# Time for Social Security's Shot in the Arm

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The COVID-19 pandemic has been devastating for individuals and economies around the world. Gail Buckner, our personal retirement and financial planning strategist, shares her thoughts on how the pandemic has affected a key source of income for many elderly Americans—Social Security—and why it's time to take action to shore up the program.

*"The reports of my death are greatly exaggerated."*
*– Mark Twain*

The same can be said about Social Security.

The COVID-19 pandemic has had a huge impact on virtually all aspects of our lives— family, work, school, religious worship, leisure, politics—you name it. No matter what topic comes up in [virtual] conversation these days, there is inevitably a "COVID-19" component. Social Security is no exception.

The question is, how big is that impact, and what are the ramifications?

Each year, the trustees who oversee this vast federal program are required to submit a detailed report to Congress on its long-term financial outlook. This is generally released between the beginning of April and the end of July. Last year's report—which came out in early April—was prepared *before* the coronavirus outbreak was identified and declared an "epidemic." As a result, the 2020 report *did not take into account* the impact of COVID-19 on Social Security's finances.

Clearly, a lot has happened in the past year. As the virus spread rapidly, deaths—particularly among the elderly—soared. Schools, restaurants, shopping malls, beaches, movie theaters, sporting events—virtually all venues where we typically interact with others—were declared off-limits. Millions of Americans were laid off as the economy contracted and businesses cut back or closed. An additional 700,000 voluntarily quit because they were afraid they might contract COVID-19 on the job. In April, the unemployment rate hit 14.8%—the highest rate since the Great Depression 85 years ago, when the US saw an estimated unemployment rate of 25%[1]

**2020 Trustees Report**

There were already cracks in Social Security's financial picture before COVID-19 entered the scene.

The big question now: how much damage has the pandemic inflicted on the nation's largest retirement program, a program that at the start of 2020 was collecting payroll tax from 178 billion workers and their employers. At the same time, it was paying out $92 million/month in benefits to more than 64 million Americans.[2] More than three-quarters of that went to retired workers (average benefit: $1,544/month), plus their spouses and children. Disabled workers and their dependents received roughly 12% of the total, with the balance going to family members of deceased workers.[3]

As it had for several years, the 2020 Trustees Report projected that benefits could be fully paid in the near term, but starting in 2035, Social Security would not be able to fully cover the benefits that America's growing number of retirees as well as disabled workers are entitled to. The current payroll tax rate (of 12.6% with employers and employees each contributing half, or 6.2%) was simply not enough. The report urged Congress to take action sooner rather than later, as continuing to delay action was only making the ultimate cost higher. This was not a surprise. Congress has known for more than a decade that the program's financing would be strained as more and more members of the large Baby-Boom population entered retirement and the smaller Gen-X generation replaced them.

Though the 2020 report was released on April 22, the calculations in the annual report were concluded well before COVID-19 had caught anyone's attention.

This didn't take long.

## A Killer Called "COVID"

During the first quarter of 2020, news reports began to fill with stories of a new, highly contagious and deadly virus. As businesses closed, layoffs skyrocketed. In April, the nation's unemployment rate hit 14.8%, more than *triple* the rate of February and higher than any previous year in our history since the Great Depression of the 1930s.

Unemployment affects Social Security's finances in a couple of ways: a) when an individual is out of work, he/she and their employer are not contributing Social Security tax; b) if the individual is at least 62 years old and unable to find new work, he/she may file to start receiving benefits earlier than anticipated. Though an individual's benefit amount might be reduced due to early claiming, it still means that money is being withdrawn from the Social Security Trust fund to cover a portion of it.

To appreciate the impact of the sudden spike in unemployment, consider this: according to the US Census Bureau, in a "normal" year like 2017 roughly 30 million adults either lost their jobs or faced a reduction in work hours, including both voluntary and involuntary job terminations.[4]

However, only about 3.8 million—roughly 10%—qualified for unemployment benefits, which one only receives if *in*voluntarily laid off. In contrast, roughly *four times* the number of people (115 million) experienced a loss in employment income from the start of the pandemic in March 2020 through February 2021, according to the Census Bureau.[5]

Furthermore, 37 million of them qualified for unemployment insurance, nearly *ten times* the number in 2017, meaning they did not *voluntarily* leave the workforce. In just the first two months of the pandemic in the United States, (March and April of 2020) 8.3 million workers lost their jobs in the hospitality industry alone.

## Doing the Math

The payroll tax paid by both current workers and their employers (6.2% each)*[6] is the biggest source of Social Security's income. It covers the majority of the cost of the benefits that Social Security pays out. Excess cash is retained in the Social Security Trust funds and is invested in special US Treasury bonds. These pay a market rate of interest, which represents a second source of income to the Trust Funds. The third source is the tax that an increasing number of higher-income retirees pay on their Social Security benefit.

Last year's Trustees Report predicted that Social Security would be able to fully pay all benefits owed until 2035. In other words, we're doing OK for now, but in 15 years we are not going to have enough cash to cover all the benefits we'll owe.

