Are the Social Security trust funds real?

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A. Social Security trust funds are real and hold real Treasury securities for which the federal government has an obligation to pay. They reflect any accumulated excess of Social Security taxes plus other revenues, such as interest received, over expenditures. At the same time, the trust funds "fund" only a portion of outstanding obligations. The trust funds are invested in special-issue Treasury securities backed by the full faith and credit of the federal government.

Social Security was designed primarily as a "pay-as-you-go" system. Instead of prefunded accounts for individuals, such as individual retirement accounts (IRAs), contributions from current workers have always paid for most of the benefits. For the most part, money going into the system each year almost immediately goes out to pay for benefits.

When Social Security's receipts from payroll taxes and other sources exceed program costs, as when the baby boom generation dominated the workforce and had not yet started retiring on Social Security, excess funds purchased interest-bearing special-issue US Treasury bonds. In effect, the Social Security trust fund lent money to the general fund.

Where does the money go? When the non–Social Security part of government is running deficits, any Social Security surplus funds other government activities, reducing the size of the unified fund deficit. When the trust funds themselves run deficits, however, they add to these other non–Social Security deficits to produce an even larger unified fund deficit. Because these special-issue bonds are essentially both sold and held by the government, aren't publicly traded like other financial assets, and represent IOUs from the government, some people believe that the trust funds are nothing more than an accounting fiction.

Another factor confuses the issue. Because the trust funds represent an asset to one side of government (the Social Security Administration) and a liability to another side of government (the general fund), some accounting presentations based essentially on cash flows make the effect of the trust funds on the budget look "neutral." In fact, future obligations are also liabilities to be paid but are not counted in that trust fund ledger.

So, are the trust funds real? Yes. They have legal consequences for the Treasury and are backed by the full faith and credit of the federal government, just like other Treasury bonds. When the Social Security Administration redeems the bonds, the government has a legal obligation to pay the money back with interest, with no additional appropriation by Congress required.

Key Elements of the U.S. Tax System

Are the Social Security trust funds real?

The trust funds are not a free lunch for taxpayers. Money from the general fund used to repay debts to the trust funds cannot be used for other purposes, like building roads or providing for national defense. And as an additional outlay for the government, those general fund payments increase the Treasury's need to borrow from the public, increasing federal deficits and adding burdens on future taxpayers.

For all the heat about whether the trust funds are "real," the debate misses a larger issue: the long-term fiscal challenges posed by Social Security and Medicare are not caused by inadequate trust funds, which will be depleted after only a few years of drawdown, but to decades-long imbalances between promised benefits and the revenues required to fund those benefits.

Updated May 2020

Further Reading

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