EDUCATION

Don't Believe Everything You Hear about Social Security!

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Gail Buckner, CFP
Vice President
National Financial Planning Spokesperson
Franklin Templeton Investments

If you're like many working Americans, you may be concerned about the state of Social Security and whether it will be there for you when you retire. Gail Buckner, CFP, our personal retirement and financial planning strategist, explores some myths about Social Security and eases some concerns about its future.

There are a lot of myths and misconceptions when it comes to Social Security. As I previously outlined, the state of Social Security is not really as dire as some may be led to believe. Here, I explore some myths, misconceptions and fears about this important retirement benefit.

Myth #1: It's going broke by 2034

A lot of people are under the impression that Social Security is going to disappear within a matter of years. That means retirees and those living on disability insurance would get nothing. As in nada, zippo, the big fat zero. Grandma and Gramps will be out on the street.

How could this happen when Social Security's two trust funds—one for paying retirement benefits and the other for paying disability—are sitting on a combined "reserve" of more than $2.85 *trillion*[1] as of January 1 of this year?

Reality Check

The only thing that would force Social Security to stop paying ALL benefits would be *total unemployment among the US population*. As in, nearly everyone in the country loses their job, including air traffic controllers, all members of the military, Congress, your dry cleaner, supermarket checkers, Hollywood actors, coal miners, bank tellers, etc. That is, essentially everyone who works in the private sector and most who work for the federal government.[2] If that were to happen, Social Security would no longer receive its portion of the "payroll tax" that is deducted from the paychecks of those individuals. As a result, it would not have the money it needs to pay benefits and would eventually deplete its reserves.

How likely is this? Not. At. All.

The latest report from Social Security's Trustees[1] explains that the combination of payroll taxes paid by current workers plus the surplus ("reserves") that has been building up in the trust funds for decades will be enough to pay all benefits through 2033. That's *16 years of solvency*.

If Congress does nothing to shore up the program's finances before then, Social Security will still be receiving payroll tax from current workers. That will be enough to cover 77% of the benefits it projects it will need to pay out. While that's not ideal, it's far from "broke."

Myth #2: We'll never be able to fix this. I'd better file for benefits as soon as I can.

If you're worried about the long-term stability of Social Security, you are more likely to file for benefits as soon as you are eligible, even though it will result in a significantly smaller monthly benefit.

Reality Check

We've been here before. Shortly after Ronald Reagan was inaugurated as president in 1981, he was told that Social Security would be "technically insolvent" by 1983. That is, in *two years* it would not be collecting enough in payroll taxes to cover the benefits it would have to pay out. (This is the same situation we're now facing, except that we have nearly 17 years to address this.)

Reagan appointed a presidential commission of experts from around the country. They were led by an obscure economist few had ever heard of: Alan Greenspan! In early 1983, the commission presented its recommendations. Congress approved them and President Reagan signed into law the **"**Social Security Amendments of 1983.**"** (I highly recommend reading them. But maybe not while you are on vacation.)

Among other things, Congress considered the advancements in life expectancy that had occurred during the nearly 50 years since Social Security was created and approved a gradual increase in the Full Retirement Age, the age at which you can receive 100% of the benefit you earned. Although approved in 1983, the Full Retirement Age did not begin to slowly increase from age 65 to age 66 until 2000, almost 20 years later. It will start increasing to age 67 in 2021.

Unfortunately, in the past 34 years Congress has only been able to pass legislation that addressed Social Security's long-term financial imbalance on a temporary basis. The fact is, it wouldn't take much to shore things up. (Please see my previous blog on this topic, "Despite Scary Headlines, No Big Changes to Social Security's Outlook").

While it seems impossible that progress could occur in today's politically polarized climate, consider that in 1983 conservative Ronald Reagan was in the White House and democrats, led by Tipp O'Neal, controlled Congress. Yet, recognizing how important Social Security is to Americans, both sides managed to find common ground and pass the 1983 Amendments.

Myth #3: Those darn baby boomers are the problem!

Ah, if only so many boomers had not been born! Plus, they're living longer than prior generations, which means Social Security will have to pay them benefits for more years than it paid previous retirees.

