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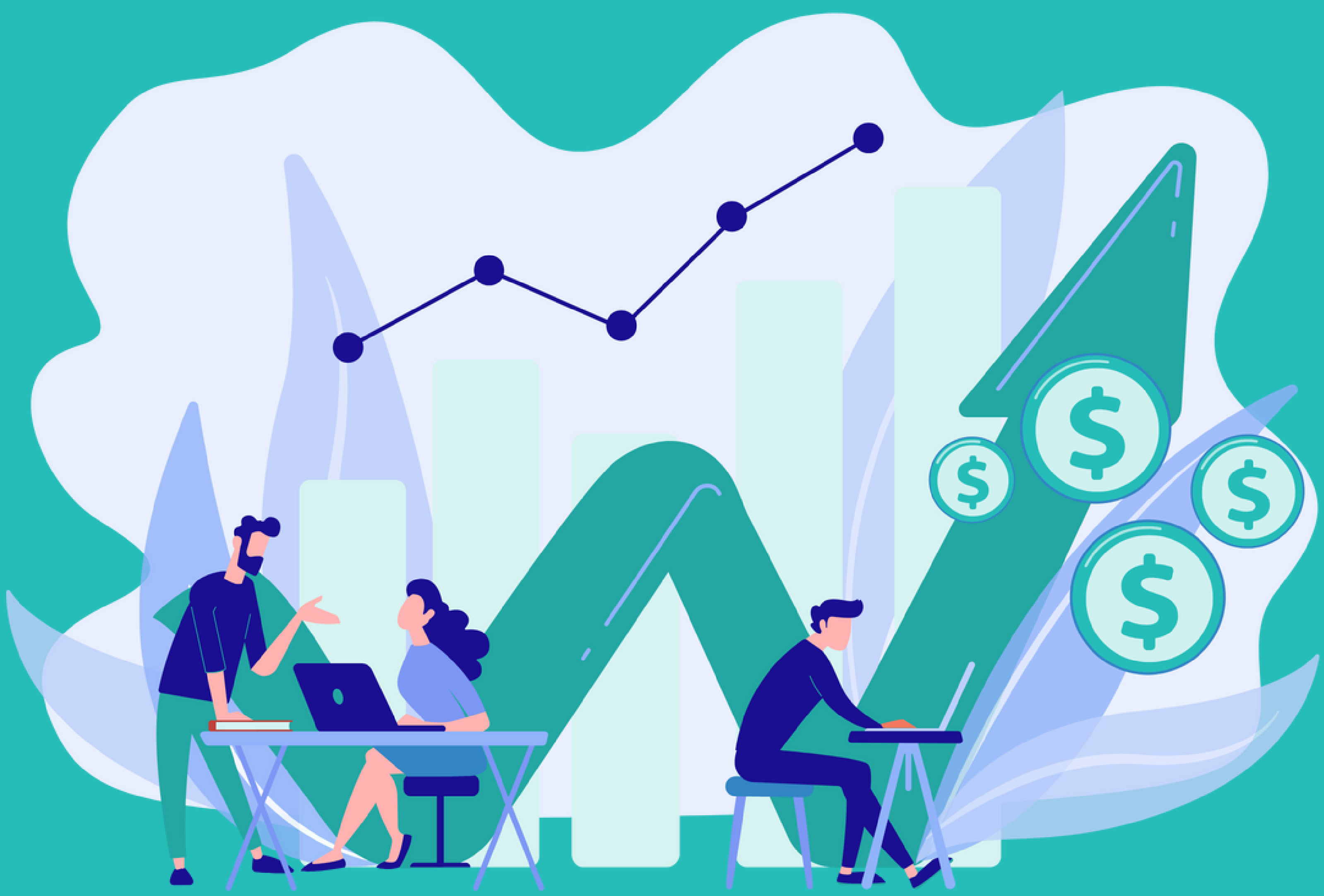
Social Security Benefits:
How Much Should Millennials Expect?



