CONSORTIUM FOR CITIZENS WITH DISABILITIES

SOCIAL SECURITY FACT SHEET #5

How Is Social Security Funded?

A Social Insurance Program: Social Security provides benefits to about 53 million people. One out of every four households receives a monthly Social Security check. Many groups 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 payroll taxes to qualify, which entitles them to guaranteed monthly payments. This is what makes Social Security a "social insurance" program: People who pay into it receive protection for themselves and their families.

The Social Security Trust Fund: Workers and employers pay a tax on wages to fund Social Security. This is known as the "FICA" (Federal Income Contribution 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 ($106,800 in 2010). People who are self-employed pay the whole amount. These taxes go into Trust Funds which are 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 money coming into the Trust Fund from current workers is used to pay current beneficiaries. Administrative costs are extremely low representing less than one percent of total program expenditures.

Status of the Trust Fund: People want to know if the Trust Fund will have enough money to pay future benefits. 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 paying current benefits. These leftover funds are invested in U.S. Treasury bonds and the interest earned on the bonds goes into the Trust Fund. When the bonds "mature" or are needed to pay benefits, Social Security "redeems" them. 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 do so. This means that the government will honor its obligations to Social Security when the system needs to redeem bonds to continue paying benefits.

For program planning, Social Security Administration and Congress look ahead 75 years to estimate what income the Trust Fund will get from payroll taxes and what benefits Social Security must pay. 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 the surplus that Social Security now has to fund the retirement years for the large number of "Baby Boomers," people born between 1946 and 1964. Congress could 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.

Future Challenges for the Trust Fund: Social Security is currently running a planned surplus to address the retirement and disability needs of the baby boom generation. According to the Social Security Trustees 2010 Report, the surplus will be at $2.6 trillion by the end of 2010 and is expected to grow to $4.2 trillion by the end of 2024. In later years, when the surplus has been spent, Social Security will be able to pay reduced benefits from the taxes it collects. According to a July 2010 Congressional Budget Office Report, Social Security can pay full scheduled benefits until 2039; 80 percent of scheduled benefits in 2040; and 76 percent in 2084. Social Security will not be bankrupt: the program is not in crisis and no drastic changes are needed now.

Principles for Proposed Changes to Social Security: When most people talk about Social Security changes, they only discuss retirement benefits and tend to overlook people with disabilities and their families. But any 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 policymakers to request a beneficiary impact statement on every major component of proposals to change Social Security. In a program that affects millions of individuals of all ages, it is essential to look beyond the budgetary changes to understand the actual impact on people's daily lives now and in the future.

Produced by the **Consortium for Citizens with Disabilities** (CCD) Social Security Task Force. See www.disabilityandsocialsecurity.org for more information about the Task Force's public education and outreach campaign. To learn more about CCD, a coalition of over 100 national organizations, go to www.c-c-d.org.