May 16, 2019

I Want Mine - Social Security Simplified

WEALTH MANAGEMENT
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I have this love/hate relationship with social media.

In late April, when *The 2019 Social Security and Medicare Trustees Reports* were published, the key takeaway was that the trust fund will be depleted in 2035. Immediately, social media exploded. One poster claimed she'd paid in almost a half a million dollars over the years. She wants it back. Another took issue with the word "entitlement." It's not an entitlement, we earned it! A third panicked post claims Congress has spent our money, that's why Social Security is running out of money.

Let's address those strident social media voices one by one. First, the reserve fund *will* be depleted because we currently have more people claiming than paying in. Will it ever go broke? No. As long as we have a base of workers paying in, we will have *some* benefits to pay out.

Is Congress stealing? The trust fund is not a cashbox, and like any bank account, the funds are invested. In the case of Social Security, the investment vehicle is Treasury securities, which are backed by the "full faith and credit" of the U.S. government.

The entitlement complaint is just a matter of semantics. Social Security *is* an entitlement since you're entitled to claim when following the rules. But the word has taken on a negative connotation since welfare and food stamps are also considered entitlements. Maybe a better way to describe Social Security is to consider it a transfer system – income is "transferred" from the working to the retired, disabled or survivors.

U.S. employees contribute 6.2% of their wages to Social Security and employers pay the same amount on their behalf. If you're self-employed, you pay a total of 12.4%. This is assessed on all wages below the cap, which in 2019 is $132,900. Your Social Security statement will tell you exactly how much you've paid into the system. If you're age 66 in 2019 and paid the maximum amount legislated from age 18, you'd have paid in almost $400,000 in nominal dollars, not too far from that half million. But not everyone has paid in at the maximum rate for all of their working years.

The maximum benefit payable in 2019 is $34,332 per year. So without considering inflation, if that 66-year-old receives SS payments for 20 years, they will have collected a total of $686,640. Now I know this is a simplistic example, and of course, I haven't considered inflation or potential investment returns, but bottom line: you're likely to collect much more than you paid in.

There's no doubt that we need Social Security reform, but very few of our elected officials are willing to take on the issue. In 2035, without reform, we will be collecting only about 75% of the full benefit. Difficult choices for potential reform include raising the wage cap beyond the inflationary adjustments currently legislated, raising the contribution rate or delaying full retirement age, which is currently at 67 for those born after 1960. What would you decide?

Now that we understand the basics, our next article will tackle the right time to claim.

You've heard our thoughts... We'd like to hear yours

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