How much does Congress owe Social Security?

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Social Security's importance to the American public simply can't be overstated.

As of September 2018, the $1,417 benefit paid to the average retired worker is enough to keep an estimated 15.3 million elderly Americans above the federal poverty line, according to an analysis by the Center on Budget and Policy Priorities.

Simply put, we'd be facing a major elderly poverty crisis without the financial protection provided to most seniors by Social Security.

Big problems await Social Security

However, America's most important social program also is facing its biggest test since inception, at least according to the latest annual report from the Board of Trustees.

Released in early June, the Trustees report estimates that Social Security will hit an undesirable inflection point this year. For the first time since 1982, it'll expend more than it collects in revenue by $1.7 billion. That may sound like a huge net cash outflow, but it's actually peanuts relative to the $2.89 trillion currently held in asset reserves.

The problem is that as time passes, these net cash outflows will grow in size very quickly. Should nothing be done to resolve this outflow, it's projected that the program will burn through its excess cash by 2034, at which time a benefit cut of up to 21 percent may be needed to sustain payouts.

Blaming Congress

How Social Security got into this mess is often of great debate among the public - and very frequently, it's Congress that catches that blame. While I wholeheartedly agree with the American public in placing partial blame on lawmakers in Washington, I disagree with the reason that blame is being cast.

Cast blame on Washington for the right reason: inaction.

Both Republicans and Democrats each have a core solution that would completely resolve Social Security's estimated $13.2 trillion cash shortfall between 2034 and 2092. Republicans would gradually raise the full retirement age, thereby reducing lifetime payouts for future generations of workers, whereas Democrats would remove or raise the payroll tax cap, requiring the wealthy to pay more into the system.

Unfortunately, since neither party is incentivized to work with the other to find common ground, the stalemate persists. The longer this goes on, the more painful the fix is going to be on working Americans and potentially even retirees.

The wrong reason to cast blame on Congress is for the mutually beneficial borrowing arrangement between Social Security and the federal government. A common belief, at least across social media, is that the federal government has raided or stolen funds from Social Security's asset reserves to fund wars and other nefarious activities. This has virtually no shred of truth to it.

Social Security and the federal government have a mutually beneficial borrowing arrangement

In reality, the Social Security Administration is required by law to invest any net cash surpluses into special-issue bonds and, to a lesser extent, certificates of indebtedness. Basically, the Social Security Administration is loaning money to the federal government, which, in turn, pays interest to the Social Security program each year.

For the federal government, this arrangement is beneficial because it means not having to rely on foreign countries to buy even more debt. Having nearly $2.9 trillion in borrowing capacity has given Congress a quick source of borrowing capital that it can use to pay for any of its budget line items. This means borrowed funds could be used to fund defense spending, as well as infrastructure, education, healthcare, transportation or any other federal spending project.

Meanwhile, Social Security pockets a healthy chunk of change each year from the interest earned on its "loans."

Last year, Social Security collected $85.1 billion from the federal government in interest income, and it looks to generate quite a bit in the decade to come.

Here's a snapshot of the Trustees' estimated net interest payments from the federal government to Social Security between 2018 and 2027 (per the intermediate- cost model):

2018 ….	$83.1 Billion
2019 ….	$82.2 Billion
2020 ….	$ 81.8 Billion
2021 ….	$ 80.9 Billion
2022 ….	$ 79.8 Billion
2023 ….	$ 79.8 Billion
2024 ….	$ 80.0 Billion
2025 ….	$ 79.4 Billion
2026 ….	$ 79.3 Billion
2027 ….	$ 78.3 Billion

If you add all of this up, over the next decade, the Social Security program will pocket an estimated $804.4 billion in interest income from the federal government. Tell me again how that's not a good thing for the program.

What you may note, though, is that net interest income collected is set to gradually decline from S83.1 billion to $78.3 billion over the 10-year period. Despite the expectation of higher interest rates and therefore better yields, Social Security's asset reserves are likely to decline over this period, leading to higher yields across a smaller base of excess cash.

Also keep in mind that this interest income could disappear completely if Social Security's asset reserves are exhausted.

Long story short, the federal government and Social Security have a good arrangement going. If Congress can transcend its political divide, this arrangement could extend for years or decades longer.

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