

SOCIAL SECURITY HIGHLIGHTS



The Company That Cares.®



William F. Rainaldi, CFP®

Senior Financial Services Consultant
607-760-3315 • wrainald@smlny.com

With the Social Security Trustees' report looming, we once again have the annual "doomsday" spectacle, and the perennial question: When will the Social Security funds run out??

The value of the Trust Fund peaked at just under \$3 trillion in 2020. Over time, as the system collects less than it pays out, that deficit will gradually eat into that balance.

The most recent guess, from August of 2021, was that doomsday would be here sometime in the year 2034. In other words, if nothing is done, they estimate the Social Security Trust Fund would run out of money that year.

But what does that mean, exactly? Contrary to what some people might think, it doesn't mean people would stop receiving their Social Security checks. Today, as it has always been, the vast majority of Social Security checks come not from the Trust Fund, but from money withheld from current workers' paychecks. If the Trust Fund truly does run out of money, the Social Security Administration estimates benefits would be reduced by 22 percent.



Can We "Fix" Social Security by Raising the Age?

Of course, that is based on an assumption Congress never does anything to address the situation between now and then – an idea that seems far-fetched. Few people may realize we've faced this situation before. In 1983, in fact, the Trust fund had been whittled down to almost zero, and Congress was forced to act. They "fixed" the problem through a combination of tax increases and a gradual increase in Full Retirement Age (FRA) – which is the age you can begin collecting your full, unreduced benefit.

When we say gradual, we mean really gradual. Back in 1983 FRA was age 65. This year it is age 66 and 4 months, going up to age 67 in the year 2027. So it will take 44 years to complete a two-year increase in FRA.

And therein lies the problem. FRA was age 65 when Social Security started back in the late thirties. While Full Retirement age has gone up by two years, life expectancy has gone up by more than fifteen years. So over time, more and more people are collecting benefits than ever before, and the system is feeling the strain.

It wasn't supposed to be like this. The 1983 "fix" was projected to last 75 years. But now it looks like that projection will fall short.

So now what? At the American Academy of Actuaries' website, you can tackle the Social Security funding problem by playing a video game. The site is:

<http://socialsecuritygame.actuary.org/>

According to the site, "The only ways to solve Social Security's long-term fiscal woes are to raise revenues, lower benefits, or some combination of both." The site allows you to solve the problem yourself by picking and choosing among several potential solutions.

You can then see how well your own preferred solution, or combination of solutions, will address the problem. You can choose several different "revenue increases," including raising payroll tax rate, subjecting higher wages to social security payroll tax, subjecting benefits to higher taxes, or applying payroll tax to health care premiums.

In addition, you can choose among the following "benefit reductions:" gradually increasing full retirement age, reducing cost-of-living adjustments, reducing benefits for future retirees, or lowering benefits for future high-income retirees.

The bottom line is, like last time, the problem can be solved only by using several different approaches at once.

Notice, though, the issue that exists for those who favor raising FRA. From a logical standpoint, it makes sense since people are living much longer than they used to, people may want to consider starting their retirement at a later age. But that becomes a political problem. The American Academy of Actuaries, like many other organizations, refers to it as a "benefit reduction." This label is especially popular among politicians who favor other means of solving the problem.

On the other side, they are not referred to as "tax increases" but "revenue increases." Such subtle differences in language can make a huge difference politically.

As far as raising FRA goes, it is both an increase in retirement age and a benefit reduction at the same time. If you increase FRA to say, age 68, then everyone would end up with a lower benefit, regardless of age. It's all a matter of branding. If you're in favor, you call it raising the age. If you're opposed, you call it a benefit cut. Either way, Social Security can be "fixed," but not until Congress has the will to do it.

One last thought: based on past history, Congress will eventually act, but it's doubtful they will do much with this issue until they absolutely have to. That's precisely what happened last time.

The applicability of any strategy discussed is dependent upon the particular facts and circumstances. Results may vary, and products and services discussed may not be appropriate for all situations; each person's needs objectives and financial circumstances are different and must be reviewed and analyzed independently.

We encourage individuals to seek personalized advice from a qualified Security Mutual life insurance advisor regarding their personal needs, objectives and financial circumstances.

Insurance products are issued by Security Mutual Life Insurance Company of New York, Binghamton, New York. Product availability and features may vary by state.

Copyright © 2022 Security Mutual Life Insurance Company of New York. All Rights Reserved.



The Company That Cares.®



YouTube

