



HealthView
SERVICES

FUNDING SOCIAL SECURITY

RANKING THE COST OF PROPOSED CHANGES ON AMERICANS PLANNING FOR RETIREMENT

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WHITE PAPER

Introduction

In this report we highlight the cost of eight potential solutions to address Social Security's funding shortfall. We rank the financial impact on a mass affluent couple 25 years from retirement, for which all changes (including a one-year delay in Full Retirement Age) will be applicable. We also highlight the impact of these proposals on the same couple 10 years from retirement, as well as for an average income couple.

Although it is unlikely that no changes will be made to address the solvency of the Social Security retirement trust fund (Old-Age and Survivors Insurance Trust Fund), we share the potential cost to future retirees of reducing benefits by 21% in 2033, consistent with current solvency expectations.

Across the range of scenarios detailed in this paper, doing nothing will have the greatest cost in terms of dollars lost for future retirees. Although some of the proposed changes to address funding do not apply to those 10 years from retirement or to average income Americans, the rankings are broadly consistent. Changes to FRA, reducing COLAs and Spousal Benefits will all impact future beneficiaries. Direct or indirect taxes to address the funding shortfall will in dollar terms will be significantly lower than the value of lifetime benefits they are designed to maintain. We note one significant change detailed in the paper that will ensure benefits can be paid with no impact on mass affluent and average income Americans – removing the cap on contributions for affluent Americans.

This report provides data for current and future retirees, advisors, and the financial community to evaluate proposed changes to Social Security. Although we expect steps will be taken between now and 2033, there is no such thing as a free lunch: each of the proposals will come with a cost. Most Americans will either pay more when working and/or receive lower lifetime benefits. Kicking changes further down the road will simply increase the cost of fixes to the program.



Data Methodology

Changes to Social Security will likely be implemented over time and come into full effect for the next generation planning for retirement. In this report we provide cost data for an average mass affluent couple (\$175,000 household income) 25 years from retirement as a base case. We also highlight, where applicable, the cost of changes to Social Security for a mass affluent couple 10 years from retirement, as well as an average income couple (\$110,000 household income) who are both 25 years or 10 years from retirement. Retirement age assumptions are in-line with national averages for retirement and benefit claims.

For illustration purposes we primarily use future value gross projected benefits. We leverage Social Security Administration projections for cost-of-living adjustments (2.4% long-term). We assume the couples will live to average actuarial life expectancy, and the proposals to address Social Security funding will be implemented immediately, unless otherwise specified.

We draw on [Society of Actuaries' modeling](#) to highlight the impact of each proposal on Social Security's overall solvency for context. The Society's assumptions in calculating these projections and related reading are found [here](#). While the most likely scenario may be a combination of these proposals being put in place by future administrations, each potential change is analyzed individually for illustrative purposes.

Each couple is assumed to retire and claim Social Security benefits when the older spouse turns 65 and have a life expectancy of 86 (husband) and 90 (wife).

Mass Affluent, 25 Years from Retirement

	Current Age	Current Annual Income	Primary Insurance Amount	Projected Lifetime Benefits
Husband	40	\$115,000	\$8,088	\$2,401,700
Wife	38	\$60,000	\$3,003	\$1,924,307
Total		\$175,000		\$4,326,107

Mass Affluent, 10 Years from Retirement

	Current Age	Current Annual Income	Primary Insurance Amount	Projected Lifetime Benefits
Husband	55	\$115,000	\$4,269	\$1,267,586
Wife	53	\$60,000	\$2,829	\$976,360
Total		\$175,000		\$2,243,946

Average Income, 25 Years from Retirement

	Current Age	Current Annual Income	Primary Insurance Amount	Projected Lifetime Benefits
Husband	40	\$75,000	\$6,249	\$2,026,316
Wife	38	\$35,000	\$3,770	\$660,619
Total		\$110,000		\$3,145,803

Average Income, 10 Years from Retirement

	Current Age	Current Annual Income	Primary Insurance Amount	Projected Lifetime Benefits
Husband	55	\$75,000	\$2,762	\$820,165
Wife	53	\$35,000	\$1,479	\$379,916
Total		\$110,000		\$1,200,081

National average data is used to project the dollar value of potential changes to Social Security for our couples. Data can be run for individual clients and cases that reflect gender, income, and longevity based on health condition.

