YES, YOUNG, GROWING FAMILIES CAN SAVE AND INVEST!

by Dominic Lucente

That may be unlikely, but the program does face financial challenges.

Will Social Security run out of money in the 2030s? You may have heard warnings about this dire scenario coming true. These warnings, however, assume that no action will be taken to address Social Security's financial challenges between now and then.

It is true that Social Security is being strained by a gradual demographic shift? The Census Bureau says that in 2035, America will have more senior citizens than children for the first time. In that year, 21% of us will be age 65 or older.[1]

As this shift occurs, the ratio of workers to retirees is also changing. There were three working adults for every Social Security recipient in 1995. The ratio is projected to be 2.2 to 1 in 2035.[2]

Since Social Security is largely funded with payroll taxes, this presents a major dilemma.

Social Security may soon pay out more money than it takes in. That has not happened since 1982. This could become a "new normal" given the above-mentioned population and labor force changes.[3]

When you read a sentence stating, "Social Security could run out of money by 2035," it is really referring to the potential depletion of the Social Security Administration's Old Age, Survivors, and Disability Insurance (OASDI) trust funds – the twin trust funds from which monthly retiree and disability payments are disbursed. Should Social Security's net cash outflow continue unchecked, these trust funds may actually be exhausted around that time.[4]

Social Security is currently authorized to pay full benefits to retirees through the mid-2030s. If its shortfall continues, it will have to ask Congress for greater spending authority in order to sustain benefit payments to meet retiree expectations.[4]

What if Congress fails to address Social Security's cash flow problem? If no action is taken, Social Security could elect to reduce retirement benefits at some point in the future. Its board of trustees notes one option in its latest annual report: benefits could be cut by 21%. That could help payouts continue steadily through 2092.[2]

No one wants to see benefits cut, so what might Congress do to address the crisis? A few ideas have emerged.

***Expose all wages to the Social Security tax or increase it at certain levels.** Right now, the Social Security tax only applies to income below $132,900. Lifting this wage cap on the tax or boosting the tax above a particular income threshold would bring Social Security more revenue, specifically from higher-earning Americans.[5]

***Raise Social Security's full retirement age (FRA).** This is the age when people become eligible to receive unreduced retirement benefits. The Social Security reforms passed in 1983 have gradually increased the FRA from 65 to 67.[5]

***Calculate COLAs differently.** Social Security could figure its cost-of-living adjustments (COLAs) using the "chained" version of the Consumer Price Index, which some economists believe more accurately measures inflation than the standard CPI. Its COLAs could be smaller as a result.[5]

Social Security could be restructured in the coming decades. Significant reforms may or may not fix its revenue problem. In the future, Social Security might not be able to offer retirees exactly what it does now, and with that in mind, you might want to reevaluate your potential sources of retirement income today.

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