

Social Security

Is it going bankrupt?

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Reaching retirement is a major goal for most people — and so is having enough income during retirement. While Social Security wasn't meant to be the sole source of income, it serves as the foundation for many retirement income plans. Nevertheless, Social Security is likely to make up only a portion of your retirement income. Therefore, it is important to have a well-rounded strategy to provide your income in retirement.

With concerns over the size of the U.S. debt and budget deficit, coupled with the influx of retiring baby boomers, many are asking the question, “Can Social Security remain a dependable source of income?” While difficult decisions may need to be made for the program, we believe the answer is yes.

The dilemma

More than 68 million people receive some form of Social Security, including approximately 54 million retired workers and their family members.¹ This number is growing as 73 million baby boomers

face retirement; one turns 65 about every nine seconds.² Given these demographic trends, the growing burden on Social Security is becoming unsustainable.

If no changes are made to the program, Social Security will need to reduce benefits in 2033, paying about 77 cents for each dollar of projected benefits, according to the 2025 Board of Trustees Report issued by the Social Security and Medicare trust funds. While benefits would continue to be paid, changes will need to be made to potentially avoid these future cuts and keep the program on solid financial footing.

Important, but the biggest issue?

Health care and Social Security are often talked about together as if the costs of these two items are causing the same potential strain on the economy. However, federal spending on health care is actually growing at a much faster rate.

Federal spending on Social Security, as a percentage of the economy, is expected to rise from 5.2% of the gross domestic product (GDP) in 2025 to 6.1% in 2055. Spending on Medicare and other major health care programs is rising much faster, from about 5.8% of GDP in 2025 to 8.1% in 2055.³ And this doesn't include state spending on health care programs such as Medicaid.

Although the future of both programs needs to be addressed, the faster rise of health care spending has made this issue a more important priority. Nevertheless, there are proposed solutions that can help fix Social Security, and they depend on the willingness of Congress to act to maintain this important benefit.

Potential solutions

Improving Social Security, while potentially painful, is actually fairly straightforward. Warren Buffett once quipped, “Investing is simple, but it isn’t easy” — meaning that the principles of successful investing (diversifying, buying quality investments, controlling emotions) are well-known, but sticking to them can be difficult. A similar analogy can be made for Social Security. Different proposals from Congress, the Congressional Budget Office (CBO) and the Social Security Board of Trustees to strengthen Social Security are fairly simple and straightforward, but they involve decisions that are not easy to make.

While the proposals vary, the key items that could be changed include:

- Earliest eligibility age (EEA), which is currently 62
- Full retirement age (FRA), which is currently 67 for new retirees
- Cost-of-living adjustments (COLA)⁴
- Payroll tax rates used to fund Social Security
- Removing the earnings ceiling for payroll taxes

For example, the Social Security Board of Trustees estimated that raising the combined payroll tax from 12.4% to 16.05% would fully fund the program through at least 2099.

This list is not exhaustive, and many of the above options could be used in conjunction. The key is that Social Security can be fixed. The question is what will be recommended and how soon Congress will act to improve the program's long-term outlook.

Focus on what you can control

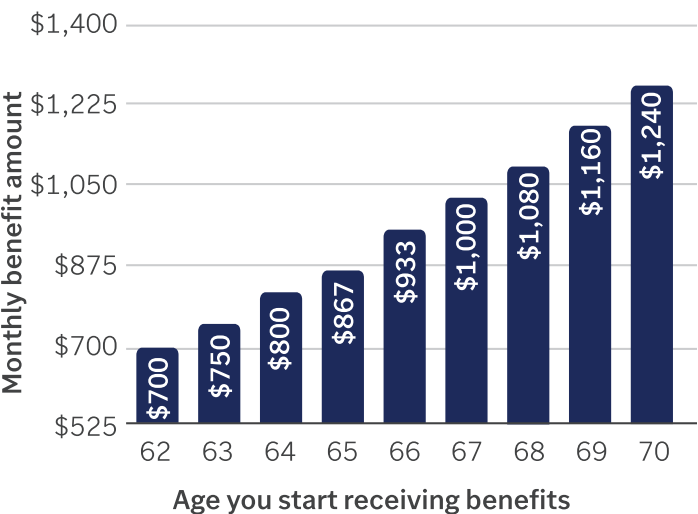
While you can't control what, if anything, will change with Social Security, you are in control of some key aspects of your retirement strategy.

When you take Social Security

Nearly 65% of all retired workers receive reduced benefits because they take Social Security before their full retirement age (FRA).⁵ While many likely took benefits early because they needed the income, some likely did because they have concerns about the program's future.

Monthly benefit amounts differ based on the age you start receiving benefits

(assumes \$1,000 monthly benefit at full retirement age of 67)



Source: Social Security Administration. Example does not include any potential cost-of-living adjustments (COLAs).

Social Security payments can be sharply and permanently reduced by as much as 30% if taken before FRA (assuming an FRA of 67). With future increases based on this lower amount and retirement potentially lasting 25 years or more, this initial reduction can have a profound effect on your retirement income stream for many years to come.

Additionally, your selections don't just affect you; they can have a permanent effect on the benefit received by your surviving spouse. Be sure you understand the long-term effects of your decision before you begin taking Social Security. For more information on claiming Social Security benefits, please see our report "Social Security: When to claim your benefit." As we've discussed, there are several options to sustain Social Security, so we wouldn't recommend taking benefits early based on worries about the long-term health of the program.

Your outside savings

Even if there are no changes, Social Security is likely to make up only a portion of your income in retirement. For example, Social Security benefits replace about 40% of pre-retirement income for a median earner who claims at full retirement age.⁶ You will still be responsible for generating most of your retirement income, and your investments will likely play a major role. And any proposed changes to Social Security would likely increase the amount you need to save to provide for your retirement. You shouldn't rely solely on Social Security for your retirement security.

Considerations for investors

Consider the following as you think about Social Security and your retirement:

- Evaluate all your options and their effects on your income before deciding to take Social Security, especially if you're thinking of taking it before full retirement age. This would include potential benefit reductions for you and your spouse as well as possible benefit reductions in other programs such as Medicare, which doesn't begin until you turn 65.
- Work with your financial advisor to incorporate different scenarios into your investment strategy, including possible benefit reductions and changes to the age you can receive benefits — particularly if you don't plan to retire for a long time.
- Review your investment and savings strategy to help achieve the lifestyle you desire in retirement.

Securing your retirement

While challenges exist, we believe Social Security can be strengthened and remain a dependable source of income in retirement. Difficult decisions may need to be made, but there are several options that can keep the program on solid ground. Remember, however, that you still share a major responsibility in securing a retirement that aligns with your goals. Speak with your financial advisor today to review your retirement strategy to help ensure it remains on solid ground as well.

1 Source: Social Security Administration, *Fact Sheet* 2024.

2 Source: Census Bureau, "By 2030, All Baby Boomers Will Be Age 65 or Older," December 2019.

3 Source: Congressional Budget Office, *The Long-Term Budget Outlook: 2025 to 2055*, March 2025.

4 Current COLA adjustments are based on the CPI-W, a measure of inflation that tracks the price changes of a broad basket of goods and services covering all wage earners and clerical workers. One proposal was to switch to the Chained CPI-W, or C-CPI-W, which is a separate measure of inflation that allows for a redistribution of goods and services in the basket by assuming that consumers tend to decrease the amount of purchases for goods and services that have the highest increase in prices.

5 Source: Social Security Administration, *Annual Statistical Supplement* 2025.

6 Source: Social Security Administration, *Replacement Rates for Hypothetical Retired Workers*, June 2025.



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