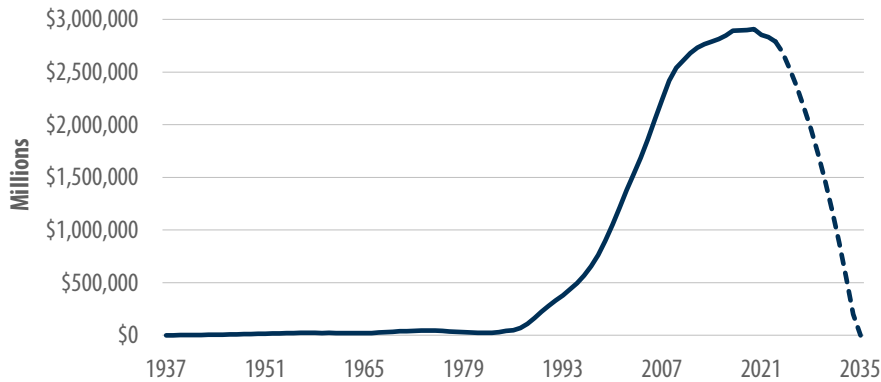


Last week, the Social Security Trustees released their annual report, forecasting the program’s financial outlook over the next 75 years. In this week’s “Three on Thursday,” we delve into the state of Social Security. Originating from the Social Security Act of 1935 as part of President Franklin D. Roosevelt’s New Deal, the program initially provided income to retired workers aged 65 or older. Since then, it has grown to include disability insurance, survivor benefits, and Supplemental Security Income (SSI), becoming a vital support for millions. However, recent projections indicate that Social Security is nearing insolvency, necessitating urgent reforms. This week, we provide three charts for a more detailed analysis.

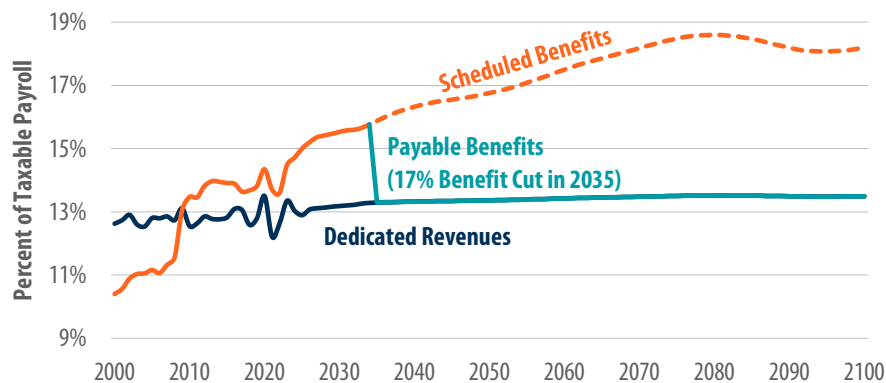
Asset Reserves of the Combined OASI and DI Trust Funds



Source: Social Security Administration, First Trust Advisors. Historical data 1937-2023. Forecasted data 2024-2035.

Asset reserves for Social Security, comprising the Old-Age and Survivors Insurance Trust Fund (OASI) established in 1937, and the Disability Insurance Trust Fund (DI) initiated in 1957, represent the accumulated surpluses of total annual income over costs. Social Security began collecting taxes and making one-time lump sum payments in January 1937, but it wasn’t until January 1940 that regular monthly benefits commenced, with the first check of \$22.54 issued to Ida May Fuller of Ludlow, Vermont. Historically, these asset reserves grew as revenues consistently exceeded expenditures. However, the peak of \$2.9 trillion in 2020 marked a turning point, with projections showing a steady decline in reserves. The OASI fund is expected to be depleted by 2033, and including the DI fund, the combined trust funds are anticipated to become insolvent by 2035.

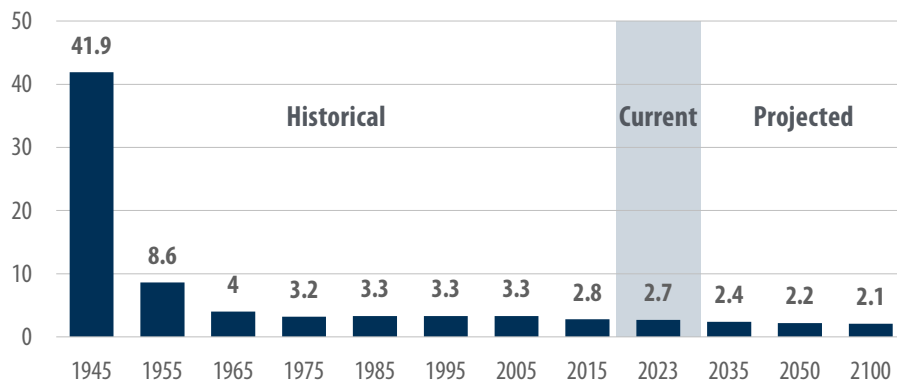
Social Security Revenue and Benefits



Source: Social Security Administration, First Trust Advisors. Historical data 2000-2023, projected data 2024-2100.

The combined Social Security Trust Funds (OASI and DI) are expected to be depleted by 2035, signaling the need for critical reforms. At that point, available funds will cover only 83% of the promised benefits. It is important to understand that these two funds cannot legally be merged without new legislation. Nonetheless, their joint financial projections are commonly used to gauge the overall health of the Social Security program. The DI fund is currently stable, with projections showing it can meet its obligations through at least 2098. However, if the DI fund is not considered, the OASI fund alone would run out by 2033, with subsequent income only able to cover 79% of the scheduled benefits. To ensure solvency over the next 75 years, the Trustees estimate that either a 21% reduction in benefits or a 27% increase in payroll taxes (equivalent to a 3.3 percentage point rise) will be necessary.

Number of Covered Workers per OASDI Beneficiary



Source: Social Security Administration, First Trust Advisors. Historical data 1945-2023. Forecasted data 2035-2100.

A large reason the Social Security program is heading toward insolvency is due to the slower growth of workers paying into the system compared to the faster increase in beneficiaries receiving payments, a trend expected to worsen. A higher worker-to-beneficiary ratio indicates a healthier system, while a lower ratio suggests financial strain. In 1945, there were 41.9 workers per beneficiary, dropping to 16.5 by 1950 and 8.6 in 1955, then stabilizing between 3 and 3.5 from 1975 to 2005. However, from 2005 to 2023, the ratio fell from 3.3 to 2.7, with projections indicating a drop to 2.1 by 2100. Major contributing factors include lower fertility rates, an aging population, and slower immigration rates.

This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.