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WEALTH PLANNING INSIGHTS

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IS SOCIAL SECURITY GOING BROKE?

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Having walked hundreds of clients through our wealth planning process over the years, there are a handful of phrases our team hears repeatedly; one of them concerns Social Security. Often, upon reaching the portion of their plan that projects their future benefits, the client will listen and then utter some version of "Sure, if it's even still around." We've seen clients file for benefits early, accepting a permanently reduced payout (for them and their surviving spouse) in exchange, because they are so certain the program won't survive. We've even seen clients exclude any Social Security income from their plans entirely. So, is Social Security "going broke"? Let's talk about it.

Why Social Security Matters

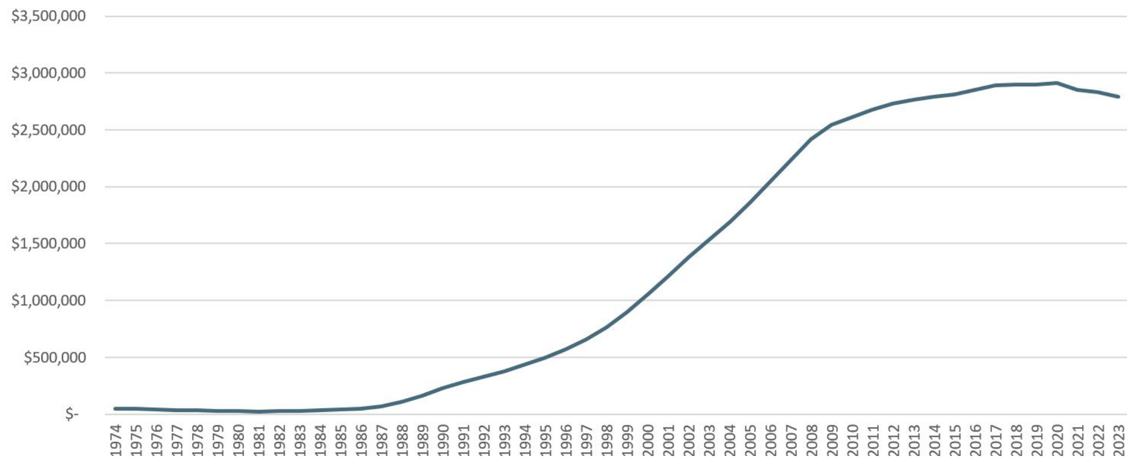
While it may be tempting to ignore Social Security in your retirement planning, clients are frequently surprised by how large their benefits actually are and what a large role those funds play in their retirement plans. It's easy to forget every worker defers a mandatory 6.2% into Social Security via payroll taxes, while their employer contributes another 6.2%. This 12.4% forced deferral dwarfs the average U.S. household savings rate, which as of June 2024 was only 2.9%. In this context, it is no surprise many retirees find themselves more reliant on Social Security than they expected. Our team regularly sees annual household benefits of $50,000+, hardly a trivial figure, even for high-net-worth retirees.

It is hard to imagine anyone saving 12.4% of their income into a 401(k), or having an accrued pension benefit of $50,000 a year and making light of the future existence of those funds in the same way we see many talk about the Social Security program. We are all participating and benefitting from Social Security in significant ways and we should all be properly informed about its welfare.

Funding Basics

The Social Security program is primarily funded by payroll taxes, taking in $1.2 trillion in such taxes in 2023. Years in which program revenue exceeds current benefits, the surplus is invested in the Old-Age and Survivors Insurance (OASI) Trust Fund; when these sources run a deficit, funds are drawn from the Trust Funds. This fund is often reported along with the Disability Insurance (DI) Trust Fund, which is much smaller but otherwise operates the same way.

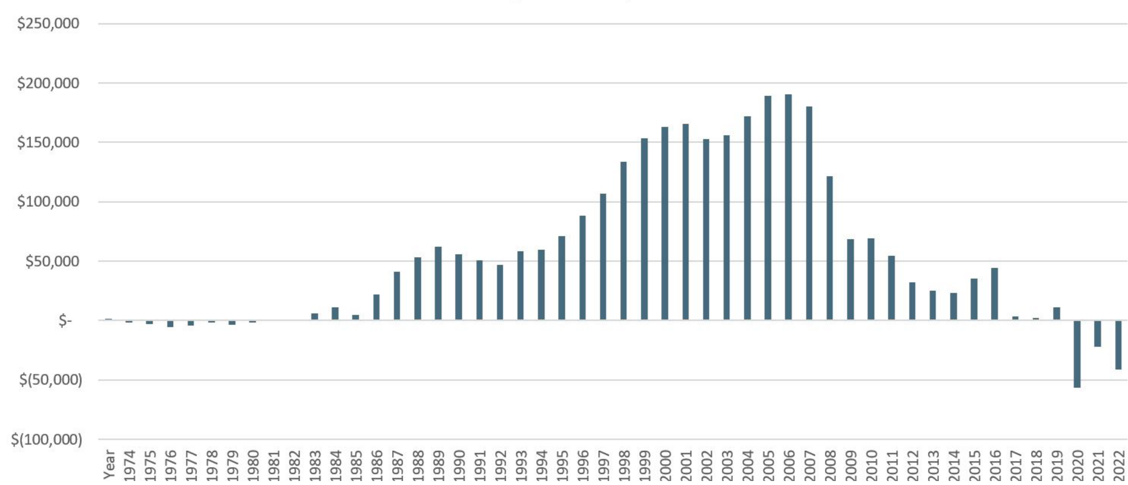
OASDI Trust Fund Assets
(in millions)



