

The Future of Social Security

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The Social Security Board of Trustees recently released its annual report on the health of the Social Security Trust Fund, and its findings are bleak. The board projects that if current levels of revenues and benefits remain constant, the entire trust fund will be depleted in 16 years. This month's Wealth Management Insights outlines the forecast for Social Security and how it might affect your retirement plan.

What you should know:

- 1. The Social Security Trust Fund faces significant challenges in making scheduled benefit payments, which will impact all current and future Social Security beneficiaries.**
 - For the first time since 1982, the total Social Security benefits paid in 2018 will exceed the investment income of the trust fund and the tax revenue it collects. If no changes to the revenue or benefits are made, the difference will begin to be paid from the assets of the fund itself.
 - This deficit will continue to grow, and as a result, the board projects that the entire fund will be depleted in 2034.
 - After 2034, Social Security benefits will still be paid but at a reduced rate, supported only by ongoing tax revenue. The board projects that tax revenue alone is sufficient to pay just 77% of scheduled benefits after 2034.
- 2. The Board of Trustees Report proposes solutions to make the trust fund solvent over the next 75 years. Not surprisingly, these solutions require an increase in taxes, a reduction of benefits or both.**
 - If a solution could be enacted immediately, the Social Security Trust Fund could be made solvent with either a 2.78% payroll tax increase or a 17% reduction in the benefits being paid.
 - If a solution is pushed off until the fund is depleted in 2034, the payroll tax would have to increase by nearly 4%, or the benefits paid would be reduced by 23%. ▶

- While the pain to both taxpayers and Social Security beneficiaries increases the longer Congress waits to enact a solution, it's clear that the status quo in Social Security is not tenable in the long term.

3. No matter what the future of Social Security holds, there are ways to manage its role and impact on your retirement plan.

- Determining when you start taking benefits could have a big impact on your total payout over time.
- If you are married and your spouse has their own Social Security account, you can stagger the ages at which you each start taking payments to maximize income when you may need it most.
- Most importantly, Social Security benefits should only be one part of an overall retirement plan.

What you should do now:

While it is impossible to predict what the exact changes to Social Security benefits will be in the future, it is not too early to begin planning for different possibilities. Ask your Baird Financial Advisor for a Custom Social Security Planning Analysis, which will help identify the best strategies for claiming Social Security based on your personal circumstances. This customized analysis illustrates the different outcomes of your Social Security benefits based on a multitude of variables, and puts it in the context of your overall retirement plan. ■