

Episode 125 Are We at Risk for Losing our Social Security?

Patti Brennan: Hi, everybody. Welcome to "The Patti Brennan Show." Whether you have \$20 or \$20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

Today's podcast is part of the ongoing series called "Ask Patti Brennan." We get a ton of questions into our website and we really appreciate that because if one person has a question, then chances are there's a couple of thousand of you who probably have the same question.

Today's question is one that comes up over and over again. Here's what it is, "Are we really in danger of losing our Social Security?" One thing that you know about me is that I will always give it to you real. The answer is yes. Let me give you a couple of statistics.

This is coming from the Social Security website. The data is from the actuarial status of the trust funds dated June of 2022. In addition to that, I'm going to cite information from the National Academy of Social Sciences entitled "Social Security Benefits, Finances, and Policy Options." Lots of websites, lots of sources.

Let me give you a couple of examples. For example, how large was the Social Security trust fund in 2020? It was worth \$2.9 trillion. At our current rate, it is projected to halve in the year 2030, just 10 years later, \$1.3 trillion. That is a huge decline.

In addition to that, when we think about this, you can get up off the floor here, it doesn't mean that in the year 2030 or soon thereafter, the money will be gone. It really won't because of the way that it is being managed. The Social Security system gets revenue from payroll contributions, interest on its reserves, etc.

The year where the reserves -- this is the excess that are projected to be depleted -- is in the year 2034. The income on that is still projected to cover 78 percent of benefits due. It's the year 2095 that benefits are really, really in jeopardy. The answer, again, giving it to your real is yes, Social Security is in jeopardy.

Who gets Social Security? These statistics might surprise you. For example, one in five Americans receives Social Security. One in four families get income from the system. What is the objective of Social Security? The objective is to replace a person's income or a portion thereof.

In the year 2010, Social Security replaced 38 percent of the median earner's replacement rate. In 2020, that went down to 34 percent. In the year 2030, it'll be 31 percent. In addition to the actual corpus, the trust fund itself is depleting, what it really does for Americans is also becoming less effective. Now, that's the problem.

You also know me really well. Let's not swirl around the problem. Let's talk about, what are the potential solutions? Of course, potential solutions take political will. There are a lot of them. I'm going to give you some examples. For example, one option would be just to raise the retirement age to age 70 for everyone.

Right now, anyone that was born from 1960 or above, the age that you can start receiving Social Security is age 67. If we just raise that to age 70, that takes care of 68 percent of the

problem. The problem here is, is that a lot of the people who really need Social Security are disabled or young families, and many are widows or widowers, and this is their primary source of income.

They could reduce the cost of living. Increase that is given every year. Last year for example, Social Security increased by 8.7 percent. That's a lot, and if you are not receiving Social Security, you still got the 8.7 percent increase. By the way, if you are of age to receive Social Security, you got another eight percent on top of that. That's pretty darn generous.

If they cut that by just one percentage point, that takes care of about 37 percent of the issue. If they wanted to reduce benefits by five percent for future retirees, that makes everybody part of the solution but again, some of the people who really need this would be negatively affected.

How about this for an idea? How about if we reduce the benefits for those people whose other retirement income totals \$50,000 or more? We'll just cut their benefits; they've got enough.

In addition to that, it could create an unintended consequence because it would discourage people from saving money because, "Hey, we're getting penalized for saving money because our Social Security is going to be cut".

"I don't want to work so hard and I don't want to have to sacrifice, so I'm just going to spend all my money. I'm not going to save it so I can get full Social Security benefits." There are unintended consequences with almost every alternative. That's one.

They could raise the payroll taxes. Now, this is an interesting one to me because if they increase...for those of you who are out there working, a portion of your income goes into Social Security and that is matched by your employer totaling 12.4 percent. If they increase that total to just 13.4 percent and do it gradually, by the way, that also takes care of 53 percent of the problem.

I have been doing this a long time, as you can probably tell. When we encourage people to bump up their 401(k) contributions by one or two percent, they don't really miss the money. This is another way of shoring up that future stream of income for all Americans. Just increase the amount that the employee as well as the employer is currently contributing.

Another solution would be to increase the wages that are subject to Social Security tax. For example, there is a cap of about \$150,000 that is subject to this nasty four-letter word we call FICA. If they raise that cap or eliminated it, a lot more money would be going into the Social Security system, shoring it up.

I was surprised that this didn't take care of the problem all by itself. Now, again, it would depend on how much of a cap there is, but based on a previous study, that would basically increase and/or make it 26 percent more solvent.

The problem with this is that it makes it a lousy deal for people who are the high-wage earners because they're putting a ton of money into it. They're not going to get a ton of money out. Again, an unintended consequence that might make it more difficult to get it through Congress.

Many of us may remember from the George Bush years, they could privatize a portion of Social Security. By that I mean, put a portion of the trust fund into the stock market. One proposal was 40 percent. That would equate to, according to the actuaries, about a 48 percent improvement.

Option two would be just to divert one percentage of that contribution. If we're contributing 12.4 or 13 percent, take 1 percent of it and put it into the market. That could also help to increase the longevity of Social Security trust fund.

For whatever it's worth, I understand how you might be feeling. It is scary to think about Social Security, that source of income that so many people do rely on, and to think that it might not be there for you or for our children.

This is one of those areas where the older you are, maybe the luckier you are because it is highly unlikely that anyone over the age of, say, 60 is going to see a change in their Social Security benefits at all.

It is for those younger generations, those people who are currently contributing. Those people may see a change in either the benefits that they might receive, when they might receive them, or how much they're going to have to contribute.

One way or the other, it's going to be fixed. Take a deep breath, understand that there's an uncertainty out there, and hope and believe that someone's going to have the political will to fix it once and for all.

I'm Patti Brennan, thank you so much for tuning in today. Please keep those cards and letters coming. We appreciate your questions. It does become the foundation of what we do here in the podcast studio. Thanks for tuning into the Patti Brennan Show. Go onto our website, give us some suggestions. More importantly, I hope you all have a great day. Take care.