

Rethinking Social Security

The Impact of the 2020 Trustees Report

July 27, 2020

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Projections indicate combined trust fund reserves will deplete in 2035. A reduction of payments is possible if Congress does not address the situation before then. You may want to stress test your financial plan now.

Each year, the Trustees of the Social Security Trust Funds report on the program's current and projected financial status. Released on April 22, 2020, the 2020 report includes extensive information about the actuarial status and financial operations of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds. While the OASI and DI funds are separate legal entities, the report presents information that combines the reserves of these two funds to illustrate the actuarial status of the Social Security program.

Highlights of the findings:

Projections indicate the combined trust fund reserves will deplete in 2035. While this doesn't mean that Social Security will go bankrupt, it does mean a reduction of payments if Congress does not address the situation before 2035. If nothing changes, combined trust fund payments will drop to 79% of scheduled benefits payable at that time.

The specifics for the two separate funds are as follows:

- The OASI Trust Fund, which pays retirement and survivors benefits, will be able to pay scheduled benefits until 2034. At that time, OASI income would be sufficient to pay 76% of scheduled benefits.

- The DI Trust Fund, which pays disability benefits, will be able to pay scheduled benefits until 2065. The fund's reserves will have been depleted at that time, and continuing tax income will be sufficient to pay 92% of scheduled benefits.

The COVID-19 pandemic's impact will likely lower payroll tax revenue, increase disability income, accelerate early retirement benefits, and reduce interest accumulating on trust fund reserves. Next year's report could project an earlier date for the depletion of the trust funds.

How this impacts your financial plan

While the projections make for grim reading, lawmakers have it within their power to shore the program up. There are numerous potential fixes, ranging from reducing the annual cost-of-living adjustment (COLA) and increasing the full retirement age to eliminating the Social Security wage ceiling and increasing the payroll tax. But don't expect a solution soon: The current public health and economic crisis is the top priority today, and fixing Social Security will have to wait.

How do the projections affect your financial plan? Since it is possible that 100% of your Social Security benefit may not be available to you, you and your advisor should incorporate this into your projections. If you are 60 or younger, you may want to consider using 75%-80% of your projected Security benefits as one scenario in your planning. And if you are older, think about stress testing your plan using 75-80% of projected benefits after 2035.

See reverse for disclosure

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