Introduction

Millennials are wondering how much income (if any) they will receive from Social Security when they retire. This generation – born between 1981 and 1996 (aged 26 to 41 in 2022) – is pessimistic that Social Security will play much of a role in their retirement. Nearly half of Millennials strongly agree or somewhat agree that they "won't get a dime" in benefits.[i]

Their concerns are not unfounded. The Social Security Administration (SSA) Trustees Report released in June 2022 states **the program will only be able to pay 80% of benefits owed to retirees and survivors beginning in 2035**.[ii]

The Report emphasizes the critical (and time-sensitive) need to address the program's funding, and the potential impact on future beneficiaries: "If substantial actions are deferred for several years, the changes necessary to maintain Social Security solvency would be concentrated on fewer years and fewer generations."

The Trustees quantify the changes required to maintain Social Security's 75-year solvency goals beginning in 2035:

1. Increase the current payroll tax of 12.4% (typically split evenly between employees and employers) by 4.07%, to a total of 16.47%
2. Decrease scheduled benefits by 24.9%
3. Some combination of the above approaches

Whether through higher taxes or lower benefits, all future retirees may be impacted by adjustments to address the funding shortfall. **This paper focuses specifically on how a 20% reduction in benefits affects Millennials**, as precedent (outlined in Section III.) suggests that future policy changes may have the largest impact on those still decades away from claiming.

The primary cause of Social Security's funding challenges is demographics. In 2008, the number of workers per Social Security beneficiary was between 3.2 and 3.4. In 2020, this ratio declined to 2.7 and is projected to be 2.3 by 2035.[iii] Put simply, the number of workers contributing to Social Security is going down, and the number of retirees receiving benefits is going up.

Given demographic trends and their time horizon to retirement, Millennials should expect Social Security to fund a smaller portion of their retirement income needs than previous generations. **Whether the SSA directly reduces benefits or alters the Full Retirement Age (FRA) claiming timeline, it is reasonable for Millennials (and their advisors) to use 80% of current benefit projections as the basis for retirement income planning.** Therefore, this and subsequent generations retiring after 2035 must plan to build additional income from other sources to offset the expected gap in Social Security.

Key Highlights

1.

If benefits are reduced by 20% (in accordance with the SSA's projections), an average 35-year-old Millennial earning $50,000 in 2022 will receive $13,500 less in annual Social Security income in the first year of retirement, and $365,000 less in lifetime benefits, if they live to age 87 (actuarial life expectancy for a healthy male). If the person makes $100,000 or more in 2022, Social Security benefits will be reduced by between $21,000 and $25,000 in the first year and between $560,000 and $675,000 over a lifetime.

2.

To address this potential funding gap, a Millennial currently earning $100,000-per-year would need to invest $2,543 annually starting in 2022 (with a 50% employer match, this amounts to an extra $33 per week from now until retirement).

3.

If the SSA seeks to address the Trust Fund's solvency issue by extending FRA from 67 to 69, the reduction in lifetime benefits will be significant. A 35-year-old making $100,000 in 2022 will lose $375,000 if they claim prior to FRA at 67, or over $210,000 if they claim at 69 (reducing lifetime benefits by 13.3%, or 7.5%, respectively).

4.

Although it is expected that benefits will be lower, Social Security will continue to play a role in Millennial budgets. Depending on income and chosen claim age, benefits may cover 20% to 60% of income needs (based on an 80% income replacement ratio) in year one of retirement.

Social Security Solvency: Challenges and Potential Solutions

When the SSA faced solvency issues in the past, legislators made policy adjustments to buttress the program. These included:

- Increasing FRA from 65 to 66 in 2009, and 66 to 67 by 2027
- Reducing benefits for recipients who also receive a pension from “non-covered employment” (work for which they earned income not taxed by Social Security)
- Raising self-employment tax rates
- Taxing Social Security benefits as income

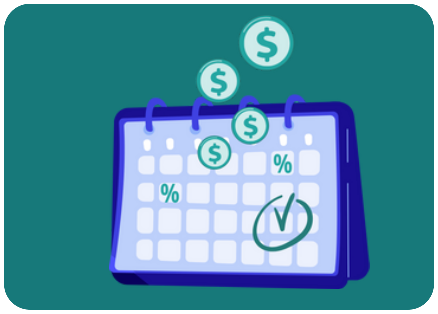
Each change helped extend the Trust Fund’s ability to pay full benefits; therefore, the SSA may again make additional adjustments over the next several years to try and maintain long-term solvency.

