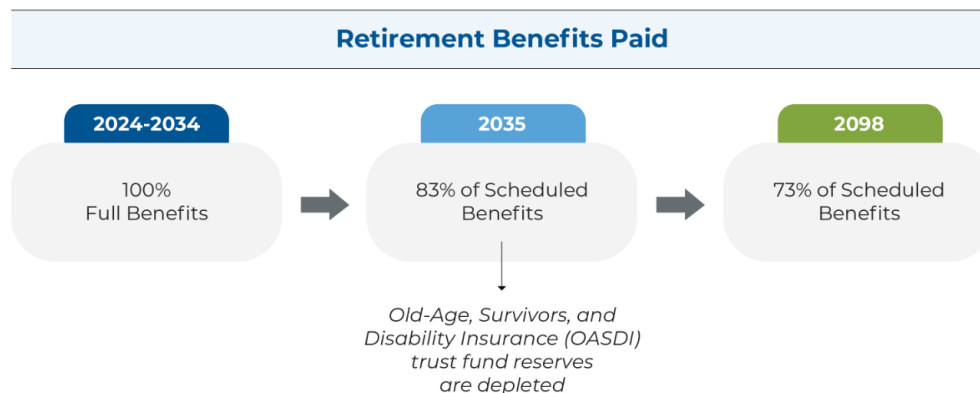


True State of Social Security – What You Need to Know

The Social Security system is facing significant challenges, with projections indicating that the Old-Age, Survivors, and Disability Insurance (OASDI) Trust Fund, which is the source of funding for Social Security benefits, may be depleted by 2035. Estimates are that the OASDI Trust Fund is expected to run out in 2033, while the Disability Insurance (DI) Trust Fund is projected to remain solvent for 75 years.

Despite the looming depletion, Social Security benefits **will not vanish entirely**. Even without legislative action, the program can still pay about 83% of scheduled benefits in 2035 and approximately 73% by 2098.

Timeline Of Social Security's Estimated Ability To Pay Retirement Benefits



This sustainability stems primarily from the Trust Fund collecting ongoing payroll tax revenues (with workers and employers each paying 6.2% up to \$168,000 of income in 2024), which are the main funding source for Social Security, despite expenditures exceeding revenues since 2010.

Options for Fixing

To address the funding gap projected to be \$150 billion annually, several policy options have been proposed:

1. Single-Policy Solutions:

- **Increase Payroll Tax:** A permanent 3.33% in the payroll tax would raise revenues substantially; An additional \$2,500 annually from a household earning \$75,000 and \$5,600 for households at the maximum wage of \$168,000.
- **Reduce Benefits:** A 20.8% reduction in scheduled benefits for all recipients could ensure solvency through 2098, translating to an average monthly benefit cut of ~\$400/~1,000 for current retirees getting average benefits and retiring at age 70, respectively.

2. Combination Policies:

- A mix of revenue enhancements, such as lifting the wage cap on taxable income and gradually increasing the Full Retirement Age, could also close the funding shortfall without disproportionately impacting current beneficiaries.

3. **Invest the Trust:** We often hear that the government has used the Social Security Trust Fund for other expenses. This is simply not true. By mandate the Trust must be invested in special-issue US Treasury Securities. Over much of the past 15 years, those securities have paid very low levels of interest. If the Trust had been invested in a very basic portfolio of stocks and bonds, it would be completely solvent. There has been discussion of investing the Trust assets, but it will be very difficult to get this through Congress.

4. Legislative Actions:

- Recent proposals like the "Protecting and Preserving Social Security Act" aim to index cost-of-living adjustments (COLAs) to a more accurate measure of inflation for seniors while lifting the payroll tax cap over time.

What Does It Mean for Current and Future Retirees?

For current and future beneficiaries, the outlook for Social Security remains relatively stable, even absent any legislative intervention.

Current retirees can expect to receive their benefits for the foreseeable future (~10 years), as ongoing payroll taxes will continue to fund a significant portion of payments.

For working-age individuals, the prospect of reduced future benefits may not be as dire as feared; studies suggest that many expect to receive little to no benefits, while projections indicate they could receive over 70% of their benefits.

As always, if you have any questions on Social Security benefits and the impact to your financial plan, please reach out to a member of your Canal Capital Management team.