

# Social Security IN 2026

## The 2033 Question

What You Need to Know About Social Security and What to Do About It Now

*Making smart decisions.  
Understanding the options.  
What's right for us?*



# A Word from Tony Muhlenkamp

*Social Security isn't going bankrupt—but if you're counting on it for retirement income, your benefits might be cut by 20% starting in 2033.*

That's not a prediction. It's math. The Social Security Trust Funds are projected to be depleted between 2033 and 2035, and when that happens, the system will only be able to pay about 80% of scheduled benefits from ongoing tax revenue.

The time to plan for this isn't in 2033—it's now. Whether you're already receiving benefits, planning to claim soon, or more than a decade away from retirement, this handbook will help you understand what's happening with Social Security and what you can do about it.

We'll cover three strategic approaches to claiming Social Security: minimizing taxes, maximizing lifetime benefits, and maximizing total wealth. The third approach is where Muhlenkamp & Company focuses—thinking of Social Security as a resource for building wealth, not just providing income.

Every situation is unique. Our goal is to help you build your retirement plan by checking the assumptions you may not know you're making.

— Tony Muhlenkamp, President

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# What Social Security Really Is (And Isn't)

## Three Things Everyone Should Understand



### Pay As You Go

Current workers pay for current retirees. The Trust Funds hold special-issue Treasury Securities—not a stockpile of cash. Your payroll taxes aren't going into a personal account with your name on it; they're funding today's benefit payments.



### Not a Legal Entitlement

#### Supreme Court Context: Fleming v. Nestor (1960)

Paying Social Security taxes does not create a legally binding right to future benefits. The Supreme Court ruled that Congress can change benefit levels at any time. Your 'contributions' are taxes, not deposits.



### Political Promise

Benefits are set by Congress and can be changed at any time. Social Security is a promise backed by political will, not legal obligation. That distinction matters when planning for retirement.

## The Numbers Everyone Should Know



### Tax Rate Since 1937:

**2%** (1937) → **12.4%** (Today)

*Started at 2% in 1937; now 12.4% (split between employer & employee)*

### Income Replacement:

**~40%** of pre-retirement income replaced

*Social Security was designed to supplement retirement, not fully fund it*

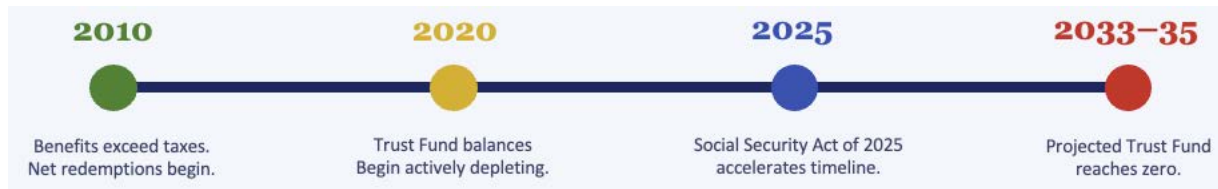
### Average 2026 Benefit:

**\$2,071/month**

*After 2.8% COLA; Medicare Part B premium (\$17.90 increase) reduces your net check*

# The 2033 Timeline Explained

*This is not a prediction of doom. It's a planning reality that calls for action.*



## The Timeline

- 2010: Benefits exceed taxes**  
 Net redemptions begin. For the first time since the program's inception, Social Security benefit payments exceed tax revenue.
- 2020: Trust Fund balances begin actively depleting**  
 The Trust Fund starts drawing down reserves to cover the gap between tax revenue and benefit payments.
- 2025: Social Security Act of 2025 accelerates timeline**  
 Recent legislative changes have accelerated the depletion timeline.
- 2033-35: Projected Trust Fund breaches zero**  
 When reserves hit zero, the system transitions to paying benefits solely from incoming tax revenue.

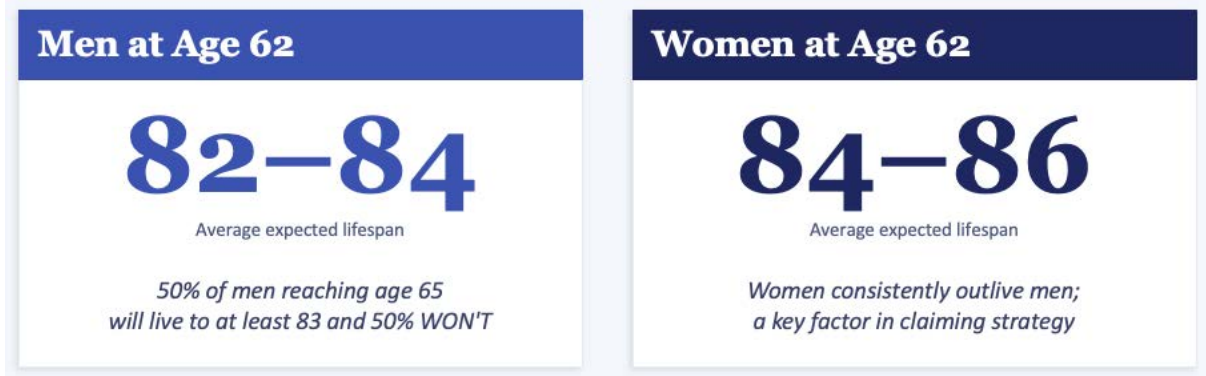
## What 'Depletion' Actually Means

What It DOES Mean	What It Does NOT Mean
<ul style="list-style-type: none"> <li>Benefits continue — paid from ongoing tax revenue</li> <li>Approximately 80% of scheduled amounts would be paid</li> <li>That's a 20% reduction for current &amp; future recipients</li> </ul>	<ul style="list-style-type: none"> <li>Social Security does NOT 'go bankrupt' or disappear</li> <li>Benefits do NOT drop to zero</li> <li>Congress still has time to act — but don't plan on it</li> </ul>

***If Trust Funds deplete in 2033 and you're 62 today, you'll be 69-70 when reductions take effect. That means cuts could impact your benefits for potentially 15+ years of retirement.***

# Life Expectancy Reality Check

Your claiming decision should be based on YOUR health and YOUR family history—not population averages.



