SOCIAL SECURITY 2021 TRUSTEES REPORT

It's that time of year again: the Social Security Board of Trustees released its annual report. One big feature of this report is an actuarial determination of when the Social Security Trust Fund will be depleted and tax revenues will be unable to fund the promised benefit in full. The report states that, based on current assumptions, only 78% of benefits will be funded by 2034. This may cause confusion and concern for some of the general public, including your clients.

This new data from the Social Security Board of Trustees may be a wake-up call that the current system is on an unsustainable path—and is in need of legislative action. Understandably, it may drive concerns and, likely, questions from your client base, and you must work to address these concerns in your financial planning. For instance, some financial professionals may adjust Social Security benefit assumptions in their clients' retirement plans. It's up to you to determine how best to start these conversations with your own clients.

Before you do, it's important to understand why the Trustees have this concern. The Social Security Administration has found itself funded at a deficit, meaning they pay out more in benefits than they receive in taxes. This deficit is currently offset by the Social Security Trust Fund, but that fund is estimated to be depleted in 2034. In other words, the Social Security Administration will not have enough income to pay out full benefits to retirees based on current demographic trends.

Many things could change between now and then to alter this trajectory; gains in productivity and increased worker participation, for instance, could increase the number of people paying into the system and enhance its longevity. On the other hand, further advances in medical technology could allow people to live and collect Social Security benefits longer, thus increasing strain on the system.

Additionally, new policies have been proposed that could improve longevity of Social Security benefits. These could include subjecting a higher proportion of income to Social Security taxes, raising the FICA rate, changing cost-of-living adjustment (COLA) amounts, means testing of benefits for higher-income individuals, increasing the taxable percentage of benefit payments, or eliminating the special nature of employment tax funding to pay out of general revenues instead. It is not as though we are out of solutions, but we must motivate our representatives to find a fair solution before the situation becomes critical.

In the interim, what is a financial professional to do?

1. Reach out to your clients and address their concerns.
2. Remind clients of the two important things they can control: retirement saving and spending rates.
3. Adjust income assumptions to reduce or eliminate Social Security benefit amounts (particularly for younger clients years away from full retirement age).
   a. Keep in mind, most Social Security benefit recipients claim early and get an already-reduced benefit.
4. Consider additional income strategies that provide protected and consistent income such as annuitization, a deferred income annuity (DIA), qualified longevity annuity contracts (QLACs), or bond/CD ladders to offset any potential future income decline.

It is important to adjust planning and address clients' concerns as they approach retirement, including those regarding Social Security benefits. One of their biggest concerns may be the viability of their retirement income plans, so it is vital for you to be fully informed about their options as circumstances change.

Additional Resources and Links

Social Security Benefits

Social Security FAQs

Which Bridge Might Work Before Claiming Social Security Benefits?

Retirement Strategies Blog

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
PacificLife.com

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