» Highlights

- If no changes are made to address Social Security solvency and benefits are cut by 21% beginning in 2033, the cost in lost benefits to retirees would be the most significant of all scenarios outlined in this paper: **\$908,000** for a mass affluent 25 years from retirement and **\$252,000** for an average income couple 10 years from retirement.
- A one-year delay to Full Retirement Age will impact younger Americans who are further from retirement. A mass affluent couple 25 years from retirement, claiming at age 65, would lose **\$325,000** in lifetime benefits. An average income couple 10 years from retirement would lose **\$249,000**. If the same couples delay claims until age 66, their lifetime benefits would be **\$125,000** or **\$95,000** lower. This change is expected to address 15% of Social Security's solvency shortfall.
- Reducing COLAs by 0.5% will have a compounding effect on benefit growth, leading to a reduction of **\$287,000** or **\$100,000*** in benefits based on income and age. Those further from retirement will see a greater impact with more years of lowered COLAs. Projections show that the smaller payouts would address 28% of Social Security's funding requirements.
- For mass affluent couples, a reduction in spousal benefits from 50% to 33% of the higher-earning spouse's entitlement would lead to the lower-earner's lifetime benefits being decreased by \$250,000 (if 25 years from retirement) or \$118,000 (if 10 years from retirement). This change would have a very minor impact on solvency.
- Raising the FICA payroll tax for both employees and employers from 6.2% to 8.0% would reduce pre-retirement net income for the couples in the cases by **\$133,000** or **\$22,000***. This would fully address Social Security's solvency shortfall.
- Increasing the number of years of income used to calculate Social Security benefits from 35 to 40 would reduce future benefits by **\$53,000** for a mass affluent couple in our case, but would only marginally improve solvency.
- Taxing employee and employer healthcare premiums would reduce a couple's net income when working by **\$28,000** or **\$7,000***. It would address 31% of Social Security's funding needs.
- Eliminating the cap on taxable earnings for Social Security would address 70% of the Social Security shortfall with no impact on mass affluent or average earnings Americans. A couple earning a combined \$500,000 would contribute an additional \$252,000 in pre-tax income over the next 25 years.

*Mass affluent couple 25 years from retirement vs. average income couple 10 years from retirement.

Ranking The Financial Impact of Social Security Solvency Proposals on Future Retirees

The rankings of the financial impact of potential changes are based on a mass affluent couple 25 years from retirement. Data for the same mass affluent couple 10 years from retirement and for average earning couples 25 or 10 years from retirement are used to provide context. The contribution towards Social Security solvency is based on Society of Actuaries data.



Do Nothing, Cut Benefits by 21% in 2033

Without a change to the program, the Social Security retirement trust fund will be unable to pay full benefits. While estimates vary, the consensus is that benefits will be reduced by around 21% for all beneficiaries starting in 2033. This is reflected in the 2024 Social Security Trustee Report, which states that by 2033, “continuing program income will be sufficient to pay 79 percent of scheduled benefits.”

With a 21% reduction in benefits, a mass affluent couple retiring in 25 years, would lose a combined **\$908,482** in Social Security benefit payments over their lifetimes. This reflects a reduction of more than \$1 for every \$5 that they are currently entitled to receive from Social Security.

Shortfall Elimination: 100%

#1

Takeaway

The loss of over \$908,000 in benefits is significant. In today's dollars, this would be the equivalent of \$292,920 (assuming a 3% annual inflation rate).

The dollar-value loss of benefits for an average earning or lower income couple is smaller, but since less affluent Americans are typically more reliant on Social Security, the reduction in benefits may have a more significant impact on their retirement plans. For example, an average income couple ten years from retirement faces \$252,000 in reduced benefits.

Takeaway

If this couple chooses to delay Social Security claiming by one year (from 65 to 66), they would lose one year's worth of benefits, or about \$125,000.

An average earning couple 25 years from retirement would miss out on \$249,000 in lifetime benefits if they claimed at age 65, or \$95,000 claiming at 66.