Increase Full Retirement Age (FRA)

This change decreases monthly benefits regardless of filing age. Raising FRA again would force beneficiaries to either delay their own claiming age to receive the same monthly benefits, or claim at the same age and receive a smaller check. (Table D explores the potential impact of such a change.)

Increase Maximum Taxable Earnings

Workers currently pay a 6.2% income tax (via FICA) toward Social Security. Any earnings beyond $147,000 in 2022 exceed “maximum taxable earnings” and are not subject to FICA. Raising this cap so that higher (or possibly unlimited) earnings are taxable by Social Security could generate additional revenue.



Raise Payroll Tax Rate

The Social Security tax rate for all workers could be increased, but this is considered unlikely, as it would impact take-home pay for Americans with low incomes.

The most realistic scenario is that Congress passes one or several bills with a combination of adjustments. The long-term impact of these proposals is difficult to predict. As outlined in this paper, the conservative approach for Millennials is to assume they are going to receive lower lifetime Social Security benefits throughout retirement than previous generations. It is, however, important to note that despite cutbacks, Social Security will continue to exist in some form and offer Millennials an income stream (barring unforeseen, drastic measures.)

Reducing lifetime benefits by one-fifth would have a significant impact on retirement plans. A Millennial filing at FRA of 67 would lose between $365,000 and $675,000 (based on their current earnings) if benefits are reduced consistent with this assumption.

Benefit Projections For a 35-Year-Old Millennial

The table below shows the impact of a 20% benefit reduction for a 35-year-old* making $50,000 (average-earning), $100,000 (high-earning), and $150,000 (affluent) annually in 2022. Calculations are based on a single individual filing at FRA of 67, living to age 87, and utilizing current Social Security benefit projections – but with a 20% reduction. All amounts are shown in future value and include Cost-of-Living Adjustments (COLAs) as projected by the SSA .[iv]

**Approximate median age of a Millennial in 2022*

Table A: Projected Lifetime Social Security Benefit Impact; 35-Year-Old Claiming at FRA (Age 67) by Current Income

2022 Income	Current Projected Lifetime Benefit	80% of Lifetime Benefit	Loss in Benefits from 80% Adjustment	
			Lifetime Total	Average Annual
$50,000	$1,823,873	$1,459,099	$364,775	$17,370
$100,000	$2,816,014	$2,252,811	$563,203	$26,819
$150,000*	$3,385,994	$2,708,795	$677,199	$32,248

**This case assumes that annual income exceeds maximum taxable income for Social Security, and benefits are capped applicably.*

Table A shows that a 35-year-old earning $50,000 in 2022 would currently expect to receive about $1.8 million in lifetime Social Security; however, a 20% reduction would decrease benefits by about $365,000 – or more than $17,000 per year throughout retirement. According to the table, the $150,000 earner will lose over $675,000 in projected retirement income.

Closing the Social Security Income Gap

Investment and Retirement Planning

To offset the potential decrease in benefits relative to today's retirees, Millennials will have to generate additional income from other sources, including retirement savings, as outlined in Table B.

Table B: Required Retirement Plan Contributions to Offset Reduced Benefits: 35-Year-Old Claiming at FRA (Age 67) by Current Income

2022 Income	Total Benefit Reduction	One-Time Lump-Sum Investment	Annual Contribution Until Retirement*
$50,000	$364,775	$35,074	$1,647
$100,000	$563,203	$54,154	$2,543
$150,000	$677,199	$65,114	$3,058

**Assumes a 6% annual rate of return on investment during working years, and 5% during retirement years. Annual contributions are shown as 2022 values but will grow by 3% annually until retirement.*

The data show that the loss of future Social Security benefits can be offset with a consistent and modest annual increase in savings. A 35-year-old earning $100,000 would need to add $2,543 to their annual savings from now until FRA to generate the equivalent income "lost" from a reduction in Social Security benefits (consistent with the programs' solvency expectations). If his/her employer matches 50% of retirement plan contributions, this would amount to $33 per week in additional employee deferrals (less than 2% of gross income).

