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The Future of Social Security

By Dominic Garcia

Will Social Security still exist when I retire? This is a question asked by many individuals from Millennials to Baby Boomers.

Social Security is funded primarily through the collection of payroll taxes. Due to demographic and economic factors, including higher retirement rates and lower birth rates, there will be fewer workers per beneficiary over the long term, increasing the strain on the trust funds. Each year, the Trustees of the Social Security Trust Fund release a lengthy report to Congress that assesses the financial condition and ongoing financial challenges that the program is faced with.

Two main points highlighted in the most recent report include:

- Social Security's total cost is projected to exceed its total income (including interest) in 2020 and remain higher for the next 75 years. The Trustees project that the combined trust fund reserves (OASDI) will be depleted in 2035. At that point, payroll tax revenue alone should still be sufficient to pay about 80% of scheduled benefits.
- The DI Trust Fund is expected to be depleted in 2052, 20 years later than projected in last year's report. The significant depletion date change reflects the fact that both benefit applications and the total number of disabled workers currently receiving benefits have been declining over the past few years. Once depleted, payroll tax revenue would be sufficient to pay 91% of scheduled benefits.

In response to these challenges, Congress has been presented with the following proposals:

- Raising the current Social Security payroll tax rate. A permanent increase of 2.7 percentage points to 15.1% would be necessary to address the long-range revenue shortfall.
- Raising or eliminating the ceiling on wages currently subject to Social Security payroll taxes ($137,700 in 2020).
- Raising the full retirement age beyond the age of 67 for anyone born in 1960 or later.
- Reducing future benefits. According to the report, scheduled benefits would have to be immediately and permanently reduced by about 17% for all current and future beneficiaries, or by about 20% if reductions were applied only to those who initially become eligible for benefits in 2019 or later.
- Changing the benefit formula that is used to calculate benefits.
- Calculating the annual cost-of-living adjustment for benefits differently.

No matter where you look, you will find contradicting views on the subject. However, some type of change is necessary in order to ensure the sustained existence of Social Security. In our view, the changes may only affect those who are under the age of 60. Simply raising the full retirement age from 67 to 69 would help solve the problem and be a likely scenario as the population continues to live longer.

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