



Social Security's Uncertain Future: What You Should Know



Social Security is a pay-as-you-go system, which means today's workers are paying taxes for the benefits received by today's retirees. However, demographic trends such as lower birth rates, higher retirement rates, and longer life spans are causing long-run fiscal challenges. There are simply not enough U.S. workers to support the growing number of beneficiaries. Social Security is not in danger of collapsing, but the clock is ticking on the program's ability to pay full benefits.

Each year, the Trustees of the Social Security Trust Funds provide a detailed report to Congress that tracks the program's current financial condition and projected financial outlook. In the latest report, released in August 2021, the Trustees estimate that the retirement program will have funds to pay full benefits only until 2033, unless Congress acts to shore up the program. This day of reckoning is expected to come one year sooner than previously projected because of the economic fallout from the COVID-19 pandemic.

Report Highlights

Social Security consists of two programs, each with its own financial account (trust fund) that holds the payroll taxes that are collected to pay benefits. Retired workers, their families, and survivors of workers receive monthly benefits under the Old-Age and Survivors Insurance (OASI) program; disabled workers and their families receive monthly benefits under the Disability Insurance (DI) program. The combined programs are referred to as OASDI.

Combined OASDI costs are projected to exceed total income (including interest) in 2021, and the Treasury will withdraw reserves to help pay benefits. The Trustees project that the combined reserves will be depleted in 2034. After that, payroll tax revenue alone should be sufficient to pay about 78% of scheduled benefits. OASDI projections are hypothetical, because the OASI and DI Trusts are separate, and generally one program's taxes and reserves cannot be used to fund the other program.

The OASI Trust Fund, considered separately, is projected to be depleted in 2033. Payroll tax revenue alone would then be sufficient to pay 76% of scheduled OASI benefits.

The DI Trust Fund is projected to be depleted in 2057, eight years sooner than estimated in last year's report. Once the trust fund is depleted, payroll tax revenue alone would be sufficient to pay 91% of scheduled benefits.

Proposed Fixes

The Trustees continue to urge Congress to address the financial challenges facing these programs soon, so that solutions will be less drastic and may be implemented gradually, lessening the impact on the public. Combining some of the following solutions may also help soften the impact of any one solution.

- Raising the current Social Security payroll tax rate (currently 12.4%). Half is paid by the employee and half by the employer (self-employed individuals pay the full 12.4%). An immediate and permanent payroll tax increase of 3.36 percentage points to 15.76% would be needed to cover the long-range revenue shortfall (4.20 percentage points to 16.60% if the increase started in 2034).
- Raising or eliminating the ceiling on wages subject to Social Security payroll taxes (\$142,800 in 2021).
- Raising the full retirement age beyond the currently scheduled age of 67 (for anyone born in 1960 or later).
- Reducing future benefits. To address the long-term revenue shortfall, scheduled benefits would have to be immediately and permanently reduced by about 21% for all current and future beneficiaries, or by about 25% if reductions were applied only to those who initially become eligible for benefits in 2021 or later.
- Changing the benefit formula that is used to calculate benefits.
- Calculating the annual cost-of-living adjustment for benefits differently.

Pandemic Impact

The 2021 Trustees Report states that Social Security's short-term finances were "significantly affected" by the pandemic and the severe but short-lived recession in 2020. "Employment, earnings, interest rates, and GDP [gross domestic product] dropped substantially in the second calendar quarter of 2020 and are assumed to rise gradually thereafter toward recovery by 2023, with the level of worker productivity and thus GDP assumed to be permanently lowered by 1%." The projections also accounted for elevated mortality rates over the period 2020 through 2023 and delays in births and immigration. Because payroll tax revenues are rebounding quickly, the damage to the program was not as great as many feared.

Sharp increases in consumer prices in July and August suggest that beneficiaries might receive the highest annual benefit increase since 1983 starting in January 2022. The

Social Security Administration's chief actuary has estimated that the 2022 cost-of-living adjustment (COLA) will be close to 6.0%.¹ (The official COLA had not been announced at the time of this writing).

What's at Stake for You?

The Census Bureau has estimated that 2.8 million Americans ages 55 and older filed for Social Security benefits earlier than they had anticipated because of COVID-19.² Many older workers may have been pushed into retirement after losing their jobs or because they had health concerns.

If you regret starting your Social Security benefits earlier than planned, you can withdraw your application within 12 months of your original claim and reapply later. But you can do this only once, and you must repay all the benefits you received. Otherwise, if you've reached full retirement age, you may voluntarily suspend benefits and restart them later. Either of these moves would result in a higher future benefit.

Even if you won't depend on Social Security to survive, the benefits could amount to a meaningful portion of your retirement income. An estimate of your monthly retirement benefit can be found on your Social Security Statement, which can be accessed when you sign up for a my Social Security account on SSA.gov. If you aren't receiving benefits and haven't registered for an online account, you should receive an annual statement in the mail starting at age 60.

No matter what the future holds for Social Security, your retirement destiny is still in your hands. But it may be more important than ever to save as much as possible for retirement while you are working. Don't wait until you have one foot out the door to consider your retirement income strategy.

Questions? Contact First Financial's Investment & Retirement Center by calling 732.312.1534. You can also email Mary.LaFerriere@cunamutual.com or Maureen.McGreevy@cunamutual.com

All information is from the 2021 Social Security Trustees Report, except for:

1) AARP, September 15, 2021

2) U.S. Census Bureau, 2021

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