

Will Social Security be there for me?

Modern retirement monthly

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- Social Security's latest Trustees Report projects that, if current policies go unchanged, the system's reserves earmarked for retirement and survivor benefits will be depleted in 2033 (one year earlier than last year's estimate).
- Congress has many options to cover this expected shortfall—for example, increase payroll taxes, change the cost of living adjustment, or increase the retirement age to reflect higher life expectancy.
- Even without making any changes to the program, that doesn't mean that retirees will not receive *any* benefits. Incoming Social Security tax revenue is expected to cover 77% of benefits owed to retirees and survivors beginning in 2034.
- In this report, we summarize Social Security's financial outlook, provide a high-level overview of the policy options lawmakers could employ to address the shortfall, and offer suggestions to help make sure your financial plan is prepared for the uncertainty in Social Security's future benefit amounts.



Social Security's 2023 Trustees Report states that Social Security's total costs are projected to be higher than its total income in 2023 and all later years, meaning trust fund reserves will be tapped so that beneficiaries can receive full payouts.

If current policies go unchanged, the Old Age and Survivors Insurance (OASI) trust fund assets will continue to be tapped until 2033 when the reserves earmarked for retirement and survivor benefits will run dry. But that doesn't mean retirees won't receive *any* benefits.

What happens when Social Security's trust funds are depleted?

Social Security's primary source of revenue comes from payroll taxes. As long as payroll taxes continue to be deducted from our paychecks, Social Security projects that

the revenue would be sufficient to pay 77% of OASI scheduled benefits after the reserves are projected to become depleted in 2033.

Reserves in Social Security's larger trust fund, which pays retirement benefits, were nearly depleted in 1982; however, no beneficiary was shortchanged because Congress enacted temporary emergency legislation that permitted borrowing from other federal trust funds. Additional legislation was passed later on to improve financing. Four years later, borrowed amounts (plus interest) were repaid.

What would Social Security reform look like?

Lawmakers have a wide range of policy options that would close or reduce Social Security's long-term financing shortfall. Broadly speaking, the approaches that lawmakers can take include increasing revenue from workers and

employers by raising the tax rate or the maximum level of taxable earnings, or by dedicating revenue from other sources; lowering benefits for some or all beneficiaries by changing certain program parameters; or a combination of these approaches.

Figure 1 - Some proposed changes could reduce the impact to initial benefits, or keep them entirely intact

Changes proposed and analyzed by the Social Security Trust Administration's Office of the Chief Actuary. Shortfall estimates reflect the financial effect of each change on the actuarial balance of the combined OASI and DI Trust Funds over the 75-year long-range period.

Potential solution	Estimated shortfall eliminated
Increase the earliest eligibility age from 62 to 64. Increase the normal retirement age by 3 months per year until it reaches 70 in 2034, then index it to life expectancy.	47%
Reduce Cost of Living Adjustment by 1% p.a. starting in 2023.	56%
Add a new net investment income tax (NIIT) of 12.4% starting in 2024.	56%
Eliminate the taxable maximum (limit on income subject to payroll taxes) starting in 2023.	75%
Grow initial benefits by inflation rather than the average wage index, beginning with those newly eligible for OASDI benefits in 2029.	80%
Increase the payroll tax rate from 12.4% to 16.0% starting in 2023.	103%
Increase the payroll tax rate from 12.4% to 16.2% in 2035, then to 20% in year 2065.	126%

Source: "Summary of provisions that would change the Social Security program," published 21 February 2023.

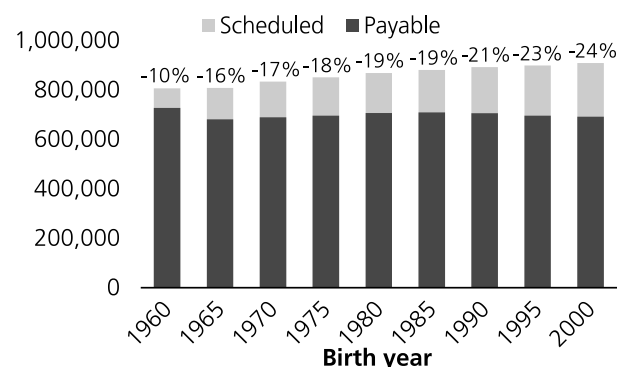
Should financial plans consider Social Security's financial status?

In reality, Social Security benefits were never intended to be a retiree's sole source of income. Instead, it should be viewed as a supplement to other sources of retirement savings, such as personal savings, IRAs, 401(k)s, and pension or annuity income. But, as with any uncertain variable in a financial plan, it should be considered when planning for retirement.

One common question in response to Social Security's shortfall is whether retirees should claim their benefits early. Claiming benefits before 2034 will result in a larger *initial* benefit, but the benefit payments occurring *after* the trust fund reserves are depleted—regardless of when those benefits began—will be reduced. So, although older retirees will see a smaller reduction in their lifetime benefits, claiming early won't lock you into your scheduled benefit.