Effect of Filing Age on Benefits

Even with a 20% reduction, Social Security will likely remain a significant source of income in retirement. Using a basic Income Replacement Ratio (IRR) metric of 80%*, Table C shows the role of Social Security during retirement and highlights the impact of claiming age on projected benefits. Delaying past 62 (when beneficiaries are first eligible) results in a permanently increased monthly income from Social Security.

Table C: Projected Benefits (After 80% Adjustment) by Current Income and Claim Age: 35-Year-Old with 80% Income Replacement Ratio, FRA of 67

2022 Income	Claim Age (Year)	Annual Benefits at Claim Age	Percent of Required Income Funded by Benefits
$50,000	62 (2049)	$33,072	32.9%
	67 (2054)	$54,250	47.8%
	70 (2057)	$73,229	59.9%
$100,000	62 (2049)	$51,466	25.6%
	67 (2054)	$83,760	36.9%
	70 (2057)	$112,464	46.0%
$150,000	62 (2049)	$61,699	20.5%
	67 (2054)	$100,714	29.6%
	70 (2057)	$135,494	36.9%

**The 80% standard IRR used is the percentage of pre-retirement income needed in-retirement to maintain a desired standard of living. It is assumed that Social Security claim and retirement occur in the same year.*

Table C shows a 35-year-old Millennial earning $50,000 a year will increase benefits by over $40,000 in their first year of retirement by claiming (and retiring) at 70 instead of 62; higher earners could boost income by nearly $75,000 under the same strategy.

An individual earning $100,000 would be able to cover 25% of their year-one retirement income needs if they claim at 62 – but 46% by delaying Social Security until age 70 to cover about 25% of their year-one retirement. (The latter, of course, assumes the retiree will have sufficient income to cover expenses before they claim Social Security.)

Other Social Security Considerations and Key Takeaways

Illustrating Potential Claiming-Age Policy Changes

One of the more probable modifications to the Social Security program is the delaying of FRA - the age in which retirees are eligible to collect their full benefits (currently age 67 for anyone born in 1960 or later). Regardless of claim age, this approach would lower lifetime income for retirees.

On its own, changing FRA would not be a cure-all for Social Security's funding shortfall, but it is helpful to view the potential impact on younger Americans' future benefits if FRA is delayed by two years.

For the purposes of this illustration, 100% of projected benefits are paid out under the adjusted FRA.

Table D: Impact of Hypothetical Two-Year FRA Delay on Lifetime Benefits for 35-Year-Old Earning $100,000, Living to Age 87

Current Assumptions File at FRA of 67	FRA Changed to 69: Files at New FRA of 69		FRA Changed to 69: Still Files at 67 (Pre-FRA)	
	Lifetime Benefit	Difference	Lifetime Benefit	Difference
$2,816,014	$2,604,101	**$211,913**	$2,440,545	**$375,468**

Assuming FRA shifts from 67 to 69, this individual will experience a decrease in lifetime benefits - regardless of filing choice. Postponing two years to claim at 69 would lower payouts by over $210,000 during retirement*. To offset the reduction, this person may have to either delay retirement or withdraw from savings until they start collecting benefits. Choosing to ignore the adjusted FRA and retiring at 67 will reduce lifetime payouts by $375,000 (or more than 13% in monthly benefits).

While over $210,000 may seem high for just two years of benefits, it is important to remember that this is a future-value amount that includes more than 30 years of COLAs applied to a lower initial benefit base.* ***For a detailed benefit projection breakdown, please see the Addendum.*

Impact on Higher Earners

Social Security calculations are structured so there is a diminishing return on earnings. For example, a Millennial making $100,000 each year will have a higher benefit than someone earning $50,000, but that payout would not be double their respected incomes, due to the "front-loaded" structure of benefit formulas.

Currently, Social Security contributions (and credits toward benefit calculations) are capped at $147,000 in annual income; after that amount, Social Security taxes are no longer deducted. These challenges can be met by increasing retirement contributions each year after this amount is met.

Conclusion

Millennials' concerns about Social Security are valid, especially considering that even the oldest members of this generation will not be eligible for benefits until eight years after 2035. While it is widely anticipated that they will not be able to rely on Social Security as much as their parents or grandparents did, the program is still likely to play an important role in their retirement plans.

