

# **Is Social Security Safe?**

**Transcript**

We have a national debt of almost 40 trillion dollars, and a lot of new expenses such as the war with Iran. Is the government raiding Social Security to pay for this?

Since the 1970's, there have been stories that the federal government borrows money from Social Security and never pays it back, so that when current workers retire, the money will not be there.

Some people tell us Social Security is already bankrupt, because if you look into the funds, you'll find nothing but IOU's.

There is a grain of truth to these stories, but when economists first started telling us Social Security was in trouble, they exaggerated a bit to get our attention. Then other people exaggerated the exaggerations, and by 1980, we were getting some first-rate horror stories.

In reality, Social Security has a trust fund of almost 3 trillion dollars. It does not keep all that money in the form of dollar bills. Think about what you would do with this amount of money. You could put it in a bank, or invest in stocks, bonds, or real estate.

The most obvious place for an agency of the federal government to invest is Treasury Bonds. Investors all over the world buy U. S. Treasury bonds because they are backed by the “full faith and credit” of the United States.

Both Treasury bonds and cash are paper assets backed by the world's strongest economy. The main difference is that you put cash in banks to get interest, while Treasury bonds pay interest on their own.

Whenever an investor buys Treasury bonds, the Treasury trades bonds for cash. This is how the Federal Government borrows money. When the bonds are mature, the Treasury returns the money to the investor in exchange for the matured bonds. Long-term investors may use that cash to buy new bonds.

So it looks like the federal government is moving money back and forth between two boxes, and that is true. We do it this way because most people like to see Social Security funding numbers separate from other government budget items.

So it's true that the government borrows money from the Social Security Trust Fund, but that is not a problem. The growing national debt and the shrinking Trust Fund are problems; I'll put them in other videos.