Trinity Wealth Management, LLC
Robert Wassel, CPA/PFS
8040 Hosbrook Road
Suite 220
Cincinnati, OH 45236
513-794-2870 x11
(513) 289-2352 cell
bob@gotrinitywealth.com

Rescuing America's Safety Net

The Trustees continue to urge Congress to address these financial shortfalls soon, so that solutions will be less drastic and may be implemented gradually.

A March 2023 survey found that more than 90% of Americans worry about the Social Security program, and about half of those said they worry a great deal.[1] A separate survey the same month found that more than 80% of Americans worry Medicare will not be able to provide the same level of benefits in the future.[2]

These concerns are well-founded, because both of these programs — the cornerstones of "America's Safety Net" — face serious fiscal challenges that require Congressional action. And the longer Congress waits to act, the more extreme the solutions will have to be. Even so, it's important to keep in mind that neither of these programs is in danger of collapsing completely. The question is what type of changes will be required to rescue them.

Demographic Dilemma

The fundamental problem facing both programs is the aging of the American population. Today's workers pay taxes to fund benefits received by today's retirees, and with lower birth rates and longer life spans, there are fewer workers paying into the programs and more retirees receiving benefits for a longer period of time. In 1960, there were 5.1 workers for each Social Security beneficiary; in 2023 there are 2.7, dropping steadily to 2.2 by 2045.[3]

Dwindling Trust Funds

Payroll taxes from today's workers, along with income taxes on Social Security benefits, go into interest-bearing trust funds. During times when payroll taxes and other income exceeded benefit payments, these funds built up reserve assets. But now the reserves are being depleted as they supplement payroll taxes and other income to meet scheduled benefit payments.

Each year, the Trustees of the Social Security and Medicare Trust Funds provide detailed reports to Congress that track the programs' current financial condition and projected financial outlook. These reports have warned for years that the trust funds would be depleted in the not-too-distant future, and the most recent reports, both released on March 31, 2023, suggest that the future may arrive even sooner than expected.

Social Security Outlook

Social Security consists of two programs, each with its own trust fund. Retired workers and their families and survivors receive monthly benefits under the Old-Age and Survivors Insurance (OASI) program; disabled workers and their families receive monthly benefits under the Disability Insurance (DI) program.

The OASI Trust Fund reserves are projected to be depleted in 2033, one year earlier than in last year's report, at which time incoming revenue would pay only 77% of scheduled benefits. Reserves in the much smaller DI Trust Fund, which is on stronger footing, are not projected to be depleted during the 75-year period ending 2097.[4]

Under current law, these two trust funds cannot be combined, but the Trustees also provide an estimate for the combined program, referred to as OASDI. This would extend full benefits another year, to 2034, at which time, incoming revenue would pay only 80% of scheduled benefits.[5]

Put simply, the current outlook suggests that Social Security beneficiaries might face a benefit cut of 23% in a decade unless Congress takes action.

Medicare Outlook

Medicare also has two trust funds. The Hospital Insurance (HI) Trust Fund pays for inpatient and hospital care under Medicare Part A. The Supplementary Medical Insurance (SMI) Trust Fund comprises two accounts: one for Medicare Part B physician and outpatient costs and the other for Medicare Part D prescription drug costs.

The HI trust fund reserves are projected to be depleted in 2031. This is three years later than in last year's report, due to lower costs and higher payroll taxes, but still more imminent than the Social Security shortfall. At that time, revenue would pay only 89% of the program's costs.[6]

The SMI Trust Fund accounts for Medicare Parts B and D are expected to have sufficient funding because they are automatically balanced through premiums and revenue from the federal government's general fund, which provides about 75% of costs, a major outlay from the federal budget.[7]

Possible Fixes

The Trustees of both programs continue to urge Congress to address these financial shortfalls soon, so that solutions will be less drastic and may be implemented gradually.

Any permanent fix to Social Security would likely require a combination of changes, including some of these.[8]

- Raise the Social Security payroll tax rate (currently 12.4%, half paid by the employee and half by the employer). An immediate and permanent payroll tax increase to 15.84% would be necessary to address the long-range revenue shortfall (or to 16.55% if the increase started in 2034).[9]
- Raise the ceiling on wages subject to Social Security payroll taxes ($160,200 in 2023).
- Raise the full retirement age (currently 67 for anyone born in 1960 or later).
- Change the benefit calculation formula.
- Use a different index to calculate the annual cost-of-living adjustment.
- Tax a higher percentage of benefits for higher-income beneficiaries.

Options for reducing the Medicare shortfall include a combination of spending cuts and tax increases. These are some possibilities.[10]

- Improve the payment system for Medicare Advantage Plans (private plans that receive partial funding from Medicare).
- Modernize cost sharing between Medicare and Medigap (supplementary insurance).
- Increase the Medicare payroll tax rate (currently 2.9%, shared equally between employee and employer, with an additional 0.9% on income above $200,000 for single filers and $250,000 for joint filers).[11]
- Broaden the tax base subject to Medicare payroll taxes (there is no income ceiling for Medicare payroll taxes, but certain income is currently not subject to the tax).

Based on past changes to these programs, it's likely that any future changes would primarily affect future beneficiaries and have a relatively small effect on those already receiving benefits. While neither Social Security nor Medicare is in danger of disappearing, it would be wise to maintain a strong retirement savings strategy to prepare for potential changes to America's Safety Net.

All projections are based on current conditions, subject to change, and may not come to pass.

1) Gallup, April 6, 2023

2) Kaiser Family Foundation, March 2023

3–5, 9) 2023 Social Security Trustees Report

6–7, 11) 2023 Medicare Trustees Report

8) Social Security Administration, February 21, 2023

10) Committee for a Responsible Federal Budget, June 16, 2022

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