Social Security

Is Social Security Going Broke?

By James P. Ruth

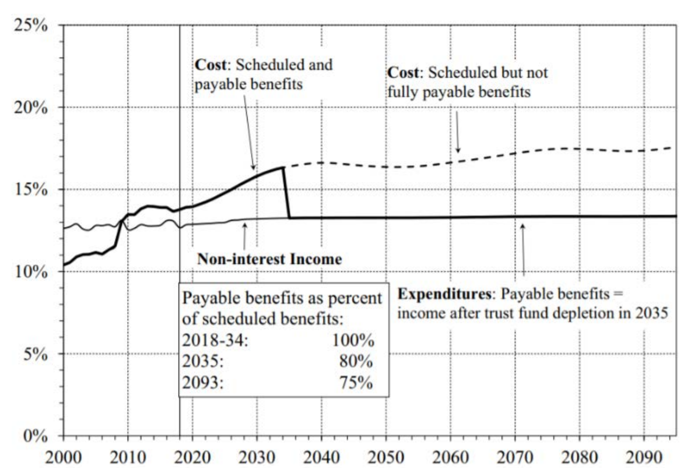
All the squawking about SS solvency from media pundits and Congressional partisans would have children's storybook character Chicken Little pounding his chest clucking his classic line, "The sky is falling." Breaking News: The sky isn't falling, it just gets a little lower each year. So, what's the real scoop on SS solvency? First, it's **not** going broke! However, there are some troubling financial speed bumps ahead that must be addressed sooner rather than later. Solutions for restoring SS's depleted resources, the classic political football, are pretty straightforward despite all the hype. *Cartoon by Gary Varvel, Indianapolis Star. Reprinted with permission.*

Key Dates

There are three key dates to remember in understanding SS's financial dilemma: 2020, 2034 and after 2034. Compiled from the *2019 SS Trustees Annual Report to Congress*, the chart below will help you understand what happens at each of those trigger dates.

Key Dates	What Happens Then?
2020	**SS Trust Fund Invaded:** Benefits paid out to SS retirees exceeds the OASDI* taxes collected from current workers forcing the program to dip into its nearly $3 trillion trust fund to cover benefits. In other words, the annual cost of benefit payments to recipients exceeds the annual SS taxes collected. After 2020, funding the shortfall comes from excess SS taxes received by the government in prior years and interest earned on those reserves, often referred to as the SS "Trust Fund." There is no actual Trust Fund, it's just an accounting on paper – a score sheet.
2034	**SS Trust Fund Exhausted**: The Old-Age and Survivors Insurance component of OASDI* is projected to run dry in 2034, as the "paper" reserves set aside to pay full benefits are exhausted. Studies by both the Congressional Budget Office and the American Academy of Actuaries seem to confirm this projection of the Trust Fund's demise.
After 2034	**Pay-As-You-Go Benefits Forever:** With the Trust Fund exhausted, SS will continue to pay *reduced* benefits on a pay-as-you-go basis equal to the OASDI* taxes it actually collects from current workers. The report concludes it will be able to pay about 77% of projected retirement benefits. Certainly not good news for retirees, but 77 cents on the dollar is a far cry from zero. And this can only improve when Congress finally gets around to fixing SS.
***OASDI** (Old Age, Survivor & Disability Insurance) accounts for 6.2% of the 7.65% FICA payroll tax that is earmarked for SS retirement and disability payments. The balance is Medicare at 1.45%.	

The chart on the right, from the 2019 Social Security Trustees Report, tells a similar story. It illustrates total Revenues (SS taxes paid by workers and employers), Outlays (SS benefits paid out to retirees) and Deficits (SS's unfunded liability). The bold line indicates scheduled SS benefit payments to retirees while the thin line shows actual SS taxes received. The area below the upwardly sloping dotted line denotes rising unfunded benefits due to the wave of baby boomer retirements over the next two decades.



After that, costs are projected to go down as Boomers die off and are replaced by Gen-Xers and Millennials – all generations with lower-birth-rates. A similar report is available from the American Academy of Actuaries on-line at: www.actuary.org

Bottom Line:

The consensus from various reliable sources is that Social Security will be able to pay about 77% of projected benefits promised to American workers after 2034. While a 23% reduction is certainly not good news, it's a far cry from zero. So, it looks like SS is going to be around for a long time to come. The only question that remains is this: ***Can Congress get their act together to fix SS for the next 75+ years?*** Let's take a look:

Potential Solutions Being Considered by Congress
Raise Retirement Age: Raise the Full Retirement Age (FRA) to 68 from the current age 66 - 67. *This could fill about **16%** of the funding gap.* Or, gradually raise both the FRA and the early retirement to age 70 and 65 respectively by 2069. *This could fill about **26%** of the funding gap.*
Raise or Remove Payroll Tax Cap: Today's gradually increasing cap of $137,700 is about 84% of the nation's earnings. *Raising that cap to 90% of national earnings would fill about **29%** of the funding gap. Eliminating the cap entirely making all earnings subject to SS tax would fill **71%** of the shortfall.*
Increase Payroll Tax Rate: Employees and employers both pay 6.2% on earnings in SS taxes. *Increasing that to 6.5% (3 tenths of 1%) would close **20%** of the funding gap.* Gradually increasing it to 7.2% over 20 years would fill **53%**.
Cover State & Local Government Employees: About one-quarter of state and local government employees are NOT covered by SS. *Requiring all newly hired employees to opt for SS coverage would fill about **6%** of the funding gap.*
Means-Testing: This "needs" based test could reduce benefits for higher-income earners and maybe eliminate SS altogether for the highest income families. *This could fill up to **10%** of the funding deficit.*
Increase # of Years for Calculating Benefits: SS is currently based on your highest 35 years of earnings. *Boosting that by 3 years to your highest 38 years would reduce the deficit by **11%**.*
Recalculate the COLA: To keep pace with inflation SS checks are increased by the Consumer Price Index (CPI) each year. *If the index were changed to a "Chained" CPI, purportedly reflecting the way consumers change their buying habits when prices change, it would fill **21%** of the SS shortfall.* This change would reduce SS checks by about 3 tenths of 1% (0.3).
Plus: 8 or 10 more potential solutions currently being discussed.

Sources: AARP, Congressional Budget Office, American Academy of Actuaries, Kiplinger's Personal Finance magazine and others.

Notice a Common Theme?

It looks like a little creativity in mixing and matching the potential solutions and no one group is unduly impacted. ***And then it's fixed!*** What has Congress been waiting for the last 20 years? Today the fix is pretty easy, but the window on *easy fixes* closes tighter every year they fail to act. If Congress was really smart (I know that's a stretch), they could find a fairly painless way to do that and maybe even throw in a small bump to the monthly SS checks of lower wage earners too. All they lack is the political will to get it done. We can only hope.

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