Will Social Security Run Out of Money?

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Articles are popping up in the media that forecast the looming bankruptcy of Social Security as soon as 2035—about 11 years from now. At that point, beneficiaries could receive about 83% of their expected benefit, a reduction of 17% from projected levels. Congress periodically makes changes to the program by increasing contributions based on income. Companies have to put in the same percentage as the employee based on their income, which is 6.2% up to $168,600 ($10,453 or $20,906) per year. Also, the annual rate of change in wages determines how much this contribution will vary every year. Since payouts rise by an inflation premium, this increase is necessary. About 85% of this contribution goes into the Social Security Trust Fund while 15% goes into a fund to help disabled families. The Trust Fund is also funded by taxes on people of retirement age who have continued to work. In 2022, approximately 48% of retirees paid taxes on their benefits with the total taxes paid from this group totaling $51 billion. The total taxes collected through the payroll tax deduction in 2023 amounted to about 24% of overall federal government tax collections.

Investments in the Trust Fund are limited to securities issued by the U.S. government. Historically, such securities have a low yield, thus reducing the chances that the fund could grow if invested in a diversified portfolio of non-government securities. Occasionally, some politicians attempt to have part of the fund invested in other securities, but the public has rejected any tampering with the current structure.

Since the federal government includes these tax payments in the overall budget and effectively borrows this money at a discount from the rate of most types of savings, it is logical that the government could fund part or all of that shortfall when it occurs. We have seen how the government has had no problem in writing trillions of dollars in checks to the private sector following the recent pandemic. Moreover, the government has given away $640 billion in foreign aid over the last ten years; that number was about $70 billion last year. Since low-income Americans depend on Social Security payments, reducing their benefits in 11 years while continuing to give money away to other countries that may or may not be friendly to the U.S. does not make a lot of sense.

The focus for young workers is to begin contributing to some type of retirement plan. By starting early by contributing to such a plan through a company with matching contributions offers a great way to accumulate savings. Those savings will be there to provide the major source of retirement income in the future. Today, for low-wage earners, the Roth IRA makes sense since it is funded with after-tax dollars that can grow over time into a valuable retirement nest egg that will not be taxed (under current law). Parents can help by funding IRAs when their children take their first job. By using these additional savings options, future retirees may not have to depend on government subsidies to maintain their lifestyle in retirement.

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