#2

Increase Full Retirement Age starting in 2040 by two months per year for those born in 1978 or later until it reaches 68

Although this has a limited impact on solvency, changing the Full Retirement Age (FRA) is one of the most likely scenarios facing future retirees. In 1983, it was announced that the FRA would be gradually increased to age 67 (which applies to those born in 1960 or later). So based on historical precedent, those who are 40 or younger are most likely to be subject to a potential change in FRA (rather than those who are closer to retirement). By changing FRA, Social Security can continue to pay 100% of promised annual benefits, but delayed by one year. This decreases the total amount of lifetime benefits, since retirees receive fewer years of payments.

Assuming they do not change their claiming age of 65, one year added to FRA would cause a mass affluent couple 25 years from retirement to lose **\$324,667** in benefits over their lifetimes.

Shortfall Elimination: 15%

Reduce annual COLAs by 0.5%

Social Security's annual COLA is based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The 2024 COLA was 3.2%. Over the last ten years, adjustments have been as low as 0.0%, as high as 8.7%, and have averaged 2.75%. The long-term COLA estimate from the Social Security Trustees is 2.4%.

If COLAs were 0.5% lower than the CPI-W each year through retirement, a mass affluent couple 25 years from retirement would lose **\$287,351** in lifetime benefits based on Social Security's COLA projections.

Since all other costs will increase with inflation, and healthcare expenses are projected to continue to grow even faster, Social Security benefits will not keep pace with other expenses and its purchasing power will decrease over time.

Shortfall Elimination: 28%

#3

Takeaway

For mass affluent couples, the compounding of lower COLAs over time plus their higher benefits base will result in a significant dollar-value reduction in lifetime benefits. An average income couple ten years from retirement would see a decline in benefits of just under \$100,000.

Takeaway

Lower earning spouses can only receive a spousal supplement if the higher earning spouse has started collecting their own retirement benefits.

A mass affluent couple ten years from retirement would have benefits reduced by \$118,000.

#4

Reduce spousal benefits by 1% per year from 50% to 33%, taking full effect in 2041

Lower-earning or non-earning spouses are entitled to at least 50% of their partner's benefit amount. A one-third decrease in this value would be significant. For our mass affluent couple 25 years from retirement, the lower earning spouse's benefit is 37% of the higher earner's. Reducing the spousal benefit from 50% to 33% would mean that she will no longer be eligible, lowering her lifetime benefits by \$249,579.

Shortfall Elimination: 3%

Raise the employee and employer FICA tax rates from 6.2% to 8.0%

Social Security's portion of the FICA tax amounts to 12.4% of working income, evenly split between employees and employers at 6.2% (self-employed workers pay the full 12.4%). Raising these rates to 8.0% each would add a substantial revenue for the Trust Fund, but reduce current net income by 1.8% for all Social Security-eligible workers.

Assuming wage growth consistent with economic projections, the mass affluent couple 25 years from retirement would lose \$132,966 in net income from 2024 through their final year of work (2048).

Shortfall Elimination: 102%

#5

Takeaway

For an average income couple, the payroll tax change would have a smaller impact, with net income reduced by just under \$84,000 over the next 25 years or \$22,000 over 10 years.

Increase the number of years of earnings included in benefit calculations

Social Security PIA (the benefit received at Full Retirement Age) is calculated based on the average indexed monthly earnings (AIME) of an individual's highest 35 years of Social Security-taxed income. Adding income from the 36th to 40th highest earning years will in general lower AIME and the PIA of retirees.

If the higher-earner of a mass affluent couple's highest 35 years of inflation-adjusted earnings in 2024 averaged \$115,000, but an additional five highest earning years were taken into account where they earned an average of \$80,000, the couple would experience a **\$53,257** decrease in Social Security benefits from age 65 (25 years from now) through their life expectancy. This change will have a modest impact on Social Security funding.

Shortfall Elimination: 12%

#6

Takeaway

For individuals who have worked fewer than 35 years, \$0 earnings years are added to the PIA calculation to reach 35 in total, lowering their average income used to determine benefits.

If the PIA calculation is based on 40 years of work, benefits will be lower, underscoring the importance of potentially working longer to maximize Social Security in retirement. Regardless of earnings level, most future beneficiaries would see smaller monthly checks as a result of this change.

Takeaway

#7

If the couple was only a decade from retirement, the total loss in net income would be \$7,489. (Note: The loss of income would be the same for both mass affluent and average income couples.)

