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How Secure Is Social Security?

If you're retired or close to retiring, then you've probably got nothing to worry about--your Social Security benefits will likely be paid to you in the amount you've planned on (at least that's what most of the politicians say). But what about the rest of us?

The media onslaught

Watching the news, listening to the radio, or reading the newspaper, you've probably come across story after story on the health of Social Security. And, depending on the actuarial assumptions used and the political slant, Social Security has been described as everything from a program in need of some adjustments to one in crisis requiring immediate, drastic reform.

Obviously, the underlying assumptions used can affect one's perception of the solvency of Social Security, but it's clear some action needs to be taken. However, even experts disagree on the best remedy. So let's take a look at what we do know.

Just the facts

According to the Social Security Administration (SSA), over 59 million Americans currently collect some sort of Social Security retirement, disability or death benefit. Social Security is a pay-as-you-go system, with today's workers paying the benefits for today's retirees.

How much do today's workers pay? Well, the first $110,100 (in 2012) of an individual's annual wages is subject to a Social Security payroll tax, with half being paid by the employee and half by the employer (self-employed individuals pay all of it). Payroll taxes collected are put into the Social Security trust funds and invested in securities guaranteed by the federal government. The funds are then used to pay out current benefits.

The amount of your retirement benefit is based on your average earnings over your working career. Higher lifetime earnings result in higher benefits, so if you have some years of no earnings or low earnings, your benefit amount may be lower than if you had worked steadily.

Your age at the time you start receiving benefits also affects your benefit amount. Currently, the full retirement age is in the process of rising to 67 in two-month increments, as shown in the following chart:

What Is Your Full Retirement Age?

Birth Year	Full Retirement Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

***Note:** If you were born on January 1 of any year, refer to the previous year to determine your full retirement age.*

You can begin receiving Social Security benefits before your full retirement age, as early as age 62. However, if you retire early, your Social Security benefit will be less than if you had waited until your full retirement age to begin receiving benefits. Specifically, your retirement benefit will be reduced by 5/9ths of 1 percent for every month between your retirement date and your full retirement age, up to 36 months, then by 5/12ths of 1 percent thereafter. For example, if your full retirement age is 67, you'll receive about 30 percent less if you retire at age 62 than if you wait until age 67 to retire. This reduction is permanent--you won't be eligible for a benefit increase once you reach full retirement age.

Demographic trends

Even those on opposite sides of the political spectrum can agree that demographic factors are exacerbating Social Security's problems, namely, life expectancy is

increasing and the birth rate is decreasing. This means that over time, fewer workers will have to support more retirees. According to the Social Security Administration (SSA), in 1950, there were 16 workers per beneficiary, today there are 3 workers per beneficiary, and within 40 years there will be just 2 workers per beneficiary.

According to the SSA, Social Security is already paying out more money than it takes in. However, by drawing on the Social Security trust fund, the SSA estimates that Social Security should be able to pay 100% of scheduled benefits until 2033, when the trust fund is exhausted, and then 73 to 75% of scheduled benefits thereafter.

The caveat is that money in the trust fund isn't exactly like money in your pocket--various administrations have used the money to pay for general government spending, leaving the trust fund with only a legal obligation to be paid back. To do so, the federal government would need to reduce other spending, borrow money, or raise taxes--a hurdle that might factor into the final solution.

Possible fixes

While no one can say for sure what will happen (and the political process is sure to be contentious), here are some solutions that have been proposed to help keep Social Security solvent for many years to come:

- Allow individuals to invest some of their current Social Security taxes in "personal retirement accounts"
- Raise the current payroll tax
- Raise the current ceiling on wages currently subject to the payroll tax
- Raise the retirement age beyond age 67
- Reduce future benefits, especially for wealthy retirees
- Tie initial benefit levels to a more modest price index instead of the current wage index
- Allow the Social Security program itself to invest in assets other than government bonds

Uncertain outcome

Members of Congress and the President still support efforts to reform Social Security, but progress on the issue has been slow. However, the SSA continues to urge all parties to address the issue sooner rather than later, to allow for a gradual phasing in of any necessary changes.

Although debate will continue on this polarizing topic, there are no easy answers, and the final outcome for this decades-old program is still uncertain.

In the meantime, what can you do?

Aside from following the news to learn of any legislative developments, you should periodically check to make sure that your earnings have been properly credited. You can find a detailed record of your earnings on your Social Security Statement, which you can access online at the Social Security website, www.socialsecurity.gov. Your statement also includes retirement, disability, and survivor's benefit estimates that are based on your actual earnings and projections of future earnings. If you're age 60 or older, you'll automatically receive your statement in the mail every year, about three months before your birthday.