

# Social Security Solvency

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*By James P. Ruth, CFP®*

Much has been written and discussed in the national media regarding the solvency of Social Security (SS). We routinely hear that SS is going broke - that our children and grandchildren, or even we as current or soon-to-be recipients won't collect the full benefits we have long been promised.

So what's the real story? Can we count on SS to be there for our retirement? Will the benefits for which we've been heavily taxed (12.4% combined employee & employer contributions, not including Medicare) really be paid as promised? This report will attempt to offer some answers to these and other important questions about SS.

## Research Sources

For research into the SS dilemma, we consulted three major sources of public policy information on the subject – the Congressional Budget Office, the American Academy of Actuaries and the AARP Public Policy Institute (collectively referred to as the experts). Each has published recent reports on the solvency problems and solutions for the SS quandary. Surprisingly, there is general agreement among all three organizations on most of the issues and their implications.

## How Did We Get In This Mess?

The short answer is this: The promises made to current and future retirees exceed the government's ability to deliver on them. In 1950, sixteen American workers supported each SS retiree. Today it's about three workers per retiree. And in another decade or so only two workers will support each SS recipient. Longer life spans, generous cost-of-living increases and an expansion of benefits over the years have only compounded the problem. These and other factors have conspired to create a financial funding gap in delivering projected benefits in the future.

## When Will Social Security Go Broke?

The press and the politicians often throw out various dates when discussing the demise of SS. It's no wonder taxpayers and retirees are confused about their expectations from SS. The chart below shows the key dates the experts believe are critical to understanding the future of SS.

Key Dates	What Happens Then?
2017	The annual cost of benefit payments to recipients exceeds the annual SS taxes collected.
2037 - 2041	Contrary to popular belief SS will have the funding necessary to pay full benefits until at least 2037 according to the American Academy of Actuaries. The Congressional Budget Office pegs that date at 2039 while AARP pushes the date back to 2041. Somewhere in that range of dates is the probable answer. The funding used to help pay benefits after 2017 comes from excess SS taxes received by the government in prior years and interest earned on those reserves. This is often referred to as the SS trust fund.
After That	Once the SS trust fund is exhausted, the system will have to survive on the taxes it collects each year to pay the current benefits. That being the case, the experts project that SS will continue to pay benefits but at a reduced level - about 78% of projected benefit levels.

## Reform Options

Each of the three experts offered options for solving the SS dilemma - many of them the same or very similar. While numerous other solutions were also considered in their reports, the options outlined in the chart below seem to have the largest consensus. Some of the solutions offered also indicate the amount of the financing gap the option would close over the next 75 years.

Broad Options	Tactical Solutions
<b>Raise the Benefit Age</b>	<ul style="list-style-type: none"> <li>• <u>Increase full retirement age (FRA)</u> beyond the current 65 to 67 age levels. <i>Boosting the age to 68 by 2028 would close 25% of the projected financial shortfall. An increase to age 70 would close 61% of the actuarial deficit.</i></li> <li>• <u>Raise the “early” retirement age</u> (currently age 62) to a higher age.</li> </ul>
<b>Reduce Benefits to Recipients</b>	<ul style="list-style-type: none"> <li>• <u>Change the annual cost-of-living (COLA) adjustment</u> from the CPI to a “superlative CPI index” – presumably a more accurate index pegged to retirees. <i>This change would fill about 17% of the shortfall. Under the current CPI measure, a .50% COLA reduction would eliminate about 40% of the financial gap.</i></li> <li>• <u>Reduce benefits to all new retirees.</u> <i>A 5% reduction would close 31% of the financial shortfall projected. An 11.5% cut would solve 100% of the shortage.</i></li> </ul>
<b>Increase Taxes</b>	<ul style="list-style-type: none"> <li>• <u>Increase payroll taxes</u> from the current combined 12.4% rate (EE &amp; ER). <i>A .85% increase would close 100% of the financing gap (1.7% combined increase by both employee and employer). A .25% increase by both would close about 23% of the deficit.</i></li> <li>• <u>Increase the taxable maximum.</u> <i>Increase the taxable maximum sufficient to include 90% of covered wages up from about 83%. This closes about 39% of the gap.</i></li> <li>• <u>Tax SS benefits like private pensions.</u> <i>Taxing 100% of benefits in excess of contributions would close about 17% of the shortfall.</i></li> </ul>
<b>Add New Workers</b>	<ul style="list-style-type: none"> <li>• <u>Include new hires by state and local governments</u> in the SS system. <i>This would close 10% of the financing gap.</i></li> </ul>
<b>Add New Investments</b>	<ul style="list-style-type: none"> <li>• <u>Invest some SS taxes collected in a stock &amp; bond portfolio.</u> <i>Investing 15% of the SS trust fund in a 50% stock &amp; 50% corporate bond portfolio could close the financial gap in benefit funding by 9%.</i></li> </ul>

## The Bottom Line

Social Security is unlikely to go bankrupt. The options for long term solvency are plentiful and relatively painless. **Extreme policy solutions are not necessary.** There will be changes however if projected benefits are expected to be paid to future generations of taxpayers. If the proposed changes are applied somewhat evenly (including a balanced mix of benefit cuts, tax increases and rising eligibility ages) across the broad spectrum of taxpayers and recipients there won't be a great hardship on any particular group of benefit recipients.

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