Include employer and employee health insurance premiums as taxable earnings.

The majority of working Americans receive employer-subsidized group health insurance through an individual or family policy like an HMO, PPO, or HDHP. Presently, the portion of paychecks withheld to cover these premiums is not taxed by Social Security. If these deductions were subject to taxation to fund Social Security, take-home pay would be reduced.

Similar to the payroll tax increase option, this change would affect both employees and employers. Assuming they are on a Family HMO plan, a mass affluent couple's after-tax income would be reduced by a total of **\$27,650** (in future value) over the next 25 years.

Shortfall Elimination: 31%

Eliminate the maximum taxable earnings limit for high earners

In 2024, earnings above \$168,600 are not taxed by Social Security (this limit is adjusted every year) and are not included in benefit calculations. An individual who earns \$170,000 will pay into – and when the time comes, receive back – the same amount as someone who makes \$1,000,000 annually. Eliminating this earnings limit (while providing no additional benefits in return) would generate significant additional revenue for the Trust Fund.

This change would have **no impact** on a mass affluent couple (or their lower income counterparts), since their individual and combined income does not reach these projected limits, but higher earners will pay more for the same benefits.

Shortfall Elimination: 70%

#8

Takeaway

There is precedent for similar proposals. Medicare, which also collects funding via the FICA tax, adds a 0.9% tax for individuals above \$200,000 in annual income, and couples (married filing jointly) above \$250,000. A couple earning a combined \$500,000 a year would end up paying \$252,340 in additional pre-tax contributions over 25 years.

Retirement Planning Takeaways

The question for advisors and clients is not if changes will be made to address Social Security's funding shortfall, but which of the range of options will be implemented. Despite general uncertainty around the program, retirees should count on receiving the majority of expected Social Security benefits.

The most likely scenario is a combination of levers will be pulled to increase pre-retirement contributions and lower lifetime benefits, including a change to FRA.

Assuming a one-year change in FRA for Americans in their forties, and two years for those in their twenties, makes sense for planning purposes based on historical precedent. It would be prudent for clients to plan on paying more into the system while working and receiving modestly lower benefits in retirement.

Modest additional contributions to retirement savings will go a long way to future-proofing retirement plans based on lifetime Social Security benefits being lower than they are today – but not dramatically so.

Conclusion

Of all the options, doing nothing to address Social Security solvency and cutting benefits by 21% would have the largest financial consequences for future retirees. The greatest pain would be felt by those who rely on Social Security in retirement the most – lower income Americans.

Changing FRA, COLAs or reducing spousal benefits will all reduce lifetime benefits but on their own will not be sufficient to fully address the Trust Fund's needs.

Higher FICA taxation, eliminating the income cap on contributions, or taxing healthcare premiums have the potential to address some (if not all) solvency concerns, although this will reduce net income for nearly all American workers.

The data show Americans will have to either pay more into, or receive less from, the Social Security program even if changes are implemented immediately. If funding solutions continue to be kicked down the road, the cost of fixes – and the risk of significant benefit cuts – will only grow.

[i] <https://www.ssa.gov/oact/trsum/>



About HealthView Services

HealthView Services (HVS), founded by a team of financial professionals, healthcare industry executives, and physicians, is a leading provider of healthcare cost projection software. Our portfolio of retirement healthcare planning applications (used by advisors, financial institutions, employees and consumers) create comprehensive and reliable cost projections for around 40 million users annually.

Drawing on actuarial and government data, as well as 530 million medical claims, HVS applications rely on a patented data process that utilizes simple user inputs (age, gender, health conditions, income, and state) to generate personalized estimates of retirement healthcare costs.

HealthView Services' HealthPlanner Plus decumulation and retirement planning software provides a new option for advisors to manage portfolios that address annual healthcare spending and other expense needs.

The data also incorporates inflation projections for each component of retirement healthcare: Medicare premiums, supplemental insurance, and out-of-pocket spending. With more than a decade of use across the financial services industry, these solutions have proven to be a powerful driver of savings and retirement planning. HVS has numerous software applications which include healthcare cost projections, long-term care costs, Medicare premiums and surcharges, Social Security optimization, and more.



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