

What you can expect from Social Security?

Too Many Retirees, Not Enough Workers

Social Security benefits are funded primarily through the payroll contributions of working Americans. In 1965, there were 4.0 workers contributing for each retiree. It's estimated that only 2.8 workers will support each retiree in 2015, and by 2035 the ratio of workers to retirees is projected to fall to 2.11. Obviously, this will be a strain on the system—think of it as trying to pay all your bills with about 70% of your income and eventually having to pay the same bills with only half the income.

Since 2010, the Social Security program has been running a deficit and using the “trust funds”—build up through excess payroll contributions in the past—to make up for the shortfall. In a 2014 report, the Social Security trustees projected that these funds could be depleted in 2033. After that, the worker contributions would be sufficient to pay about 77% of scheduled benefits initially, falling to 72% by 2088.²

Potential Changes

Considering this prognosis, it's possible that the growing benefit gap will be addressed by a combination of higher taxes and/or reduced benefits. When adults 50 and older were asked about four potential changes to help secure Social Security for the future, they chose this order of preference (the percentage favoring each idea is shown in brackets):³

1. Raising the earnings cap (\$117,000 in 2014) for annual income subject to Social Security payroll taxes [61%]
2. Reducing benefits for high-income beneficiaries [41%]
3. Raising the full retirement age (gradually) beyond the current age of 67 for those born in 1960 or later [29%]
4. Changing the annual cost-of-living adjustment for benefits [21%]

Of course, there is no assurance that any of these proposals will be implemented, but Americans aged 50 and older—who would be most affected by any near-term changes—form a powerful voting block and could ultimately affect the outcome.

The future of Social Security is likely to be debated for many years. Regardless of how it plays out, you could be in a stronger financial position if you place less emphasis on Social Security benefits and commit to funding retirement through your own savings efforts.

¹Social Security Administrations, 2014

²Social Security Administrations, 2014

³The Associated Press NORC Center for Public Affairs Research, 2013