Reality Check

Yes, there are a lot of boomers. But, their numbers and longer lifespan are not the problem. According to Social Security's Chief Actuary Stephen Goss, the primary factor is the decline in the nation's birth rate which started in 1965 and ushered in Generation X.[4]

From 1926 through 1964, accounting for the slight decline in births during the Depression and WWII and the slight increase after that, the adjusted fertility rate in this country was 2.7 births per woman. However, in 1965, the birth rate fell to two births per woman and has remained there ever since.[5]

One measure Social Security uses to evaluate the program's solvency is the "dependency ratio," or the number of retirees compared with the number of workers who are contributing Social Security tax to help support them. Goss writes that, "For the past 35 years, there have been about 3.3 workers per [Social Security] beneficiary. After 2030, the ratio will be *two* workers per beneficiary."[6]

While part of this is due to an increase in the number of retired baby boomers, according to Goss, "the upward shift in the ratio is almost entirely because of the changing birth rate."

The most telling sign of this is that even after the last baby boomer dies, the dependency ratio will remain the same.

Myth #4: Baby boomers are wiping out the surplus in the trust funds, and their children are going to pay the price.

Younger workers may take comfort in knowing that Mom and Dad are being taken care of… but may wonder what's going to be left when they retire.

Reality Check

Social Security was originally designed to be a pay-as-you-go system where current workers made contributions sufficient to support those currently retired. However, to avoid another crisis 30 years in the future (that is, today) when the large baby-boom generation would be retiring, the 1983 Amendments included an increase in the payroll tax to a level higher than needed to pay benefits to those already retired.

In other words, the surplus that exists today in the combined Social Security trust funds is largely due to the fact that baby boomers themselves have been *over*-contributing to Social Security for their entire work lives.

Myth #5: Yippee, after years of zero to minimal increases, Social Security benefits are going up 2.2% next year!

Not so fast. Don't make any big plans for that money just yet.

Reality Check

To help ensure that rising prices aren't eroding beneficiaries' spending power, every year Social Security benefits are adjusted for inflation. However, instead of looking at how the cost of a variety of goods and services have changed over the past year, Social Security's inflation adjustment compares prices from the previous year's third-quarter to the current year's third quarter.

In the recently released report on Social Security's long-term finances, the Board of Trustees estimated a cost-of-living-adjustment (COLA) of 2.2%. However, this is far from etched in stone. First of all, it's impossible to calculate next year's COLA because the third quarter of 2017 has just started. Moreover, the Social Security Administration doesn't actually do the math. The number-crunchers at the Bureau of Labor Statistics do the calculations. We won't know until early October what—if any—increase Social Security beneficiaries will receive next year.

The fact is, Social Security is the most successful anti-poverty program this country has ever had. And it will continue to be available to American retirees into the foreseeable future.

Learn more about developing a strategy to fund your own retirement: www.franklintempleton.com/whatsnext.

And, ask your professional advisor to run your personal scenario though the independent third-party LifeYield Social Security Optimizer tool, which can help you and your advisor consider your personal goals and circumstances, and begin to determine when the right time to start taking Social Security benefits might be.

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1. Source: Social Security Administration. Total reserves in the combined Social Security Trust Funds at the beginning of 2017. See https://www.ssa.gov/policy/trust-funds-summary.html.

2. Source: Police officers, doctors in public hospitals, many public school teachers and others who hold a local or state government job do not contribute to Social Security. Instead, they have a separate pension plan.

3. Source: The 2017 Annual Report of the Board of Trustees of the Federal Old-Age and Survivor Insurance and Federal Disability Insurance Trust Funds. The OASI Trust Fund alone can pay full benefits until 2035, and the combined OASDI funds until 2034. See https://www.ssa.gov/OACT/tr/2017/tr2017.pdf.

4. Source: Goss, Stephen. "The Future Financial Status of the Social Security Program." Social Security Bulletin, Vol. 70, No. 2, 2010. See https://www.ssa.gov/policy/docs/ssb/v70n3/v70n3p111.html.

5. Ibid.

6. Ibid.