PRIVATE ASSET MANAGEMENT, INC.
WEALTH STRATEGY ADVISORS
PARADIGM

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The trustees for the Social Security program, which include three Cabinet members, recently released their annual financial status report. Given the importance of this program, we thought it would be useful to provide a high-level review their findings.

2017

Think of the program of having revenues, costs, and a savings account (technically referred to as reserves).

Revenues for 2017 were:

Payroll taxes:	$707 billion
Taxes on benefits:	$36 billion
Interest earnings	$83 billion
Total	$ 826 billion

Costs for 2017 were:

Benefits	$807 billion
Other expenses	$8 billion
Total costs	$815 billion

Reserves at the end of 2017 totaled nearly $2.9 trillion. These reserves have been built up over the past 35 years due to changes made to the program in the early 1980s.

2018 to 2033

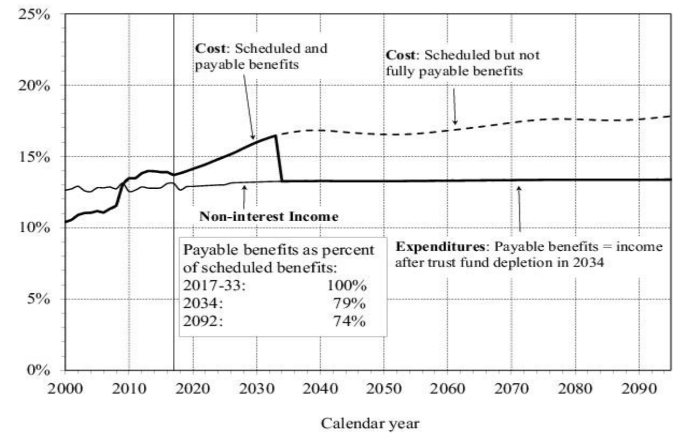
The report estimates that beginning in 2020 costs will exceed revenues. This means the program starts dipping into its reserves, depleting them around 2033.

Let's look at the graph for the 2018-2033 period. The solid black line represents costs. They rise materially through 2033. However, due to the beginning reserves and interest on the reserves, 100% of benefits will be paid as indicated in the box.

Post–2033

We sometimes read about Social Security running out of money in 2033 or 2034. This does not mean the program has no money to pay benefits because it can always tax payrolls and benefits. What it does mean is that the program depletes its current $2.9 trillion savings accounts and must rely only on payroll taxes and taxes on benefits to pay benefits.

Again, let's look at the graph. Given the importance of payroll taxes, figures are shown as a percentage of taxable payroll, the left scale. The line that is roughly parallel at 13% takes the non-interest revenue figures above, and expresses the number as a percentage of taxable payroll. This revenue source is fairly steady all the way through 2092.



The program would be required to cut benefits to match payroll taxes and taxes on benefits. The box shows 2034 benefits at 79% of then-potential benefits, falling to 74% in 2092. Again, the reduction is required because in 2034 the current $2.9 trillion of reserves would be depleted.

The Gap and Ways to Close It

Post-2033, the gap between the solid black line and the dotted cost line is the shortfall under current law. The trustees encourage lawmakers to act now and to consider a range of remedies.

Any remedy is, essentially, a tax or a reduction of benefits. Taxes could be raised on high earners, taxes could be raised on all earners, or taxes could be raised on benefits. Benefits could be reduced by increasing retirement ages, means testing, or a change in the benefit formula for young workers.

Taking action now rather than later would help stabilize the program for the long ter. However, with no clear crisis happening until 2034, getting the process started now may be difficult.

Social Security faces major long-term challenges. Taking action now could provide the most benefit to the program that many rely heavily on.

For those unsure on how to best maximize their Social Security benefits, we can help. Ask us.

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