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Will Social Security be there when I retire?

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Sharon Carson

Retirement Strategist

Young or old, your clients want to know if they can count on getting Social Security benefits when they stop working. Here's what we think you can tell them.

What is the current situation?

The Social Security Trust Fund is on track to be depleted in 2034, as the number of workers contributing to the fund (via payroll taxes) continues to decline. Today, for each retiree drawing benefits, 2.8 workers pay into the fund. By 2035, this will drop to 2.2. (In 1960, it was 5.1.)

Still, sufficient payroll taxes are likely to be collected to fund 75% to 80% of retiree benefits for the next 75 years.¹

Should retirees and those near retirement worry?

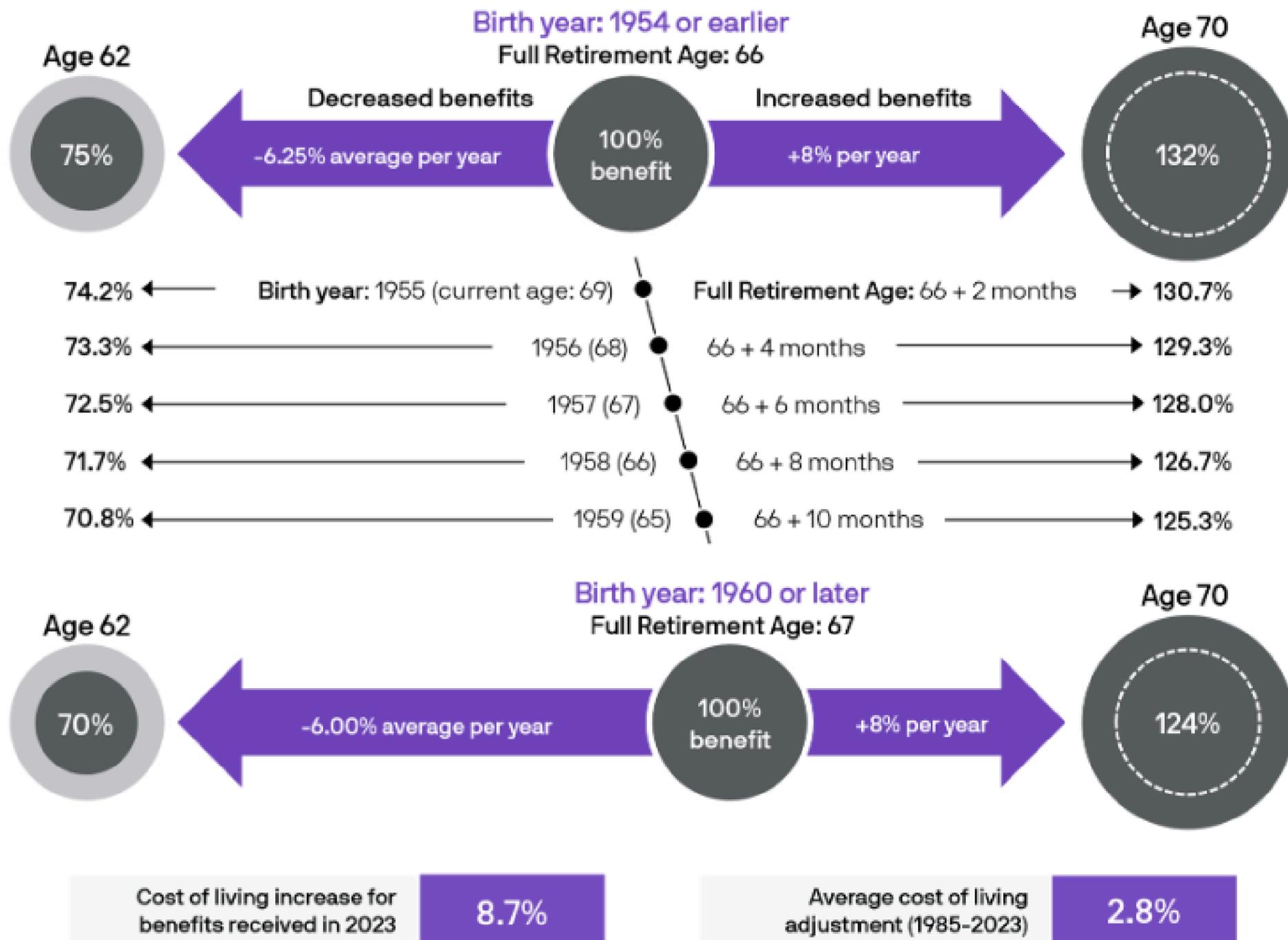
We don't think so. Older Americans have considerable voting power: 67% of eligible voters over the age of 65 voted in 2022, compared with only 24% of 18- to 24 year-olds.² Fear of being voted out of office helps explain why Congress has not cut benefits for current beneficiaries.

The last time the trust fund was nearly out of funds, in 1983, Congress solved the problem by increasing taxes and gradually raising the full retirement age in two waves for workers, starting with those who were younger than 45 at the time. Fast forward to today, and the second wave is still being phased in. (See Exhibit)

Social Security Timing Trade-Offs

Benefits differ by birth year and claim age

Full Retirement Age (FRA) = 100% benefit



Source: Social Security Administration, J.P. Morgan Asset Management.

How will Congress fund the gap?

There's little agreement on this topic. But in recent years, three proposals generated support on both sides of the aisle (though none passed):³

- Levy payroll taxes on wages above the current cut-off point.** Today, workers pay payroll taxes on annual wages of up to \$168,600. Congress could elect to raise that cut-off—while leaving benefits either unchanged or only slightly increased. This would significantly reduce the need for broad benefit cuts.
- Phase in benefit cuts for younger, higher earners.** This would protect lower income workers and people closer to retirement (with less time to adjust to cuts). While this would put a greater burden on younger people, this age group is less likely to vote politicians out of office.
- Slightly decrease cost-of-living adjustments for beneficiaries.** For the reasons mentioned above, this scenario seems least likely to happen.

What does this mean for those in or near retirement?

We see little cause for concern, and suggest:

- Retirees receiving Social Security can trust their benefits will continue—and plan (and spend) accordingly
- Those worrying Social Security will disappear can take their benefits later because Congress is unlikely to allow benefit cuts for those near retirement

How might younger people fare?

Younger people—especially high earners—will need to save more. The younger their age, the more likely these workers are to see significant cuts/changes phased in.

Still, they shouldn't despair. Even if Congress fails to act, which is unlikely, payroll taxes will fund at least three-quarters of future retirement benefits.

When are changes to Social Security likely to occur?

While Congress may act after the 2024 election, it's more likely changes will take place closer to the 2034 depletion date. After all, raising taxes and/or cutting benefits is unpalatable to most politicians.

¹ 2023 Social Security Trustees Report for the combined Old Age Survivors and Disability Insurance (OASDI) programs.

² Kaiser Family Foundation, Number of Voters as a Share of the Voter Population, by Age for November 2022.

³ Social Security Administration, Office of the Chief Actuary's Estimates of Proposals to Change the Social Security Program or the SSI Program, website as of April 2024.

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