

# THE ROLE OF SOCIAL SECURITY IN FINANCIAL PLANNING

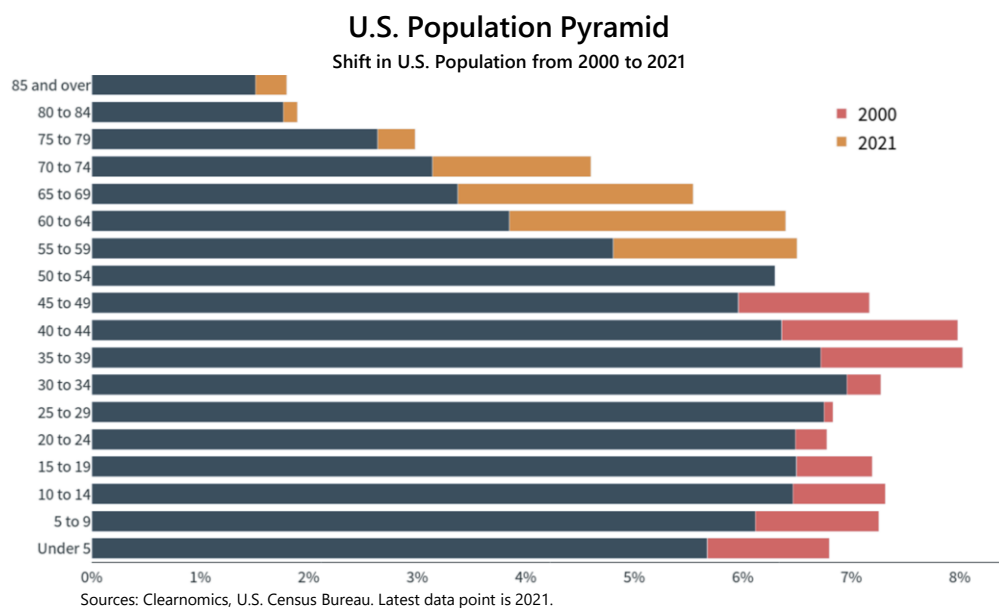
*As life expectancies continue to grow and the future of Social Security becomes more uncertain, it is more important than ever to build a robust retirement plan that can provide sustainable lifetime income and weather uncertainty.*

Social Security, one of the most important government programs for retirees, has evolved over its 90-year history. As the aging population grows, so too do concerns about whether Americans will be able to rely on benefits in retirement. While Social Security is important, it is only one part of a well-crafted financial plan. In this economic and political environment, it's important to understand all components of retirement planning to achieve long-term financial goals.

## A Brief History of Social Security

Established in 1935 during the Great Depression under President Franklin D. Roosevelt, Social Security was designed as a social safety net for older Americans. What began as a program paying modest benefits to a relatively small group has evolved into a complex system that supports millions of retirees, disabled workers, and their families. Today, Social Security benefits represent a significant portion of retirement income for millions of Americans.

So, what are the challenges facing Social Security today? The program operates primarily on a pay-as-you-go system, meaning that the payroll taxes of current workers are used to pay current benefits. In other words, the payroll taxes you pay do not go toward your own future benefits, but toward a current beneficiary's benefits. This system worked well when the ratio of workers to beneficiaries was high, as throughout much of the 20th century. However, demographic shifts have meant there are fewer workers to fund the program even as there are more retirees seeking benefits. Specifically, in 1940, there were 42 workers for each retiree. Today, that ratio has fallen to around 2.8 workers per beneficiary and is projected to decline further as the population ages and the birth rate continues to trend downward.



There have been many projections on when the Social Security trust funds will be depleted. The latest projection from the Social Security Board of Trustees estimates that reserves are sufficient until 2034, after which benefits would need to be reduced. At the moment, ongoing payroll taxes would still cover about 78% of scheduled benefits. While the exact timeline may shift, the underlying challenge remains consistent: without reforms, the trust funds may not be able to pay full scheduled benefits indefinitely.

## Living Longer Is a Blessing, but a Challenge for the Social Security Trust Fund

The national debt and deficit also raise concerns about the sustainability of the program, with the debt nearing \$37 trillion and the country running persistent deficits. Even though Social Security is considered "mandatory," the pressure to cut government spending creates uncertainty around how Congress may change these programs in the future.

