

Social Security Solvency Update

Quick-Take: Last week the Congressional Budget Office forecasted that the Social Security trust fund is set to run out one year earlier than originally projected- in 2032, not 2033. If Congress does not act to address this shortfall, there could be a 24% reduction in benefits, for all Social Security beneficiaries. For example, a Social Security beneficiary who is currently receiving \$2,000 a month in benefits would see a reduction in monthly benefit to \$1,520, or a drop of \$480 a month. If the Old-Age and Survivors Insurance Trust Fund become exhausted (due to a decline in the number of younger workers paying into the system,) Social Security would be forced to pay benefits only out of the current income that comes from payroll taxes, which is less than the annual cost paid to retirees.

2027 COLA: It is currently projected that the 2027 cost-of-living increase to Social Security benefits is projected to be 2.8%, the same as it was for 2026 (but far short of the 8.7% increase in 2023 caused by the COVID pandemic-related inflation. This adjustment increase might get even larger before 2026 ends since the percentage increase is determined from the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the third quarter of the calendar year, i.e., July, August and September, compared to the CPI-W for 2026, which difference is the new COLA payable in the coming year. I wonder what impact the Iran War and the consequent inflation in gasoline prices will have on this projected 2.8% increase.

Impact? 58% of seniors fear that fast-rising inflation will drive up their spending and force them to deplete their retirement savings early. More than 4 in 5 over the age of 65 see this looming Social Security insolvency as a crisis issue, and if the 24% reduction actually kicks, 73% of these seniors surveyed say that they would struggle to pay their monthly bills, with 68% claiming that they would have to cut back on food, while 52% say that they would skip or delay medical care or prescriptions.

Conclusion: The Social Security Administration's Chief Actuary says that by eliminating the cap on income subject to Social Security taxation (currently at \$184,500) the additional tax revenues created by eliminating that cap would extend Social Security's solvency by 68 years- to 2090.

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