AARP

Six More Myths About Social Security

The program is going broke, politicians squander payroll taxes—and four other falsehoods

by Eileen Ambros

September 2016

Myth 1: The President sets the COLA.

Fact: The annual cost-of-living adjustment is not determined by the president or by congressional lawmakers. President Richard Nixon signed legislation in 1972 requiring that Social Security benefits be automatically adjusted for inflation. The calculation is made using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), a formula that gauges how the prices of things we need (food, for example) change over time.

Social Security compares the CPI-W for the third quarter of the current year against the inflation rate for the corresponding quarter of the year in which a COLA was last approved. The COLA for 2017, for instance, will be based on the inflation rate for the July-August-September quarter of 2016, compared with the same period of 2014 — the last time the inflation rate was high enough to trigger a COLA.

Myth 2: Members of Congress don't pay into the system.

Fact: Before Social Security even existed, there was the Civil Service Retirement System, which covered federal workers and officials. But in 1984, the president, members of Congress and federal employees became part of the Social Security system, and they have since paid into it. (Some federal employees hired before 1984 had the option of sticking with the old system or enrolling in Social Security. But everyone hired since falls under Social Security.)

Myth 3: Social Security is going broke.

Fact: No doubt, Social Security faces funding challenges, but not immediately and not bankruptcy. Benefits are paid through payroll taxes collected from current workers and their employers, and the program currently operates with a surplus of about $2.8 trillion.

Yet with a rising number of retirees and a drop in the birthrate, that's changing. The latest projection has the combined Social Security trust funds that pay retirement and disability benefits running out of cash reserves by 2034.

But that wouldn't leave Social Security bankrupt and unable to pay any benefits. Even if Congress does nothing to shore up the system by 2034, Social Security will be able to pay out 79 percent of promised benefits until 2090. The last time Social Security nearly depleted its reserves was in the early 1980s, when Congress shored up the program by gradually increasing the full retirement age from 65 to 67 and started to tax benefits based on income levels.

Myth 4: Retirees lose benefits forever if they work.

Fact: If you claim Social Security retirement benefits early while still working, some of those benefits may be withheld — depending on your income. This year, Social Security deducts $1 of benefits for every $2 earned above $15,720. For those reaching full retirement age in 2016, Social Security deducts $1 for every $3 earned above $41,880. Once you reach full retirement age — 66 for those born from 1943 through 1954 – you can earn an unlimited amount without a reduction in benefits.

But the withheld benefits aren't lost forever. When you reach full retirement age, Social Security will recalculate your monthly benefit, bumping it up to give you credit for the benefits withheld. And over time, you will recoup those withheld benefits.

Myth 5: Social Security payroll taxes go into the general fund.

Fact: Since its creation in the 1930s, the Social Security trust fund has never been part of the general fund, so politicians have not been free to spend the money on pet projects. The way it works: The Internal Revenue Service daily collects payroll taxes paid by workers and their employers. This revenue is immediately invested in interest-bearing U.S. Treasury securities, as required by law, and credited to the Social Security trust fund. Social Security regularly redeems Treasury securities to pay benefits. Meanwhile, the government spends the proceeds raised from the sale of Treasury securities on a wide range of programs and projects. But Uncle Sam is ultimately obligated to repay the money with interest to the Social Security trust fund.

Myth 6: Undocumented immigrants collect Social Security.

Fact: Almost any online article on the financial health of Social Security generates lots of reader comments claiming the system's resources are being drained by undocumented immigrants. Undocumented immigrants are not allowed to claim Social Security benefits. Yet these workers and their employers pay payroll taxes that benefit the bottom line of Social Security. In 2010 alone, Social Security netted $12 billion from undocumented workers and their employers.

It may be that some people confuse Social Security with Supplemental Security Income, which pays benefits to those with limited means and who are disabled, blind or 65 and older. SSI is administered by the Social Security Administration but receives no money from payroll taxes. Instead, SSI's funding comes from the government's general fund. Noncitizens eligible for SSI include refugees, asylum seekers and those "lawfully admitted for permanent residence."