It is essential to note that the data throughout this paper reflect gross Social Security income, but financial professionals and their clients should be mindful of the net benefits Millennials can expect to receive. Medicare Part B premiums - as well as Part B and D surcharges based on Modified Adjusted Gross Income (MAGI) - are directly withdrawn from Social Security benefits. Additionally, benefits may be taxed in retirement: individuals with an annual income* above $34,000 (and couples above $44,000), are taxed federally on 85% of their benefits. Twelve states also tax Social Security income in some capacity.

This paper has attempted to illustrate the significant – but not insurmountable – impact of the projected 20% decrease in benefits, and why it is important to frame Social Security in the larger context of retirement planning. The key is for Millennials to understand the impact that policy changes can have on their retirement, and that they have time to address this issue. Working with a qualified financial professional and having realistic expectations of benefits can ensure that retirement income will not fall short of their needs. Millennials can increase retirement savings for the next several decades, delay their claiming age, and be mindful of future changes to Social Security and potential benefit reductions. By doing so, they and subsequent generations can position themselves to enjoy a financially stable retirement.

**For purposes of benefit taxation, Social Security considers income as: Adjusted Gross Income (AGI) + Non-Taxable Interest + ½ of Social Security Benefits.*

Methodology

Long-term retirement benefits are projected to grow by 2.4% annually, in keeping with the SSA's long-term Cost-of-Living Adjustment (COLA) estimates.[v] Aside from the 80% adjustment to benefits in 2035 and beyond, no changes to the Social Security program are assumed (unless otherwise stated). Retirement income projections utilize an 80% income replacement ratio (IRR), which assumes that 80% of pre-retirement income is required during in-retirement years.

All income projections are shown in future dollars.

Addendum: Impact of Hypothetical Two-Year FRA Delay on Lifetime Benefits for 35-Year-Old Earning $100,000, Living to Age 87 (Future Value)

Year	Age	Current FRA of 67	FRA Changed to 69	
		File at 67	File at 69	File at 67
2054	67	$104,700	$0	$90,740
2055	68	$107,213	$0	$92,918
2056	69	$109,786	$109,786	$95,148
2057	70	$112,421	$112,421	$97,431
2058	71	$115,119	$115,119	$99,770
2059	72	$117,882	$117,882	$102,164
2060	73	$120,711	$120,711	$104,616
2061	74	$123,608	$123,608	$107,127
2062	75	$126,575	$109,698	$126,575
2063	76	$129,612	$112,331	$129,612
2064	77	$132,723	$115,027	$132,723
2065	78	$135,908	$117,787	$135,908
2066	79	$139,170	$120,614	$139,170
2067	80	$142,510	$123,509	$142,510
2068	81	$145,931	$126,473	$145,931
2069	82	$149,433	$129,508	$149,433
2070	83	$153,019	$132,617	$153,019
2071	84	$156,692	$135,799	$156,692
2072	85	$160,452	$139,059	$160,452
2073	86	$164,303	$142,396	$164,303
2074	87	$168,246	$145,814	$168,246
		$2,816,014	$2,604,101	$2,440,545

About HealthView Services

Founded by a team of financial professionals, HealthView Services is one of the leading providers of planning tools in the financial services industry. The firm's portfolio of applications – which create comprehensive and reliable projections for around 40 million users annually – is utilized by banks, insurance companies and recordkeepers across the country.

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. The firm has developed several applications that address Social Security optimization, healthcare cost projections, long-term care costs, and other retirement-planning considerations.

HealthView Services regularly publishes educational materials, including white papers, on various industry topics such as Social Security, long-term care, and health savings accounts.

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[i] https://www.forbes.com/sites/ebauer/2021/07/19/what-millennials-really-think-about-social-securityand-why-they-might-not-be-entirely-wrong/?sh=3ba31d652ff7

[ii] https://www.ssa.gov/news/press/releases/2022/?utm_content=pressrelease&utm_medium=email&utm_source=govdelivery#6-2022-1

[iii] https://www.ssa.gov/OACT/TR/2021/tr2021.pdf

[iv] https://www.ssa.gov/oact/TR/TRassum.html

[v] https://www.ssa.gov/oact/TR/TRassum.html