

# James Wealth Management

## Social Security Funding



Determining when to start Social Security benefits is a common question. So is wondering how long Social Security will be around. There is a lot of misinformation out there, so we wanted to dispel some of the myths.

### **Myth 1: When Social Security runs out of money I will not get my benefits at all.**

There's some good news here! Right now the Social Security trust fund is set to be exhausted in 2035. The 2021 trustees report showed the trust fund would be exhausted in 2034, so a one-year increase is good news. According to the Social Security Administration's 2022 report, the fund will be able to pay 80% of the benefits in 2035.\* As an illustration, if you receive \$1,000 from Social Security prior to 2035, assuming no funding changes, your benefit in 2035 would be \$800. This means even if the trust fund is exhausted there are enough people currently employed paying into Social Security to cover 80% of the benefits.

### **Myth 2: There is no hope for fixing the system.**

The trustees report provided some suggestions on how the fund could be fully funded again. One of the suggestions was to have a 3.24% increase in payroll tax, starting now. The current payroll tax that funds Social Security is 12.4%. If you are not self-employed, 6.2% comes out of your paycheck and 6.2% is paid by your employer. Under this proposal, the total tax paid would be 15.64%. The trustees did not make a suggestion on how the increase would be divided between the employer and employee. If the increase in payroll tax is not enacted now and is instead delayed until 2035, the payroll tax would have to increase by 4.07% to 16.47% to solve the immediate solvency issues.

If you are interested in reading other suggestions the trustees have made on how to improve solvency, you can find the full list at <https://www.ssa.gov/OACT/solvency/provisions/>. Other proposed options include increasing the retirement age, cost-of-living calculation changes, and changes in taxation of Social Security benefits.

### **What will be next?**

We believe Congress will take action. Many have called Social Security the third rail of politics. None of the decisions Congress makes will be popular, which is likely why they have not taken any action yet. No one wants to see the retirement age increased or higher payroll taxes. It is our belief Congress will take action, but it will be closer to the 2035 deadline. This is good news for people close to retirement because they probably won't be affected. For those who will be working for more than 10 years, we could see significant changes to our future taxes and benefits.

### **Still worried?**

We are here to help. We can assess whether or not your portfolio can sustain a 20% reduction to Social Security income. Our goal is to help ease some of your concerns and help you be more confident in your retirement decision!

*\*(<https://www.ssa.gov/OACT/TR/2022/tr2022.pdf>, p. 6)*

*This information is of a general nature and does not constitute financial advice. It does not take into account your individual financial situation, objectives or needs, and should not be relied upon as a substitute for financial or other professional advice to assess, among other things, whether any such information is appropriate for you and/or applicable to your particular circumstances. In addition, this does not constitute an offer to sell, or the solicitation of an offer to buy, any financial product, service or program. The information contained herein is based on public information we believe to be reliable, but its accuracy is not guaranteed. Investing involves risks, including loss of principal. Past performance is no guarantee of future results.*