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Retirement Hot Topics

Is it time to panic about the future of Social Security?

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> **There are valid reasons to worry that the monthly benefits of more than 50 million retirees may fall victim to a government funding shortfall in the not-too-distant future. However, as Retirement Strategist Sharon Carson explains, "Despite its funding challenges, the entire Social Security benefits program is not about to disappear."**

Here's how to separate fact from rumor.

What the latest data reveals

A few weeks ago, the Social Security Trustees, in their 2025 annual report, projected the combined Federal Old-Age and Survivors Insurance and Federal Disability Insurance (OASDI) Trust Funds will be depleted in 2034—a full year earlier than predicted in the 2024 report, intensifying fears of an impending benefit cut.

Why is this happening?

Much of the crisis is being fueled by the overall aging of the U.S. population. Payroll taxes are the primary source of Social Security's funding—and the ratio of working people to retirees has been steadily shrinking since 1950, when there were 16.5 workers to support each retired beneficiary. Today, the ratio is 2.7. And, by 2045, the ratio of workers per beneficiary will have declined even further, to 2.2.

Other forces, too, are at work. One expressly noted by the Trustees in their report is passage of The Social Security Fairness Act. Increasing Social Security benefits for some public workers and their families slightly accelerated the timeline for the funds' depletion—a fact we **highlighted in February**. Given this trajectory, the gradual depletion of the OASDI funds is inevitable—unless or until Congress acts.

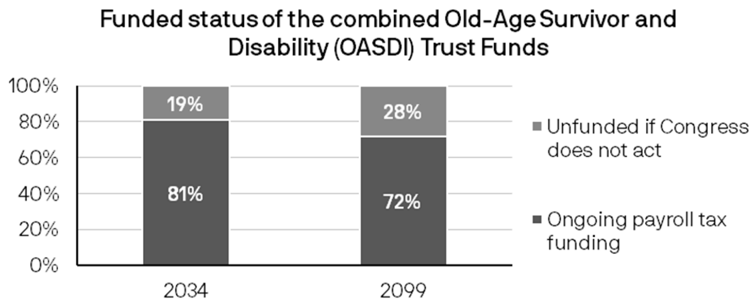
The sooner federal legislators step in to solve the problem, the less painful the fix will be. Though to avoid the immediate pain of higher taxes or benefit cuts, it is likely Congress won't tackle this issue until the trusts funds' depletion is imminent.

What does this mean for your clients?

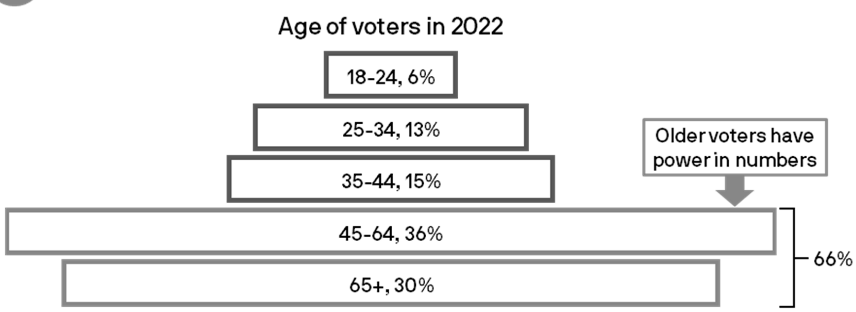
Older workers: Should those who are eligible take their benefits before the trust fund is depleted to avoid a possible cut in benefits? No. Eventually, we believe, Congress will be forced to act to avoid benefit cuts for retirees. The illustration below, from slide 45 in our Guide to Retirement, shows more than two-thirds of today's voters are over the age of 45. Congress understands reducing Social Security benefits is a salient issue for these voters.

Debunking Social Security solvency myths

1 Myth: "Young workers will get nothing from Social Security."



2 Myth: "I should take my benefit now because it might be cut later."



Younger, higher earners are likely to experience some changes

Taxes and benefits cuts are unpopular, so Congress may put off addressing the issue until closer to 2034, when the combined trust fund is projected to be depleted.[1]

- Workers with earnings above the payroll tax cap may pay more in taxes.
- For young workers, there will still be payroll taxes to fund most of your benefits, but high-income workers are most likely to see gradual changes if there are benefit cuts.

[1]The Social Security Old Age and Survivor Trust Fund is projected to be depleted in 2033, but combined with the Disability Trust Fund the projected depletion date is 2034. This material should be regarded as general information and is not intended to provide advice. If you have questions, contact the Social Security Administration and/or your legal or tax professional. Source (top chart): 2025 Social Security Trustees Report. Source (bottom chart): Kaiser Family Foundation, number of voters as a share of the voting population by age.

Younger workers: Is this group likely to get nothing? No. Even in the unlikely event Congress chooses not to act and the trust fund is depleted in 2034, the trustees believe there will be enough ongoing revenue, as noted above, mostly from payroll taxes, to cover 81% of benefits. Looking further into the future, the Trustees project there will still be enough revenue in 75 years to fund 72% of benefits, as the chart shows.

We think Congress will elect to shrink the funding gap and ease potential benefit cuts for younger workers by changing or eliminating the cap on income subject to payroll taxes, which currently is set at $176,100. Still, there is a possibility younger workers may see some benefit reductions, likely phased in over time, with young, high earners the hardest hit.

Would eliminating taxes on Social Security benefits ease the solvency crisis?

No. It would worsen the funding issue as it will deprive the trust funds of additional revenue, albeit a relatively small amount: In 2024, only about 4% of revenue for the Social Security program came from taxation of benefits. Still, the funds losing even a small amount of revenue could marginally move up the depletion date.

What is the effect of the recently passed budget reconciliation bill?

H.R.1, as Amended: An Act to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, formerly known as the One Big Beautiful Bill Act, does not eliminate taxation of Social Security. However, it will indirectly lower taxation of benefits for some individuals since it will lower Adjusted Gross Income (AGI). The formula for taxation of benefits is based on what is called combined income. Combined income equals AGI plus non-taxable interest plus half of Social Security benefits. This means that the bill may slightly reduce revenues for the program and thus push the insolvency date a bit earlier.

The bottom line

It's realistic to have concerns about the future funding of Social Security—but don't become sidetracked! Keep your clients planning for a secure retirement. The information in this article, along with the detailed data in our **Guide to Retirement**, can help you incorporate realistic assumptions about future benefits for financial plans.

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