Report

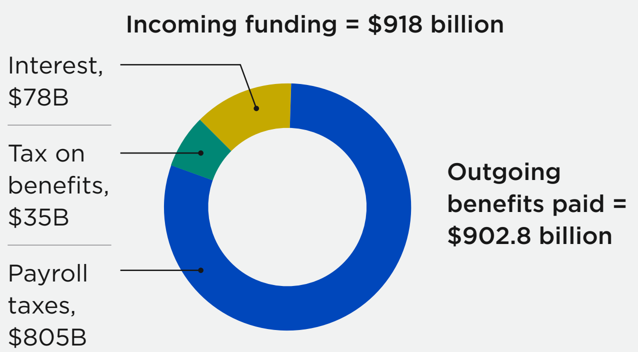
The economics of Social Security

Even before 2020 there were questions about the solvency of Social Security. And with a year of stimulus packages and national spending increases, people are wondering whether Social Security will be there when they need it. The answer is likely yes, but it may look different in the future.

Social Security is primarily financed through a dedicated payroll tax. There are also two other sources that fund this pool of money:

- Taxes on some recipients' benefits
- Interest earned on the pool of money

SOCIAL SECURITY FUNDING AND OUTPUT, 2019[1]



For decades, the pool of money was greater than the amount of money paid out in the form of benefits. As a result, there is also a surplus fund. But as of 2021, due to increased longevity and a decrease in the number of workers per beneficiary, Social Security will have to tap the surplus fund to meet its obligations.

If changes are not made to the existing system, the surplus fund will be depleted by 2034. The original pool of money will still be funded by payroll taxes, benefit taxes and interest, but beneficiaries would begin receiving reduced benefits.

The latest Board of Trustees report estimates that benefits will remain **fully payable until at least 2034**, with **79% of benefits payable through 2093** and **73% of benefits payable thereafter**.[2]

These estimates assume that everything stays the same. But it's more likely that Congress will pass amendments to help address Social Security's long-term funding shortfalls. Unless and until that happens, however, you can prepare by taking action.

ACTIONABLE STEPS YOU CAN TAKE

1. Understand what your essential income needs will be during retirement.
2. Plan in advance for a potentially reduced amount of Social Security benefits. Save in taxable, tax-deferred and tax-free accounts so you have the flexibility to minimize your taxes in retirement.
3. Take advantage of any employer-sponsored plans that are available to you, and contribute at a level that maximizes any employer match that is offered.

If your estimated Social Security benefits don't cover your essential income needs, talk to your financial professional to learn whether guaranteed income from an annuity is an appropriate option for you.

WHAT IS AN ANNUITY?

An annuity is a financial product that provides a source of guaranteed income in retirement. It is:

- A long-term, tax-deferred retirement savings option
- Able to provide protected income for your spouse after you're gone
- Issued by an insurance company
- Purchased through a licensed financial professional

All guarantees and protections of a variable annuity are subject to the claims-paying ability of the issuing insurance company.

Withdrawals made before age 59½ may be subject to a 10% early withdrawal federal tax penalty; ordinary income taxes may apply.

Four types of annuities

1

IMMEDIATE ANNUITIES

Immediate guaranteed income

Converts a lump sum into an ongoing, guaranteed stream of income. Guaranteed payments begin within the first year and typically continue for a set period of time — or for your lifetime — as chosen by you.

2

FIXED ANNUITIES

Guarantees, but with less chance for growth

Gives a guaranteed interest rate to help provide predictable growth for your investment. Your principal investment is guaranteed.

3

VARIABLE ANNUITIES[3]

Greater opportunity for growth tied to underlying investment options.

Creates potential for long-term growth based on the performance of chosen investment option(s) within your variable annuity.

4

FIXED INDEXED ANNUITIES

Guaranteed protection with growth potential

Protects principal in a down market. Also provides some opportunity for growth tied to the performance of an underlying index.

Talk with your financial professional about your estimated Social Security benefits and whether an annuity can provide an additional source of guaranteed income.

Nationwide® is on your side

[1] Trust Fund Financial Operations in 2019, Social Security Trustees Report (April 2020).

[2] "The 2020 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds," Social Security Administration (April 2020).

[3] Variable annuities have fees and charges that include mortality and expense, administrative fees, contract fees and the expense of the underlying investment options.

NFM-17426AO.6 (05/21)