

Is Social Security Secure? by Steve Waas

If you are like most people, you've noticed a deduction from your pay check your entire career for FICA – payroll taxes. Most of this is for Social Security. When you retire, things turn around. Instead of paying into Social Security, you start collecting a retirement benefit from it.

However, many people fear there will be nothing there when the time comes for them to collect.

Even though the future is impossible to predict, let me try to address some of the most frequently discussed fears about this issue:

1. The money deducted out of my paycheck all these years is not being saved for me, but instead is being spent by the federal government.

This is true. In 2010 Social Security took in about \$807 billion.

It paid out about \$686 billion. So, for each dollar an active employee paid into Social Security, about 85 cents was paid out to current recipients. The remaining 15 cents was “saved” in a Trust Fund. The total amount of savings that the Social Security system holds in U.S. Treasury securities is now about \$2.5 trillion. Why so much? Because in recent years most baby-boomers have been in their peak earning years. Far more money has poured into the Social Security system via payroll taxes than has been paid out.

But what has happened to this \$2.5 trillion? It's simple. The Social Security Trust Fund invested it in U.S. Treasury bonds. In other words, the money has been lent to the federal government, which has indeed spent it.

(It's interesting to contrast this to the way pension funds are financed. Many City employees make contributions from their paychecks into a pension system. The City also makes contributions. These dollars do not go back to the City government to be spent on current programs. All of it is invested to provide for current and future benefits.)

2. The Social Security Trust Fund is actually filled with “worthless IOUs.”

This is technically false - but that's not as important as it seems. The assets held by the Social Security Trust Fund are very real U.S. Government Bonds, and they must be used for Social Security beneficiaries. But there's a catch. Payments out of the fund are made only when the rules of the Social Security system dictate it. But who sets the rules? Congress does. Since Congress makes the rules, it also can change them.

3. I can't count on being able to collect any of my Social Security benefits.

This is false. But clearly something has to change. Now that baby boomers are retiring, Social Security will be a net drain on government finances, not a net inflow. The \$2.5 trillion held by the Trust Fund does nothing to alter this.

So, what impact should all of this have on your planning? In my opinion, you should count on one of two things happening – if not both: tax increases and selected Social Security benefit reductions.

(Note: other “solutions” are not really solutions at all. Economic growth would help, but nobody suggests that growth alone can bring costs and revenues back in line. Also, the government can borrow, but this generally means taxes will rise later on. And

creating inflation doesn't help either – largely because both tax brackets and social security benefits are adjusted annually for inflation.)

What can you do?

Higher taxes can affect just about anyone. But young people have more years of taxes and salary growth ahead of them - so they might be hit hardest. Take a close look at Roth IRAs as well as the new Roth 457 available to City employees. In effect,

they allow you to pay taxes on some of your retirement savings now, while tax rates are lower. Then you can use the money tax free in the distant future. Younger workers should look at this option. For older workers, it's a more complex decision.

While Social Security benefit reductions are a definite possibility, some people go to ridiculous extremes and conclude that no benefits will be available to them. It is far more likely that there will be some changes, but these changes will have little or no impact on current retirees, and a more significant impact on younger workers.

If you would like help in evaluating your retirement plan, including the role of Social Security, keep in mind that free financial counseling is available at the HMEPS office. Call 713-595-0140 for details.

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Number of People Paying Into Social Security For Each Recipient

