



Atlantic Retirement & Wealth Advisors LLC  
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## **Navigating- Social Security**

2026 marks yet another year of congressional inaction on the financial uncertainty of Social Security. Forty-three years have now passed since lawmakers last mustered the courage to talk about the gap between what the program promises and what it expects to pay.

Social Security's trust fund supporting seniors is expected to run short of money in just a few years, resulting in potential benefit cuts of 22.5% by 2033 according to the Trustee's report (the Congressional Budget Office shortens this timeframe to 2032) and there's little doubt that the numbers will once again worsen when the Trustee's projections are refreshed in a few months.

Over the years, sentiment in Congress has metastasized into institutional indifference. This environment has preserved Washington's best-kept secret: benefit cuts are coming to Social Security, and they may hit existing retirees and future beneficiaries hard.

Our lawmakers will likely respond with the typical communication: we should tax billionaires, put in a wealth tax, remove social security for those that have income over \$xx and increase or remove the salary cap component on what social security taxes. Surely some will say we can fix Social Security by calling a "benefit cut" an "adjustment" as though the public won't notice their rapidly shrinking checks.

In addition, voters have responded with systemic denial. "Oh, Congress would never let that happen" and "voters would run every politician out of town with pitchforks and blowtorches" seniors claim, but Congress reduced benefits in 1977 and 1983, and politicians were still re-elected in historic numbers.

Some individuals recycle the tired cliché "we paid for our benefits." While it's true those collecting did pay a portion of their future benefits, they did not pay anywhere near the full cost. This is why the gap between what the program expects to collect and what it has promised to pay has roughly doubled over the past decade.

In contrast to this nostalgic narrative, the actual terms of Social Security haven't changed since 1960. In the *Flemming v. Nestor* decision, the Supreme Court ruled that workers don't have a legal right to Social Security payments and Congress can change the rules regarding eligibility. Voters pay taxes today to pay for current retirees and maybe a future generation will do the same for these workers when they retire.

Under these terms, the government has warned those currently collecting benefits that checks will be reduced starting in the mid-2030s for more than 30 years unless Congress

takes action. In a more efficient world, Congress would have increased the payroll tax rate in 1994 in response to the system's decline. Back in 2005, a 2% increase in the payroll tax would have extended the program's solvency by 75 years. By 2015, the cost to achieve the same result would have been 3% more. Today it is 4% and, in order for current retirees to be exempt from the cleanup, younger workers face the prospect of paying this increased tax rate. Preemptive action in the early 2000s would have also triggered a discussion about the cost of runaway benefits and would have reined in the size of benefit checks long ago.

One of the biggest reasons for the underfunding of Social Security relates to individuals filing prior to full retirement age (most cases 66 -67 years). Today, 48% of retirees 65 years old or younger have filed to receive benefits. Only 9% wait until 70, when benefits can no longer be increased. Currently, for every year a person waits past full retirement age social security payments are increased by 8% per year.

If fixing Social Security was easy, it would have already been done. Benefit cuts are coming, and retirees as well as those over 40 need to plan accordingly. In our view, the bailout (keeping funding levels high enough) is not going to happen due to the size of the issue, current government finances and debt load, the potential market impact to interest rates and young voters revolting on oversized tax hikes.

#### Example of Social Security Benefit Payments – When To Claim

Social security payments are calculated based on when you claim them and your past income. Assume that your monthly benefit at your full retirement age of 67 would be \$2,000, which is the estimated average expected amount for recent retired workers. Also, let's assume a life expectancy of 82 years. To simplify, we'll remove the inflationary adjustment so we can compare apples to apples.

- 1) Claiming at age 62 – Due to the 30% benefit reduction, you would receive \$1,400 per month for 20 years, adding up to a lifetime benefit of \$336,000.
- 2) Claiming at full retirement age of 67 – You would receive your full \$2,000 benefit amount for 15 years. Your lifetime benefit increases by \$24,000 to \$360,000.
- 3) Claiming late at age 70 – Thanks to the delay, your benefit amount would be \$2,480, or 24% higher than the \$2,000 received at age 67. However, the benefits for only 12 years produces a lifetime benefit of \$357,120. That is \$2,880 less than the full retirement age of 67. In addition, should you save/invest some of the social security received at age 67 to age 70 the difference would be even larger.

One important note for high net worth / compensated individuals. The maximum monthly Social Security benefit at full retirement age in 2026 is \$4,152, meaning the maximum monthly amount with an additional 24% earning by delaying to age 70 is \$5,149.

## Charting a Course – Action items

Congress can change the laws at any time, so any specific advice today may need to be updated in the future. However, there are action items that we believe should be taken today.

- Don't wait to save for retirement, the longer you delay funding the harder it will be to achieve your retirement goals.
- Log into the Social Security website and verify your annual income and earnings. Your tax filings and or W-2 statements should be used.
- If you're young, you should be maximizing contributions to your 401k/Roth and making sure that any company match is achieved.
- Delay retirement, or have a part-time job, so you have the full 35 years of income when the benefit is being calculated. Any year with no income will count as a "0".
- Health (and or family health background) needs to be considered when choosing the year to start your benefits. Our rule of thumb; anyone forecasting to live less than 82 years of age should take benefits at 67 or earlier. Remember, healthcare advances are continuing to push longevity further out, even for those with challenges.
- Consider both pre- and post-tax retirement vehicles, 401k vs Roth account, depending on your income and ongoing cash requirements. Although you pay taxes today, a Roth does grow tax free and is withdrawn tax free. Currently there is no required minimum distributions with Roths.
- Consider Roth conversions, to lower your income during social security and Medicare benefit periods, prior to retiring.
- Medicare payments are deducted from your social security benefit payments. Should you have significant income during retirement (investments, business ownership, capital gains etc..) your government health costs will be increased. Today, some retirees are paying \$800-\$900 or more a month, per individual.

A long-term financial plan is important to understand your specific situation and to see if you're on track to meet your goals. Although social security will be part of the plan, it is only a small piece of the puzzle. Please reach out to us should you want to discuss developing a financial plan for you and or your family or if you have any questions.

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