Government Executive

Social Security: What's In It for You?

By Tammy Flanagan

September 13, 2013

It's back to school time again, except for those who have finished their studies and are moving on to the world of work. My youngest son just finished the final requirement for his college degree by completing a summer internship. Now he's looking for his first paying job in his chosen career field. As one of his parents, I can only say, "Woo-hoo!"

As people begin working full time, many are shocked to find out how much of their salary they won't be taking home. In particular, they may not be aware that Social Security and Medicare taxes will take 6.2 percent and 1.45 percent of each paycheck. To help them understand how the system works, the Social Security Administration offers a series of webinars online.

I recently watched one called Social Security 101: What's In It for Me? This version was recorded in 2011. There's also a newer one, with updated information but fewer Q&A's.

I always learn something new from watching these presentations. For example, this time I found out that:

By 2035 more than 20 percent of the population will be over 65. There are more than 80 million baby boomers.
Of all of the Social Security taxes (known as FICA taxes) collected, 85 cents of every dollar goes into the Old Age and Survivors part of the Social Security trust fund and 15 cents goes into the Disability part.
Supplemental Security Income, which is an income-based disability program, is not funded through the FICA taxes, but through general tax revenues.
One in seven 20-year-olds will die before age 67 and three in ten 20-year-olds will become disabled before retirement.

My only criticism of the webinar I watched is that it doesn't emphasize the "tilt" of Social Security retirement benefits. Young workers need to understand that low-wage earners will receive a higher replacement of wages from Social Security than high-wage earners. The average worker (for 2011, someone earning about $43,000 a year) will replace about 40 percent of his or her pre-retirement earnings from Social Security. But the farther you go up the wage scale, the smaller this percentage gets.

Perhaps the biggest concern of young employees is whether or not Social Security will go broke before they have a chance to collect benefits. According to the webinar, the annual report to Congress by the Social Security Board of Trustees states that without any changes, Social Security will be able to pay promised benefits through 2033. After that time, FICA tax revenues will only provide enough to pay 77 percent of benefits. Considered separately, the Disability Insurance Trust Fund reserves become depleted in 2016 and the Old Age and Survivors Insurance Trust Fund reserves run out in 2035.

There are a limited number of options for paying future Social Security benefits. Over the more than 75 years of Social Security's existence, Congress has had to make tough choices on this issue many times. The most recent changes occurred in 1983. Will our current lawmakers accept the challenge of addressing projected Social Security shortfalls? We'll find out.

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