



Center for Wealth Management

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CENTER FOR WEALTH MANAGEMENT
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How Secure Is Social Security?



If you're retired or close to retiring, then you've probably got nothing to worry about--your Social Security benefits will likely be paid to you in the amount you've planned on (at least that's what most of the politicians say). But what about the rest of us?

The media onslaught

Watching the news, listening to the radio, or reading the newspaper, you've probably come across story after story on the health of Social Security. And, depending on the actuarial assumptions used and the political slant, Social Security has been described as everything from a program in need of only minor adjustments to one in crisis requiring immediate, drastic reform.

Obviously, the underlying assumptions used can skew one's perception of the solvency of Social Security, and even experts disagree on the best remedy. So let's take a look at what we do know.

Just the facts, ma'am

According to the Social Security Administration (SSA), over 57 million Americans currently collect some sort of Social Security retirement, disability or death benefit. Social Security is a pay-as-you-go system, with today's current workers paying the benefits for today's retirees.

How much do today's workers pay? Well, the first \$106,800 of an individual's annual wages is subject to a 12.4% Social Security payroll tax, with half being paid by the employee and half by the employer (self-employed individuals pay all of it). This money is put into a big holding tank--the Social Security trust fund--and is used to pay out current benefits. (Note that for 2011 only, the payroll tax for employees has been reduced by 2%, so the combined tax for employees and employers is 10.4%.)

The amount of your retirement benefit is based on your average earnings over your working career. Higher lifetime earnings result in higher benefits, so if you have some years of no earnings or low earnings, your benefit amount may be lower than if you had

worked steadily.

Your age at the time you start receiving benefits also affects your benefit amount. Currently, the full retirement age is in the process of rising to 67 in two-month increments, as shown in the following chart:

What Is Your Full Retirement Age?

Birth Year	Full Retirement Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Note: If you were born on January 1 of any year, refer to the previous year to determine your full retirement age.

You can begin receiving Social Security benefits before your full retirement age, as early as age 62. However, if you retire early, your Social Security benefit will be less than if you had waited until your full retirement age to begin receiving benefits. Specifically, your retirement benefit will be reduced by 5/9ths of 1 percent for every month between your retirement date and your full retirement age, up to 36 months, then by 5/12ths of 1 percent thereafter. For example, if your full retirement age is 67, you'll receive about 30 percent less if you retire at age 62 than if you wait until age 67 to retire. This reduction is permanent--you won't be eligible for a benefit increase once you reach full retirement age.

Demographic trends

Even those on opposite sides of the political spectrum can agree that demographic factors are exacerbating Social Security's problems, namely, life expectancy is



increasing and the birth rate is decreasing. This means that over time, fewer workers will have to support more retirees. According to the Social Security Administration (SSA), in 1950, there were 16 workers per beneficiary, today there are 3 workers per beneficiary, and within 40 years there will be just 2 workers per beneficiary.

The SSA predicts that in 2014, Social Security will begin paying out more money than it takes in. However, by drawing on the Social Security trust fund that, on paper, is supposed to receive today's payroll surpluses, the SSA estimates that Social Security should be able to pay promised benefits until 2037.

The caveat is that money in the trust fund isn't exactly like money in your pocket--various administrations have used the money to pay for general government spending, leaving the trust fund with only a legal obligation to be paid back. To do so, the federal government would need to reduce other spending, borrow money, or raise taxes--a hurdle that might factor into the final solution.

Possible fixes

While no one can say for sure what will happen (and the political process is sure to be contentious), here are some solutions that have been proposed:

- Allow individuals to invest some of their current Social Security taxes in "personal retirement accounts"
- Raise the current 12.4% payroll tax
- Raise the current ceiling on wages currently subject to the payroll tax
- Raise the retirement age beyond age 67
- Reduce future benefits, especially for wealthy retirees
- Tie initial benefit levels to a more modest price index instead of the current wage index
- Allow the Social Security program itself to invest in assets other than government bonds

Uncertain outcome

Members of Congress and the President still support efforts to reform Social Security, but progress on the issue has been slow, and domestic priorities are shifting. However, the SSA continues to urge all parties to address the issue sooner rather than later, to allow for a gradual phasing in of any necessary changes.

Although debate will continue on this polarizing topic, there are no easy answers, and the final outcome for this decades-old program is still uncertain.

In the meantime, what can you do?

Aside from following the news to learn of any legislative developments, you should periodically check your Social Security earnings record to make sure that your earnings have been properly credited. You can find this information on your Social Security Statement, which the SSA mails annually to every worker over age 25. You will receive this statement about three months before your birthday. Review it carefully to make sure your paid earnings were accurately reported--mistakes are common. Call the SSA at (800) 772-1213 for more information.

This statement will also estimate the amount of Social Security benefits you will be eligible to receive in the future, based on your actual earnings and projections of future earnings. If you don't receive this statement in the mail, you can request one by calling your local SSA office or through the Social Security website at www.ssa.gov.

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