benefits, Social Security can “redeem” them for cash. The U.S. government guarantees these bonds. These are the same government bonds owned by investors in the United States and around the world. The government has never defaulted on its bonds and it is not likely to. This means that the government will honor its obligations to Social Security when the system needs to redeem the bonds to continue paying benefits.

Some people say that the Trust Fund is in immediate danger. But according to the Congressional Budget Office [CBO], Social Security can:

- Pay full benefits using payroll tax income until 2020; and
- Pay full benefits using payroll tax income and by redeeming trust fund bonds until 2052; and
- Pay reduced benefits using payroll tax income starting in 2053.

What does “reduced benefits” mean? Social Security cannot pay full benefits when there is no longer a surplus in the Trust Fund to redeem any more bonds. It is hard to predict how much

benefits would be reduced, but the CBO believes probably about 20 to 30 percent. However, even at that reduced level, the benefits would be higher in today's dollars than what people now get.

Future Challenges for the Trust Fund: It is true that Social Security will face funding issues in the future. When planning for the program, the Social Security Administration and Congress look ahead 75 years. For that time period, they estimate what income the Trust Fund will get from workers through the payroll tax and what benefits Social Security will have to pay out. When Social Security needs to pay out more for benefits than it collects from payroll taxes, it will face a “shortfall.” This means there will be fewer workers paying payroll taxes to Social Security to support each person receiving retirement benefits. However, even then, Social Security will be able to pay reduced benefits from the payroll taxes it receives. Social Security will **not** be bankrupt.

Over the years, Congress has improved and strengthened Social Security’s financial future. In 1983, it raised the retirement age gradually over many years and increased payroll taxes. Congress did this to create a surplus to fund the retirement years for the large number of “Baby Boomers” [people born between 1946 and 1964]. Congress could now make other adjustments without changing Social Security’s basic design. It is possible to improve and strengthen the program’s financial future without major changes.

Principles for Proposed Changes to Social Security: When most people talk about Social Security changes, they only discuss retirement benefits. This is a very, very serious concern for people with disabilities and their families. Basic program changes have huge implications for everyone who gets benefits, not just people who retire. People with disabilities receive benefits from the three Social Security insurance programs: retirement, disability and survivors. Since the same formula is used to set benefits for all three programs, changes in the formula affect them all. Any changes in Social Security should follow these principles:

- Keep Social Security’s current structure based on payroll taxes.
- Preserve Social Security as a social insurance program for everyone who is eligible.
- Guarantee monthly benefits adjusted for inflation.
- Preserve Social Security to meet the needs of people who are eligible now and in the future.
- Restore Social Security’s long-term financial stability.

The disability community urges Congress to request a **beneficiary impact statement** on every major component of any serious proposal. In a program that affects millions of individuals of all ages, it is essential for policymakers to look beyond the budgetary changes to understand the actual impact on people’s daily lives.

Produced by the **Consortium for Citizens with Disabilities**, 1660 L Street NW, Suite 701, Washington, DC 20036. See www.c-c-d.org. CCD, a coalition of over 100 national consumer, provider & advocacy organizations, advocates for national public policy to ensure the self determination, independence, empowerment, integration & inclusion of the 54 million children and adults with disabilities living in the United States.