https://www.ssa.gov/oact/STATS/table4a3.html

As of June 30, 2024, the combined OASI and DI Trust Funds totaled $2.8 trillion. Trust Fund assets are invested in U.S. government securities and managed by the Treasury Department. While the Funds can, and occasionally do, own marketable securities, they primarily purchase "special issues" which are only available for purchase by the Social Security Administration. These special issues can be redeemed for their face value at any time, thereby insulating the Trust Funds from market risk. The assets held by the funds are reported monthly, here: OASI Trust Fund Detailed Reports.

Annual Change to OASDI Trust Funds
(in millions)



https://www.ssa.gov/oact/STATS/table4a3.html

Because the Trust Funds purchase U.S. government securities, it is sometimes represented that the government "borrows" from the fund. While this is technically true, it is also no different than any other bond an investor might purchase – you “lend” your money to a company that then uses those dollars and pays you interest until the bond matures. Assets held by the OASI and DI Trust Funds carry the same backing as any other U.S. government obligation.

Where the Concern Lies

The Trust Funds grew substantially following legislative changes made to the program in 1977 and 1983 – most notably an increase of the “full retirement age” – and were further bolstered by favorable economic conditions throughout the 80s, 90s and early 2000s. However, post-2008 financial crisis, higher unemployment, lower interest rates and baby boomers reaching retirement age led to a long stretch of declining surpluses; the Covid-19 pandemic eventually pushed the program into annual deficits.

And here is where things get tricky… at least, potentially. Each year, the Social Security Administration (SSA) conducts and publishes an actuarial study on the health of the program (SSA Trust Fund Status Summary Report) including funding projections informed by economic data and demographics. These forecasts currently estimate annual deficits will continue and the Trust Funds will eventually deplete entirely by the year 2035. This is what is commonly referred to as “Social Security going broke” – but it is hardly a complete picture.

Let’s assume nothing changes and these forecasts prove correct- what would happen? The answer: Social Security would have to fund benefit payments from only current payroll tax revenue. This is the part the scary headlines usually leave out: those same forecasts indicate Social Security would be able to cover 83% of benefits with annual revenue alone. This means, absent any economic change, demographic shift or congressional action, a 17% benefit reduction in the year 2035 would solve the problem. Extrapolated 75 years into the future, the percentage of outgo covered by revenue falls to 73%, eventually requiring a 27% reduction. While not ideal, these are hardly “if it's even still around” kinds of figures.

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Things Can and Will Change

Any number of things can move these forecasts in a positive direction. First, we should look to history. The Social Security program has faced funding challenges before – most notably, in the 1970s and early 1980s. That run of deficit years led to the previously mentioned legislative changes. In addition to further pushing back full retirement age – a natural response to increasing life expectancies - any number of other policy changes could funnel more cash into the program. While both sides of the political aisle are served by shoring up the Trust Funds, Congress is unlikely to pursue structural changes until it becomes wholly necessary.

We should also remember data and trends are always shifting. For example, much is often made of the strain the baby boomer retirement wave has on Social Security. Less discussed is that the youngest boomers are now 60, while the oldest are already well into their retirement years. Millennials, who are only just now entering their peak earning years, are now the largest living U.S. generation. Data points like this, along with birth rates, interest rates, market returns, employment numbers, wage rates and many others, have the potential to change the outlook for the Social Security program going forward.

Generation	Birth Year Range	Age Range	Life Expectancy Range	Population Size as of 2023	% of Population
Silent Generation	1928 – 1945	79 – 96	88 – 99	16,439,371	5%
Baby Boomers	1946 – 1964	60 – 78	83 – 89	69,934,154	21%
Gen X	1965 – 1980	44 – 59	81 – 86	65,189,458	20%
Millennials	1981 – 1996	28 – 43	81 – 86	72,540,396	22%
Gen Z	1997 – 2012	12 – 27	81 – 86	69,132,234	21%

https://www.pewresearch.org/fact-tank/2019/01/17/where-millennials-end-and-generation-z-begins/
https://www.ssa.gov/oact/STATS/table4c6.html
https://www.statista.com/statistics/797321/us-population-by-generation/

Any program that reaches the scale of Social Security will need to adapt and evolve to meet the needs of a shifting economy and a changing population.

The Bottom Line

In summary, there are a few key points we hope you will take with you:

- Social Security is a larger part of people's retirement landscape than many would expect.
- We are all significant participants and should be properly informed about the program's benefit.
- The challenges facing the program, while real, are often exaggerated or reported out of context.
- Many things can change the outlook for Social Security, including eventual Congressional action.

Sources: https://www.ssa.gov/policy/trust-funds-summary.html
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