It's no surprise that potential solutions are subject to intense political debate, making a near-term fix to Social Security unlikely. Some proposed ideas include raising the retirement ages for starting benefits, increasing the taxable wage cap, and reducing fraud in the system. Unfortunately, there are few long-term strategies to fix Social Security once and for all.

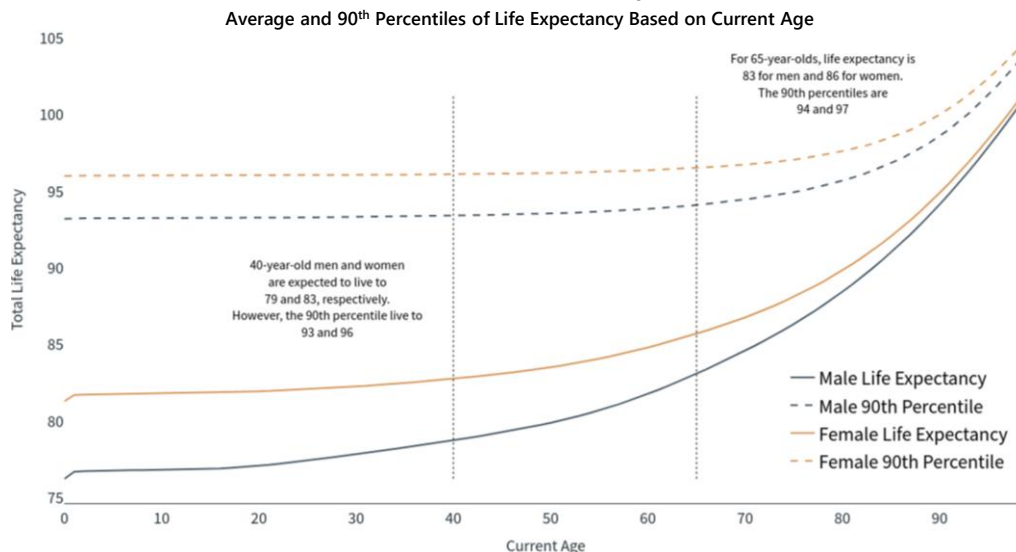
# INSIGHTS

## Strategic Considerations for Retirement Planning

Prudent planning is necessary to stay on track toward retirement given this uncertainty around Social Security. What decisions make sense depend on your holistic financial plan, goals, tax considerations, and more. Here are some important factors to consider:

1. **Deciding to Delay** - Retirement benefits can start as early as age 62, however, receiving benefits early reduces the monthly payment. Conversely, delaying benefits until age 70 can increase the monthly payment by approximately 8% per year beyond full retirement age (66-67, depending on birth year), according to the Social Security Administration.
2. **Bridge Strategies** - The value of delaying depends largely on what you do for income while waiting. Some retirees use portfolio withdrawals as a “bridge” to higher Social Security benefits later. This strategy can be particularly valuable for married couples, where maximizing the higher earner’s benefit creates a larger survivor benefit.
3. **Tax Implications** - Up to 85% of Social Security benefits may be taxable, depending on income. Future tax law changes could increase this percentage. Strategic withdrawal planning with the help of a trusted advisor can help minimize the tax impact of your benefits.
4. **Conservative Assumptions** - Younger workers have more time to prepare for retirement and more options to adjust for future uncertainty. Thus, it is wise for them to build retirement plans that don’t rely heavily on Social Security. This doesn’t mean ignoring it entirely but rather treating potential benefits as a supplement to personal savings rather than a foundation.
5. **Maximize Tax-Advantaged Accounts** - With Social Security’s future uncertain, maximizing contributions to 401(k)s, IRAs, and HSAs becomes even more important. These accounts provide tax advantages that can help compensate for potentially reduced benefits.

### U.S. Life Expectancy



Sources: Clearnomics, Social Security Administration. Latest data point is 2022.

## The Future of Social Security Requires Careful Planning

Despite legitimate concerns, it’s important to maintain perspective. Social Security has faced funding challenges before, and political pressure to preserve the program remains strong. The prudent approach is neither blind faith nor complete dismissal of Social Security’s role in retirement planning. Instead, investors should recognize the program’s importance while treating it as only one component of a diversified retirement strategy.



# INSIGHTS

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