0:00 - Hello and welcome to the JGUA Financial Commentary Podcast. I'm your host, Andrew Baron. And in this episode, I talk about the future of Social Security.

0:16 - But before we begin, a short disclaimer. The contents of this podcast are strictly for informational purposes only. And nothing said should be taken as investment, tax or legal advice. Any strategies discussed may not be suitable for listeners specifically. And JGUA encourages consulting with your advisor before implementing any strategies to ensure they meet your individual objectives.

0:45 - A recent article has pretty provocative title. It is Social Security's Domesday is now a year earlier, should you be worried? While that is clearly there to elicit a pretty good response, before we dig into the article, I'd like to just review how Social Security works.

1:04 - Social Security works by paying out benefits through a payroll tax. If you're an employee, when you get your pay stub, there is a 6.2 percent portion taken out of your paycheck for your employer. They also pay an additional 6.2 percent.

1:20 - If you are self-employed, you would pay the full 12.4 percent. This actually also only has what we call a wage base or a cap on that. For 2021, this wage base is up to $142,800. And what that means is if you make over this amount every dollar after the $142,800 is not taxed by Social Security for especially high income earners. For example, let's say you make a million dollars a year, you'll hit this wage base pretty early on in the year in the first couple of months or so. That is a limitation that's already intrinsically built into the program.

2:00 - Let's review what this article is saying. The article is saying that there is a doomsday scenario in which Social Security is not going to be able to pay out benefits in the way they can now. But what they really mean, is insolvency. There is a trust fund that has been collecting values and monies all these years, and it will exhaust those funds. And we will have to rely on just the payroll taxes that we're currently collecting to pay out promised benefits.

2:32 - People are pretty familiar with being able to claim Social Security at age 62, but that's actually the earliest you can claim it. The way that it's actually calculated is something called a PIA or primary insurance amount. And that is the amount Social Security expects to pay you for your full benefit at your full retirement age.

2:53 - If you are born in the mid 40s through January 1st 1954, full retirement, Social Security age is 66. For everyone born January 2nd, 1954, through 1960. Your age slowly creeps up two months every year. So it's 66 and two months to 66 and four months, etc. And then everyone born 1960 and after full retirement age is 67. And so this is actually another adjustment made to extend the program, because originally when the program was taken out all the way back in the 1930s full retirement age was 65. Which leads me into the amendment part of Social Security.

3:34 - Yes. As is, assuming, nothing is done, Social Security will only be able to pay out about 75 percent of promised benefits to retirees. But like I mentioned earlier, that full benefit is really based on full retirement age. And as a little quirk, for whatever reason, baby boomers, close to

70 percent, retire and claim Social Security before reaching their full retirement age, which is actually a little shift from the generation before that was more likely to wait till 65. I understand that that ages are a little different, but I did think it was interesting to point out that in past generations, people were more likely to wait and claim that.

4:20 - But let's get into fixing Social Security. So as I already mentioned, we have the 6.2 percent or the 12.4 if you want to include the employer that's being paid through payroll. In an analysis done, if we were to increase one percent on each of that. So if you were to pay an additional one percent and your employer would pay an additional one percent, bring the total up to 14.4 percent. Social Security would be fully funded for the next 75 years.

4:51 - And as we were saying, what if we especially, let's say, people who are in their 30s and 40s or even younger and we're having longer and longer lifespans, another fix would be to extend full retirement age out, as we have already previously done.

5:05 - Kind of a similar third factor that no one really considers would be growth. If the United States economy had a lot of growth and we were taking in more wages, we would collect more payroll taxes, which would be able to pay out more benefits.

5:18 - In the same vein, if we were to uncap that $142,800 amount, the amount that year after which you don't have to pay any more payroll for FICA for Social Security. If we were to increase that or you could have an unlimited cap, that would also seriously help raise more money for Social Security.

5:39 - In real life, I expect it to be a combination of these different solutions that would really come in to fix it. When you see these articles that are concerned, I think it's really more about getting viewers and clicks on their website than it really is about educating their audience, because saying, well, if we have a couple of fixes, it's not that big a deal to fix Social Security isn't nearly as exciting as the Social Security doomsday is now coming.

6:08 - Just to kind of recap everything I've said so far. Yes. As is Social Security has a couple issues and it will not be able to pay out promised benefits in the future, assuming nothing is done. That said, there are quite a few solutions or a combination of solutions which can easily remedy this between increasing payroll taxes, extending claim ages, growth in the economy, where we have more money, more workers. And additionally, if we removed the Social Security cap, meaning you subject it all wages to this FICA tax

6:49 - Between these combinations, I see Social Security being healthy and working the way people expect it to.

6:55 - If you have any questions about Social Security or maybe how it affects you specifically, please email info@JGUA.com or find our website or social media for additional content.

Until next time, everyone stay smart.