

## Happy National Social Security Month!

Written by Ginny Wilson  
Wednesday, 18 April 2018 08:03

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Many Americans are worried about the state of Social Security and the possibility that benefits will be reduced or even disappear in the future. Even those already collecting Social Security benefits may be concerned that their monthly check could be impacted by the swelling population of beneficiaries and the inability of the taxes collected from the current workforce to keep up with the demand.

Every April, the Social Security Administration celebrates with a month of highlighting the agency's mission to "promote economic security" and educating all of us on their programs and services. Social Security was originally created by President Roosevelt in 1935, as part of his New Deal plan, to develop a comprehensive social insurance program. There are three parts to the benefits in Social Security – retirement benefits, survivor and death benefits and disability benefits. This is a pay-as-you-go system, so the payroll taxes paid by the workers and employers today fund the benefits for the beneficiaries of the three SS programs.

Social Security is the single largest federal program and accounts for around 24% of all federal spending. According to the most recent report from the Social Security Administration, the benefits paid out by the Social Security retirement program will be more than what's paid in, starting in 2020. When the program started in 1935, many workers paid into the program, but few lived long enough after retirement age to collect much in the way of benefits. The Social

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Security Trust Fund was created when the taxes collected surpassed benefits that were paid out. However, in 2010, the government started dipping into these reserves to address the insufficient revenue. This trust fund is expected to be completely depleted by 2034 and benefits could be reduced to 75%-80% of current payments, unless something changes that will increase the money going into the trust fund or decrease the amounts being paid out.

We have all heard about Social Security benefits running out and have heard about the need for reform. We jokingly thank the Millennials for supporting something from which they may never recoup any income. But it really is a serious issue for the many Americans who have not saved enough on their own. As Investment News contributor, Mary Beth Franklin, notes, "By 2030, all baby boomers will be older than 65, meaning one in every five U.S. residents will be of retirement age". This, of course, will put critical stress on the entire Social Security program.

So what can be done? Each year, the Social Security trustees use their annual reports to recommend that lawmakers address the projected trust fund shortfalls. We have heard about "means testing" for benefits, which already impacts Medicare Part B premiums. Means testing could take the form of more income taxes, a reduction in benefits, a surtax or some other method to correct the program shortfalls. Another possible solution talks about tying Social Security benefit checks to prices rather than wages, as price increases are slower than wage growth. This could correct shortfalls over time, but may present other undesirable effects. In a recent article, Ramesh Ponnuru, a Bloomberg View columnist, notes, "An implication of that change [using prices over wages] is that over time Social Security would replace a smaller and smaller portion of the income people made during their working lives."

Congress is looking at a tactic to address the problem of insufficient retirement savings with a bi-partisan (remember that word?) bill, the Retirement Enhancement and Savings Act (RESA). This legislation would create a retirement savings program allowing access for workers who may not currently contribute to an employer-sponsored retirement plan. It would also offer a collective 'multi-employer plan' (MEP) that allows small businesses to share in the costs of plan administration and make it easier for them to offer retirement savings plans to their employees. The more that Americans can save on their own, the less of an impact SS benefit shortfalls will have.

We will continue to watch and wait for the legislators and administrators to solve this problem with Social Security. At DWM, we are all about helping you determine ways to save more, protect that savings and then invest it to have appropriate growth to achieve your goals. We work hard to help our "vintage" clients evaluate all of their options and strategies when applying for Social Security benefits. Benefits taken at the earliest age of 62 will reduce your lifetime

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benefits, while waiting to begin until the maximum age of 70 can increase your benefits by 8% a year after Full Retirement Age (FRA) is reached. We evaluate which is the most effective strategy for each client – whether waiting and maximizing your benefits or starting benefits at FRA and possibly avoiding any benefit changes that may occur. There is much to consider, but we are here to help navigate the sign-up, the strategy choices and all of the tax implications involved. Please let us know if we can help enhance YOUR retirement savings!