

## Editorial on Social Security Funds

Bembady Bharathi\*

*Department of Public Administration, Osmania University, Hyderabad, Telangana, India*

### EDITORIAL

The Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund are two separate funds that make up the Social Security Trust Fund. The OASI trust fund is used to pay benefits to retirees and their children, as well as the families of employees who have died. Benefits for disabled workers and their families are covered by the DI trust fund. Otherwise, the two funds operate in a similar manner. When employees and employers contribute more to Social Security than the system requires paying benefits, the overage is invested in special US government securities. This requires the federal government to borrow money from the trust fund for non-Social Security purposes.

The Social Security Trust Fund is not linked to the stock market in any way. Funds left over after all benefits are invested in special-issue government bonds on a daily basis. They're similar to US Treasury bonds, but they don't trade on the open market. These interest-bearing bonds are essentially an IOU that will be paid out of future FICA tax receipts.

Short-term certificates of indebtedness, which mature on June 30 of the following year, and bonds, which usually mature in one to

15 years, are the two kinds of special government securities? These securities aren't traded on the bond market and aren't available to the general public. They are, like all Treasury securities, backed by the US government's full faith and credit.

A formula devised in 1960 through amendments to the Social Security Act determines the interest rate on special issues. It's about the same as the average yield on marketable Treasury securities with a maturity date of at least four years. The trust funds received an average interest rate of 2.219 per cent on their securities in 2019. This rate, on the other hand, will change from month to month. This rate, on the other hand, will change from month to month. So far in 2020, it has dropped from 2.000 per cent in January to 0.875 per cent in April, owing to the unexpected economic downturn brought on by the COVID19 pandemic.

Social Security is a pay-as-you-go system, with existing employees' taxes covering the costs of benefits owed to retirees and others. For many years, the revenue generated by payroll taxes was more than enough to cover the benefits that were being paid out. The Social Security Trust Fund built up a reserve over time that was almost \$2.9 trillion at the end of 2019.

**Correspondence to:** Bembady Bharathi, Department of Public Administration, Osmania University, Hyderabad, Telangana, India, Tel: +92-323-9991029; E-mail: bharathisinu2007@gmail.com

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