Figure 2 - Claiming benefits early won't prevent your future payments from being cut

Scheduled and payable lifetime Social Security benefits for a hypothetical retiree receiving the maximum retirement benefit when claiming at full retirement age (FRA) by birth year, in 2023 dollars



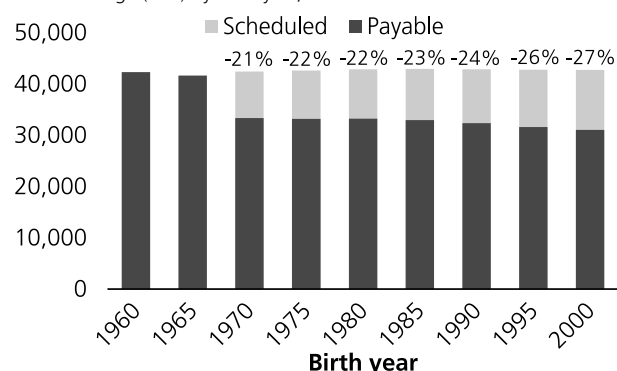
Source: Social Security Administration, UBS. The lifetime benefit estimates for each birth year were calculated using the life expectancy at full retirement age, which are available here: <https://www.ssa.gov/oact/population/longevity.html>.

With this in mind, if you're planning to claim your Social Security benefits prior to 2034, we suggest stress-testing your portfolio to understand how the success of your financial plan might be impacted if your Social Security benefits were to be reduced beginning in 2034. Incorporating various claiming strategies into this stress-test will help you to assess the impact that your claiming decisions will have on the projected lifetime benefits for you and your spouse.

Since benefit reductions will have a larger impact on lifetime benefits for workers who claim benefits after 2033, it's particularly important for younger investors to begin preparing for the shortfall now by using a reduced Social Security benefit estimate in their financial plan.

Figure 3 - Younger workers may have to save more to offset larger shortfalls

Scheduled and payable initial annual benefits for a hypothetical retiree receiving the maximum retirement benefit when claiming at full retirement age (FRA) by birth year, in 2023 dollars



Source: Social Security Administration, UBS.

Even if your benefits are not reduced outright, you may face higher payroll taxes, a higher retirement age, or other changes that reduce the value of your Social Security benefits over your lifetime. The earlier you incorporate a benefit reduction into your financial plan, the easier it will be to generate the additional savings required to make up for the shortfall, regardless of what Social Security reform looks like in the future.

Next steps

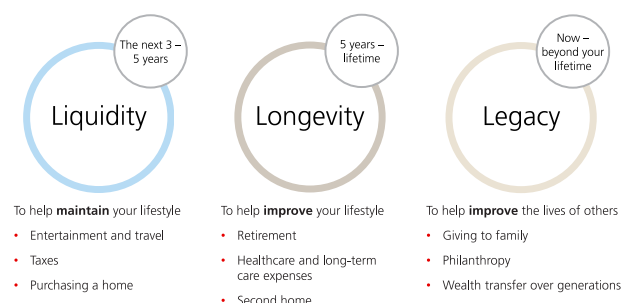
It's important to keep in mind that the reduction in benefits illustrated in the figures above will only occur if lawmakers fail to take any action. Lawmakers could take action before then, but at this point, there's no way to know for certain what that action (and its impact on benefits) would be. Even still, this uncertainty doesn't mean there's nothing that can be done today to prepare for a potential change in the future. To help you prepare for potential changes to the Social Security program, we suggest following the steps below:

#1) Incorporate reduced benefit amounts into your financial plan to identify shortfalls. Social Security's outlook isn't great, and a potential reduction in benefits is certainly a reason for investors' concern. But, don't let these concerns turn into worry.

To address the uncertainty in Social Security benefit amounts, a comprehensive financial plan can help you to make sure that other pieces of your retirement puzzle are intact. And, to aid this process, we recommend using the UBS Wealth Way framework, which can help you to approach your financial decision through the lens of meeting your financial goals.

Figure 4 - The UBS Wealth Way framework can help you assess how different Social Security benefit amounts may affect your plans for retirement

The Liquidity. Longevity. Legacy. framework



Source: UBS.

UBS Wealth Way is an approach incorporating Liquidity. Longevity. Legacy. strategies that UBS Financial Services Inc. and our Financial Advisors can use to assist clients in exploring and pursuing their wealth management needs and goals over different timeframes. This approach is not a promise

or guarantee that wealth, or any financial results, can or will be achieved. All investments involve the risk of loss, including the risk of loss of the entire investment.

#2) Develop a strategy to offset potential shortfalls.

Determine which actions need to be taken to help you increase the likelihood of meeting all of your financial objectives, regardless of Social Security's outlook.

If you're nearing retirement, focus on building out your Liquidity strategy to prepare for a smooth transition into your retirement years. For more information on how to build and manage a Liquidity strategy, please see our report, [Liquidity strategy solutions](#).

And, to maximize the overall value of Social Security's longevity hedge, make sure you consider both the spousal and survivor benefits when determining whether to claim your retirement benefits now or later.

If you're further from retirement, make sure you're saving enough in your Longevity strategy portfolio to retire when and how you want to.

When you meet next with your financial advisor, consider discussing the following questions:

- How will claiming earlier or later impact my family's lifetime retirement, spousal, and survivor benefits?
- How might a benefit reduction affect the likelihood of meeting my late-life spending needs if I live beyond my life expectancy?
- How might other sources of guaranteed income, such as annuities, impact the likelihood of meeting my objectives if Social Security benefits are reduced?
- How much do I need to increase my annual savings in order to offset smaller Social Security benefits?

#3) Periodically review your financial plan and make adjustments as needed.

[At this time, the UBS US Office of Public Policy does not anticipate any material changes to the Social Security program in the near-term.](#) However, the tax structure of Social Security and Medicare may very well come into play instead near the end of the decade when the solvency of these two programs come into question. We suggest reviewing your financial plan on an ongoing basis and adjusting the Social Security inputs as needed when we gain more clarity around what future Social Security benefits may look like.

Additional resources

- [Social Security spousal and survivor benefits](#)
- [Beyond the 4% rule: Am I ready for retirement?](#)

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