

How Secure is Social Security?

If asked about the likelihood of a Social Security check in retirement, many Americans under the age of 50 would reply with a lack of hope. Millennials and Gen X'ers are buzzing about the demise of Social Security benefits before their golden years, but professionals are advising not to write off this benefit just yet.

A Brief Introduction to Social Security

Monthly Social Security benefits are provided to workers and their families through the Old-Age, Survivors, and Disability Insurance (OASDI) program in the event of retirement, disability, or death. This overarching program is comprised of two parts; the OASI and DI. Retirees and their families benefit from the Old-Age and Survivors Insurance (OASI) program while the Disability Insurance (DI) program benefits disabled workers and their families. A Board of Trustees oversees the financial operations of these programs, as dictated by the Social Security Act, and assembles an annual report for Congress.

The 2014 Annual Report

The most recent Annual Report, released in July 2014, highlights the financial operations for the OASDI combined trust fund in 2013 as summarized below.¹

- OASDI provided monthly benefits to approximately 58 million people during 2013.
 - Beneficiaries include 41 million retirees, 6 million survivors of deceased workers, and 11 million disabled workers.
- An estimated 163 million workers contributed to Social Security through payroll taxes.
- Total expenditures for 2013 were \$823 billion.
- Total income for 2013 was \$855 billion.
 - This includes \$752 billion in non-interest income and \$103 billion in interest earnings.
- Asset reserves grew from \$2,732 billion at the beginning of the year to \$2,764 billion at the end of the year, an increase of \$32 billion.
- The cost of Social Security exceeded both tax income and non-interest income in 2013.

To forecast the outlook of Social Security benefits, the Trustees use set assumptions to compare projected asset reserves at the beginning of each year with projected costs for that year. Using this method, they test a short range, ten year period and a long range, seventy-five year period. As the 2014 report uses 2013 data, the short range period ends in the year 2023 and the long range period ends in 2088.

¹ The 2014 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds. 28 July 2014.

Short Range (2014-2023)

The cost of Social Security exceeded tax income in 2013 by \$76 billion and non-interest income by \$71 billion, a theme which is predicted to continue under current circumstances.

Reference Key
OASDI: <i>Old-Age, Survivors, & Disability Insurance; Combined Program</i>
OASI: <i>Old-Age & Survivors Insurance</i>
DI: <i>Disability Insurance</i>

The OASI and the combined OASDI are projected to be adequate through the short term, but the reserves of the DI trust fund alone are steadily declining. The Trustees project the DI reserves will be depleted by the fourth quarter of 2016. At this time, income to the DI Trust Fund will be adequate to pay approximately 81% of scheduled benefits.

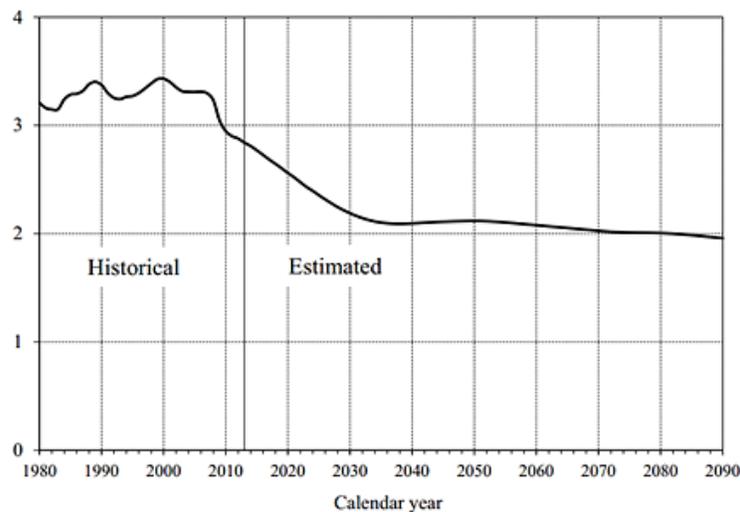
Long Range (2014-2088)

While the OASI and combined OASDI pass the short term test, they do not suffice in the long term. Considered separately, the reserves of the OASI are projected to be depleted in 2034. The depletion of the combined OASDI is predicted to occur in 2033. At this time, the income into the combined trust will be sufficient to pay roughly 77% of scheduled benefits.

The Driving Forces of Change

The annual costs of Social Security exceeding the amount of annual income to the programs can be partially attributed to the “baby boomer” generation reaching retirement at a time of a low worker to beneficiary ratio. Since the baby-boom, fertility has decreased equating to a smaller workforce contributing to the Social Security benefits of a larger retiree population. From 1974 to 2008, the ratio of workers to beneficiaries hovered between 3.2 and 3.4. In 2013, the ratio slipped to 2.8 workers for each beneficiary, heavily due to the economic recession, and is continuing to decline. In 2035, the ratio is expected to near 2 workers per beneficiary. Figure 1 below depicts the number of covered workers per OASDI beneficiary for the year 1980 through 2090.

Figure 1: Number of Covered Workers for each OASDI Beneficiary



Source: The 2014 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, page 14

The Trustees estimate that the rapidly increasing rate of costs will slow in 2035 due to an increasing retirement age equating to a larger workforce, but will remain in excess of income. Without adjustments, program costs will continue to surpass income.

Key Takeaways

While these predictions may be unsettling, they are based on current laws and circumstances. These programs are able to be repaired. Proper response from lawmakers is necessary. Rebalancing the allocation of payroll tax is a smart initial step that could delay the depletion of the Disability Insurance program. A more permanent solution is necessary, but this is a start. For the programs to remain solvent, one or more of the following must happen.

1. An increase in revenue by increasing payroll tax.
2. A reduction in current and future benefits for all beneficiaries *or* a reduction in benefits for those who become eligible in 2014 or later.
3. A combination of these two approaches.

Regardless of the correction, Trustees recommend that lawmakers address the trust fund deficiencies in a timely manner, giving workers and beneficiaries time to adjust to the changes.

The bottom line is that Social Security will exist in some form for the foreseeable future but today's workforce cannot rely on it in the same manner that previous generations have. The unknown future of Social Security emphasizes the importance and necessity of employer-sponsored retirement plans and personal savings. Timely adjustments to the program would increase its longevity and allow it to better provide for future retirees, however Social Security benefits alone will not result in a successful retirement. The best avenue is to focus on the savings vehicles that we have the most control over.