

## James Zahansky, AWMA®

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## How Secure Is Social Security?

We know the financial and economic landscape we all operate in is everchanging. Policy and regulatory shifts are often a big part of these changes and can alter almost anything from tax planning, to healthcare, and even retirement. Weiss & Hale Financial believes that in order to realize your financial life goals, proactive planning around policy decisions that may affect your unique financial plan is key. So this July, we'll discuss policy topics that may affect your financial plan. First, let's explore social security.

Social Security is a source of income you may receive once you have retired, however it should not be the only source of income. Some of the current challenges that Social Security faces makes it increasingly more important to choose a planning strategy that may create income to supplement the benefits you receive from Social Security. We encourage you to look at your Social Security statement by visiting [www.weissandhale.com/resources](http://www.weissandhale.com/resources) and click the link "My Social Security."

### The media

Watching the news, listening to the radio, or reading the newspaper, you've probably come across story after story on the health of Social Security. And, depending on the actuarial assumptions used and the political slant, Social Security has been described as everything from a program in need of some adjustments to one in crisis requiring immediate, drastic reform.

Obviously, the underlying assumptions used can affect one's perception of the solvency of Social Security, but it's clear some action needs to be taken. However, even experts disagree on the best remedy.

### Just the facts

According to the Social Security Administration (SSA), approximately 66 million Americans currently collect some sort of Social Security benefit. Social Security is a pay-as-you-go

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system, with today's workers paying the benefits for today's retirees. (Source: Fast Facts & Figures About Social Security, 2017)

How much do today's workers' pay? Well, the first \$128,700 (in 2018) of an individual's annual wages is subject to a Social Security payroll tax, with half being paid by the employee and half by the employer. Payroll taxes collected are put into the Social Security trust funds and invested in securities guaranteed by the federal government. The funds are then used to pay out current benefits.

The amount of your retirement benefit is based on your average earnings over your working career. Higher lifetime earnings result in higher benefits, so if you have some years of no earnings or low earnings, your benefit amount may be lower than if you had worked steadily. Your age at the time you start receiving benefits also affects your benefit amount.

You can begin receiving Social Security benefits before your full retirement age, as early as age 62. However, if you retire early, your Social Security benefit will be less than if you had waited until your full retirement age to begin receiving benefits.

## **Demographic trends**

Even those on opposite sides of the political spectrum can agree that demographic factors are exacerbating Social Security's problems — namely, life expectancy is increasing, and the birth rate is decreasing. This means that over time, fewer workers will have to support more retirees.

According to the SSA, Social Security is already paying out more money than it takes in. However, by drawing on the Social Security trust fund (OASI), the SSA estimates that Social Security should be able to pay 100% of scheduled benefits until fund reserves are depleted in 2035. Once the trust fund reserves are depleted, payroll tax revenue alone should still be sufficient to pay about 75% of scheduled benefits. This means that in 2035, if no changes are made, beneficiaries may receive a benefit that is about 25% less than expected. (Source: 2017 OASDI Trustees Report)

## **Possible fixes**

While no one can say for sure what will happen (and the political process is sure to be contentious), Some solutions have been proposed to help keep Social Security solvent for many years to come. One way is to allow individuals to invest some of their current Social Security taxes in "Personal Retirement Accounts." Some other solutions may be increasing the payroll tax, raising the ceiling on wages currently subject to the payroll tax, or to reduce future benefits.

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Some other proposed solutions are to raise the retirement age or to change the formula used to calculate benefits. There are other fixes that may take place, but none of them are guaranteed.

## **Uncertain outcome**

Members of Congress and the President still support efforts to reform Social Security, but progress on the issue has been slow. However, the SSA continues to urge all parties to address the issue sooner rather than later, to allow for a gradual phasing in of any necessary changes.

Although debate will continue on this polarizing topic, there are no easy answers, and the final outcome for this decades-old program is still uncertain.

**Plan Well** – The future outlook for Social Security depends on many demographic and economic factors. While the future may be unknown, there are still things you can do now to prepare for the unexpected. Creating a plan based on your unique needs and goals is central to the Plan, Invest, Live Well process. Weiss & Hale Financial considers all of these factors when planning for financial life goals. To see if our process may be able to help you plan for the unknown, visit [www.weissandhale.com/our-process](http://www.weissandhale.com/our-process).

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