Special Report

Myths and Truths About Social Security

Exploding 5 misconceptions that threaten the system

by Jane Bryant Quinn, AARP Bulletin, November 1, 2011

It happened during the stock boom of the 1990s, and it is happening again. Social Security is coming under attack. The first challenge arose from hope — that savers would get more retirement income for their money if they bought stocks. But the idea of privatization was not popular with the public.

Learn the facts about Social Security. — C.J. Burton/Corbis

Now, the attack comes from fear — that Social Security has serious financial problems and can only fail. Younger people lean more toward change than older people do. A CNN/Opinion Research Corp. poll conducted a year ago found that 60 percent of adults who aren't retired expect to get nothing — zero — from Social Security in their older age.

They're mistaken. As misinformation and mistrust grow, however, it becomes important to explore — and explode — several Social Security myths that endanger the system's public support.

Myth No. 1: Social Security is going bankrupt. No, it's not. Even in the unlikely event that nothing changes and the program's entire surplus runs out in 2033, as projected, checks would keep coming. Payroll taxes at current rates would cover 77 percent of all the future benefits promised. That's true for young and old alike, and includes inflation adjustments.

Myth No. 2: I'd be better off if I'd kept my Social Security taxes in my own investment account. Hmmm — you're saying that you'd faithfully put that money aside, every year of your working life, in a mix of stocks and bonds, without ever skipping a year, drawing on your nest egg or selling when the market dropped? Few such paragons exist.

You'd need to invest far more than you probably realize to match the benefits Social Security pays. As an example, take a 65-year-old couple with a single breadwinner who earned the average wage. At retirement, they'd currently get about $2,170 a month, plus inflation adjustments, for life, the Urban Institute reports.

To equal that sum in private savings, they'd need to have about $580,000, says Michael Kitces, director of research for Pinnacle Advisory Group, and the money might last only 30 years. How many average earners are likely to save that much?

Myth No. 3: In 1983, Congress made changes to Social Security to build a fund that would pay for boomers when they retire, so it's not fair to change benefits now. No, Congress did not intend to "advance fund" the boomers, according to a study of the record by Charles Blahous of Stanford University's Hoover Institution. It raised taxes and cut some future benefits to cure an imminent insolvency. The trust fund reserves — now $2.6 trillion — were a by-product of the decisions made. Congress never veered from its vision of intergenerational compact: Working people pay for those who don't, or can't, work anymore. On the flip side, the compact requires older people to make some concessions so that younger people can afford it.

Myth No. 4: You should get out of Social Security the amount you put in. No. Social Security is not an individual investment program (see Myth No. 2). Your taxes paid for the earlier generation of retirees. Current workers are paying for you. The total amount of your benefit depends on how much you earned, whether you get a spousal benefit, when you retire and how long you live.

Myth No. 5: Social Security helps old people, not younger people like me. Wrong. It provides income support to qualified widows and widowers with young children, as well as orphans. Just as important, it saves young families from the cost of supporting older parents who, without Social Security, wouldn't have enough money to live on. It also provides benefits for workers who become disabled.

My final point … and it isn't a myth, it's a fact. If young people switched their payroll taxes into private accounts, the government would have to borrow $6.5 trillion or more (depending on the details) to keep paying out benefits to current retirees.

That means higher deficits, higher income taxes, further slashes in spending, or all three. It's smarter — and cheaper — to fix the current program and put everyone's mind at rest.

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