Social Security Highlights

Will It Still Be There?

The Future of Social Security

William F. Rainaldi, CFP®
Regional Vice President
607-760-3315 • wrainald@smlny.com

For those of us who actually look carefully, there is some disturbing language—in bold print, no less—on the second page of any individual Social Security statement issued by the SSA:

> ***Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2034, the payroll taxes collected will be enough to pay only about 77 percent of scheduled benefits.***

This is actually good news. Three years ago it was 74 percent by 2033. But what does it all mean?

Fueled by Fear

Living Longer; Collecting Younger

As hard as we have tried, according to a Government Accountability Office (GAO) study published in 2016 (which can be found at www.gao.gov/products/GAO-16-786), the majority of people still collect their Social Security ***before*** their Full Retirement Age (FRA). Only 28 percent of men and 23 of women actually wait until FRA.

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There are several reasons for this, but from our observations, one of the biggest is fear. Right or wrong, people believe that they have to start collecting as soon as possible because Social Security won't be there much longer. The self-serving language used by the SSA doesn't help.

The truth is that last year, the SSA actually collected more in payroll taxes than they paid out, at least when it comes to retirement benefits. Hence the improving numbers. But the SSA projects that in 2018—for the first time in decades—they will pay out more than they collect.

Disability, though, is even worse. The government in recent years has paid out more than it had anticipated in disability claims, and this is one of the main reasons for their angst.

So is there a real problem here? In the long term, yes. People are simply living longer than they used to. The longer they live, the more benefits they collect. And the more people get classified as disabled, the more it ends up costing.

So how does the government solve that problem? There are some minor tweaks that can be made. One of them occurred in 2016 when the SSA, without getting Congress involved, eliminated File and Suspend. Another was a recent proposal to adjust the way in which Cost of Living Adjustments (COLAs) are calculated. We'll see about that one.

But neither of those will accomplish much. The serious reform proposals revolve around two basic ideas: raising the age and raising the tax.

Raising the Age

Raising the age is easy to justify. When Social Security started all the way back in 1935, Full Retirement Age was 65. Life expectancy at that point was 58 for men and 62 for women.

Today, Full Retirement Age is 66, and it will be 67 for those born 1960 or later.

Life expectancy has gone up significantly more than that: today it's more like 76.3 for males and 81.2 for females, according to the Centers for Disease Control and Prevention. So the end result is that a lot more people are receiving benefits. Simply raising the age could solve a lot of the problem.

Critics of this approach rightly point out that this is, in effect, a cut for everyone. If FRA goes from 67 to 68, someone retiring at 62 is now collecting six years early rather than five years early. So they would end up with a lower benefit. And the same logic would apply to someone collecting late.

Raising the Tax

The other approach is to raise the tax. They don't necessarily have to change the 6.2 percent withholding rate for employees. You could instead raise the upper limit. In 2018, Social Security applied a 6.2 percent tax on your wages up to $128,700. This works out to a maximum tax of $7,979 per year. If you make a million dollars, you still pay $7,979. And the employer pays the same amount.

Some in Washington simply want to eliminate that limit. That's how they do it with Medicare. You pay 1.45 percent of your income, no matter how high.

There are some issues with this approach as well. The 6.2 percent of your income (or 12.4 percent if you're self-employed) is a lot more than what they charge for Medicare. It could amount to a lot of revenue, which could quite possibly end up being used for something other than Social Security.

And second, many in Washington still refer to Social Security as a ***retirement program*** rather than an ***entitlement program.*** This distinction is important. Taxpayers are less likely to object to the tax if they think of it as a retirement program. But eliminating the cap—and not paying any extra benefits in exchange for the extra taxes—makes it tough to claim that Social Security is anything other than an entitlement program.

More Misconceptions

Note that the same GAO study referenced earlier also cited a number of other misconceptions. One of them was that only 48 percent of the married respondents to an AARP survey even knew that a spousal benefit exists!

Another one was that 55 percent of respondents "incorrectly believed they could continue working while collecting full Social Security benefits regardless of age."

This is simply not the case. The "Excess Earnings Test" could reduce or eliminate your current benefit if you file and continue to work. It no longer applies once you reach your Full Retirement Age, but until then it's very difficult to collect Social Security while you're still working.

Raising Awareness

Perhaps the toughest part is figuring out what our friends in Washington will eventually do. We certainly don't know. A lot depends on who's in charge when the decision is made. We know better than to predict what's going to happen, but we feel strongly that something will be done at some point. The truth is that while the funding of Social Security is a big problem in Washington, there are many, many others that are much tougher to solve.

So will Social Security still be there? The question remains . . . .

Social Security **Evaluator**

To learn about your Social Security options, contact your Security Mutual Life insurance agent. Using the Security Mutual Life Social Security Evaluator, your agent can provide you with an easy-to-understand illustration showing your various options, and then help you evaluate those options based on your personal financial needs and goals.

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