Money Talks by Dave Helscher

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Social Security is a pay as you go system, meaning today's workers are paying taxes for the benefits received by today's retirees. Demographic trends such as lower birth rates, higher retirement rates, and longer life spans are causing long run fiscal challenges. There are not enough workers to support the growing number of beneficiaries. A Pew Research Center survey in December 2018 indicated that 42% of working Americans fear that they will receive no retirement benefits from Social Security. Social Security is not in danger of collapsing, but the clock is ticking on its ability to pay full benefits.

Each year, the Trustees of the Social Security Trust Funds provide a detailed report to Congress that tracks the program's current financial condition and projected financial outlook. In the latest report, released in August 2021, the Trustees estimate that the retirement program will have funds to pay full benefits only until 2033, unless Congress acts to shore up the program. This day of reckoning is expected to come one year sooner than previously projected because of the economic fallout from the COVID-19 pandemic.

The 2021 Trustees Report states that Social Security's short-term finances were "significantly affected" by the pandemic and the severe but short-lived recession in 2020. "Employment, earnings, interest rates, and GDP dropped substantially in the second calendar quarter of 2020 and are assumed to rise gradually thereafter toward recovery by 2023, with the level of worker productivity and thus GDP assumed to be permanently lowered by 1%". The projections also accounted for elevated mortality rates over the period 2020 through 2023 and delays in births and immigration. Because payroll tax revenues are rebounding quickly, the damage to the program was not as great as many feared.

Sharp increases in consumer prices in July and August resulted in beneficiaries receiving the highest annual benefit increase since 1983 starting in January 2022. The 2022 cost of living adjustment (COLA) will be 5.9%. The Census Bureau has estimated that 2.8 million Americans ages 55 and older filed for Social Security benefits earlier that they had anticipated because of the pandemic. Many older workers may have been pushed into retirement after losing their jobs or because they had health concerns.

The Trustees continue to urge Congress to address the financial challenges facing these programs soon, so that solutions will be less drastic and may be implemented gradually, lessening the impact on the public. Some of these include raising the current payroll tax rate, half paid by the employee and half by the employer, while self-employed pay the full amount; raising or eliminating the ceiling on wages subject to Social Security payroll taxes ($142,800 in 2021); raising the full retirement age beyond the current scheduled age of 67 (if born in 1960 or later); reducing future benefits; changing the benefit formula used to calculate benefits; or calculating the annual COLA differently. As the population ages and approaches retirement age, the cry for a solution will get louder.

Social Security consists of two programs, each with its own trust fund that holds the payroll taxes that are collected to pay benefits. Retired workers, their families, and survivors of workers receive monthly benefits under the Old-Age and Survivors Insurance (OASI) program; disabled workers and their families receive monthly benefits under the Disability Insurance (DI) program. The combined programs are referred to as OASDI. Combined OASDI costs are projected to exceed total income (including interest) in 2021, and the treasury will withdraw reserves to help pay benefits. The Trustees project the combined reserves will be depleted in 2034. After that, payroll tax revenue alone should be sufficient to pay about 78% of scheduled benefits. The OASI Trust fund, considered separately, is projected to be depleted in 2033. Payroll tax revenue alone would then be sufficient to pay 76% of scheduled OASI benefits. The DI Trust Fund is projected to be depleted in 2057, eight years earlier than last year's estimate. After that date, payroll tax revenue alone would be sufficient to pay 91% of scheduled benefits. OASI and DI Trusts are separate and generally one program's taxes and reserves cannot be used to fund the other program.

No matter what the future holds for Social Security, your retirement destiny is still in your hands. But it may be more important than ever to save as much as possible for retirement while you are working. Don't wait until you have one foot out the door to consider your retirement income strategy.