Shortly after this, economists and data scientists at the University of Pennsylvania's Wharton School came out with their own computations on the Trust Funds. Even though it, too, did not factor in the impact of COVID-19, it was less optimistic than the Trustees Report. The UPenn-Wharton report predicted that the OASDI (Old-Age, Survivors and Disability Insurance) Trust Fund "would be exhausted during calendar year 2031," four years sooner than the Social Security Trustees Report was predicting.

## COVID's 1-2 Punch: The Long Haul

A few weeks later, the world realized that this wasn't a run-of-the-mill flu bug we were dealing with. COVID-19 spread faster—and was much deadlier. And seemingly overnight, we saw scenes of hospitals overflowing, deserted city streets, supermarket shelves picked clean of essential goods (e.g., toilet paper), and mask mandates.

We learned a new term, too: "social distancing." Americans who were fortunate to still have a job struggled to figure out how to work from home, and many with young children were suddenly expected to home-school.

Slowly, reality sunk in: this COVID thing wasn't going to disappear any time soon. Many employers who had tried to hang on and wait it out were forced to close.

In September, the Congressional Budget Office ran its own numbers on the outlook for Social Security's two trust funds as well as nine other trust funds that the federal government oversees. The projections for deficits were revised upward in part because of the economic disruption stemming from the 2020 coronavirus pandemic. It predicted that three trust funds would be exhausted within the next few years. These include the Highway Trust fund (2021), Medicare's Hospital Insurance Trust fund (2024) and Social Security's Disability Trust Fund (2026).[7]

The largest of all government trust funds is the one that pays Social Security retirement and disability benefits: the OASDI fund. According to the Congressional Budget Office's (CBO's) estimates, even when you count all three sources of income—interest paid on the government bonds the fund invests in, payroll tax contributions, and the Social Security "tax" paid by retirees—the OASDI fund will run short of money in 2031, but there would still be sufficient incoming revenue to pay over three-fourths of scheduled benefits in 2031 and beyond to retirees and survivors.[8]

**The End is Near**

Finally, in November 2020, we saw the first COVID-19 vaccine in development and it looked like light was at the end of the tunnel. A year into the COVID pandemic, it finally feels as if the United States and other parts of the world are getting the upper hand on COVID-19 as vaccines are now making their way into people's arms.

Infections and death rates are coming down. More and more businesses are beginning to cautiously reopen according to the guidelines in their state. Employment is up—the US economy added 379,000 jobs in February and the unemployment rate fell to 6.2%. Social distancing is observed by a larger portion of the population. The global shutdown is slowly easing. Face masks have become a fashion item.

Also in November, the chief Actuary for Social Security, Steve Goss, responded to an inquiry from Congress about the impact COVID had had on the program's finances. The answer: not much. As noted, last year's Trustees report flagged 2035 as the year Social Security will have cashed all of the remaining bonds in the trust fund. So, the only sources to fund benefits would be the payroll tax on workers and the "tax" on benefits paid to higher income retirees. In his interim report, Goss indicated that this event was still expected to occur in 2035; however, the long-term 75-year shortfall was slightly higher, 3.33% instead of 3.21%.

As such, if Congress immediately raised the payroll tax from its current rate of 12.4% to roughly 12.8%, Social Security would be able to *fully pay all benefits over the next 75 years*. Since this tax is split between workers and their employers, each side would contribute 6.4% instead of the current 6.2%. This would amount to $3.20 more for every $1,000 workers earn, up to this year's annual maximum of $142,800.

**It's About Time**

The last time any significant adjustments were made to shore up Social Security's long-term finances was nearly 40 years ago, in 1983. Back then, Congress had known for more than a decade that Social Security's finances needed adjusting, yet it waited until the very year that the program was going to turn insolvent to approve any changes. Sound familiar? With minor tweaks since then, the program has worked just fine. We have simply arrived at another point where again, primarily for *demographic* reasons, adjustments are needed.

Like the seniors who count on their monthly checks, I think 85-year-old Social Security should be able to count on Congress to put politics aside and make the minor changes the program needs. The sooner these are made, the smaller the adjustments have to be. It's time the program got a financial shot in the arm so that elderly Americans don't have to worry about the health of their most important source of income.

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*This information is intended for US residents only.*

1. Sources: Pew Research Center, "Unemployment rose higher in three months of COVID-19 than it did in two years of the Great Recession, June 11, 2020; Census.gov.

2. Source: Fact Sheet on the Old-Age, Survivors, and disability Insurance Program" 12/31/2020. Benefit amounts represent the monthly amount due to beneficiaries in current-payment status for December 31, 2020. These amounts exclude any adjustments to benefits for retroactive payments and certain payment withholding that may be attributable to eligibility in prior months. Therefore, these data do not represent total benefits paid from the trust funds.

3. Ibid.

4. Source: US Census Bureau, "Putting Economic Impact of Pandemic in Context: Historical Look at Unemployment, Sectors Shows Magnitude of COVID-19 Impact on Economy," March 2021.

5. Ibid.

6. *Up to a maximum of $142,800 in earnings for 2021. Source: Social Security Administration.

7. Source: CBO The Outlook for Major Federal Trust Funds: 2020 to 2030, September 2020, p.2.

8. Source: CBO: SS Trust fund to be depleted by 2031, September 4, 2020.