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### Clearing Up Misconceptions About Social Security Benefits

Tiya Lim

Tiya Lim tackles common questions about Social Security and addresses concerns about Social Security benefits.

#### **Should people who are receiving Social Security benefits, or who will begin to receive benefits in the next few years, be concerned that benefits will stop?**

Since the program began, the precedent has always been if there are any changes to Social Security benefits, it will occur with the benefits of future generations. For example, in 1983, Congress decided to increase the full age of retirement but did so for beneficiaries who had 20 years or more until retirement. The increase did not affect those receiving current benefits.

Something that could change is increasing tax revenues, which affects both current and future recipients. However, current beneficiaries are usually retired, and the majority of tax revenue comes from current and future working populations. The precedent is: Don't change anything for the status quo.

#### **Are the financial problems with the Social Security program the same as they were a few years ago?**

Yes, they are the same. When Social Security was created in 1935, life expectancy was 65–70 years old. They didn't expect to pay out benefits for a very long time. Now you have people living into their 90s and beyond, and Social Security is still paying out benefits at around the same rate as it did when the program started. So, more people are taking money out for a longer period of time while fewer dollars are going into the system due to the recession and smaller workforce. That's causing a lot of the drain on the Social Security system.

The problems are the same as before, and the same earlier predictions still stand — around 26 years from now is when the Social Security Trust will run out of money. But that doesn't mean all benefits would stop. It just means that if nothing is done, such as increasing tax revenues or changing the full retirement age, people receiving benefits at that time would receive reduced benefits, perhaps 75 percent of their promised benefit.

But there's still time to address these issues for future benefit recipients. In principle, these are easy fixes — you could increase the money going into the system through taxation, or you could decrease the money going out by changing benefits or increasing the full retirement age.

#### **Should people receiving Social Security benefits worry about inflation related to those benefits?**

One great thing about Social Security is that it's indexed to inflation. Each year, Social Security announces the cost-of-living adjustment (COLA). As long as there is inflation and the cost of goods and services increases every year, Social Security is supposed to match that increase.

One proposal to reduce the expenses of Social Security is to eliminate the COLA, which effectively freezes benefits at today's dollar for the beneficiaries' lifetime. Obviously, any inflation would then erode Social Security benefits. A lot of people have said it's not a good way to do it, and they've taken it off the table because some of the larger expenses retirees have are even higher than inflation, such as medical expenses. So, they want to make sure retirees can keep up with those expenses.

### **What is the outlook for Social Security?**

People fear it's going to go away completely, but there are contingencies in place to keep Social Security functioning fully. Social Security is a revenue-generating system, so it can be self-sustaining if Congress can get serious about fixing some of the flaws. While no one has a clear crystal ball, economists and academics have provided guidance in ongoing discussions about repairing the program. Research has found that Congress has a great deal of flexibility in triggering different levers in the program, all with the intention of creating a more sustainable program.

### **Tiya Lim, Strategic Thought Leader**

Tiya Lim is a strategic thought leader for the BAM ALLIANCE. She focuses much of her study on nonprofit best practices and Social Security and other retirement-related strategies. She writes a column for *Private Wealth* magazine on institutional investing. Her work on Social Security has been featured on CBS MoneyWatch.com and cited in the *Journal of Financial Planning*.

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