## The Critical Insight

If Trust Funds deplete in 2033 and you're 62 today, you'll be 69-70 when reductions take effect. That means cuts could impact your benefits for potentially 15+ years of retirement. Planning for that scenario NOW is the smart move — not waiting to see what Congress does.

## Three ways to think about claiming Social Security

<b>Minimizing Taxes</b> Coordinate benefits with IRA withdrawals, Roth conversions, and required minimum distributions.	<b>Maximizing Benefits</b> Use breakeven analysis to compare claiming early versus waiting for a larger monthly benefit.	<b>Maximizing Wealth</b> Treat Social Security as part of your broader retirement plan, not as a stand-alone decision.
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*Social Security decisions do not exist in a vacuum — they are part of your total financial plan.*

# If You're Already Receiving Benefits

## If your benefits were reduced by ~20%, how would your retirement look?

### 1. Calculate Your Exposure

Determine what 20% of your current benefit represents in dollars per month. Then project that over 10, 15, and 20 years of retirement.

### 2. Stress-Test Your Plan NOW

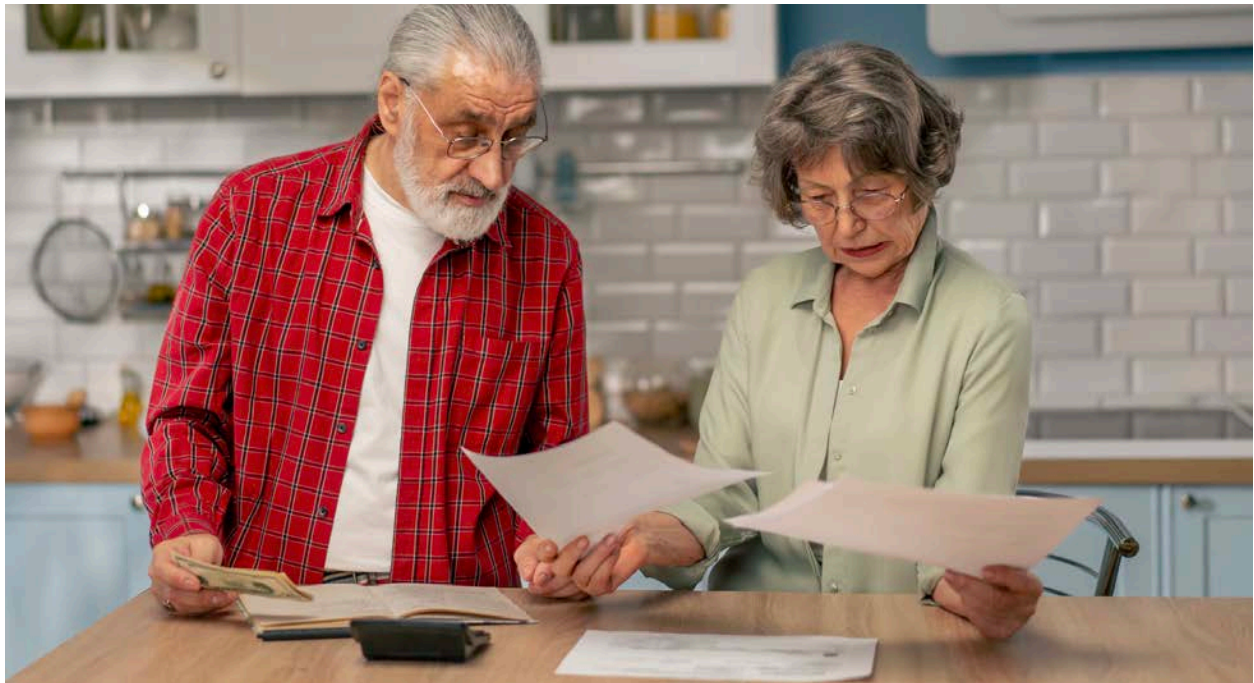
Don't wait 7-10 years to see what happens. Adjust your spending plan, portfolio withdrawal rate, or savings strategy today.

### 3. Review Withdrawal Strategy

Can you reduce discretionary spending? Should you adjust IRA withdrawals? Are there expenses that could be deferred?

### 4. Call Your Advisor

This is risk management. A 20% reduction in a key income stream deserves a formal review of your entire retirement plan.



# Understanding the Earnings Test

*Claiming before full retirement age is not just an age decision—it can also be an income decision.*

## Income Can Reduce Near-Term Checks

If you claim before full retirement age and continue earning wages, some benefits may be withheld under Social Security's earnings rules.

### The Threshold (2026): \$23,400/year

If you earn more than this amount before reaching full retirement age, Social Security withholds \$1 in benefits for every \$2 you earn above the limit.

## Break-Even Can Move

If early checks are smaller than standard break-even calculations assume, the breakeven point between claiming early and waiting may shift. This is why coordinating Social Security with your retirement date, work income, taxes, and portfolio withdrawals is critical.

**The question is not only “What age should I claim?” but also “What will I actually receive in the first few years?”**

## Break-Even Analysis: Claim at 62 vs. Wait Until 70

### Rule of Thumb...

- **Expect to die before 80? Claim between 62–67.**
- **Expect to live past 80? Wait until 70.**

Claim Age	Monthly Benefit*	Annual Benefit*	Break-Even vs. Age 62
Age 62 (Early)	~\$1,400	~\$16,800	— (baseline)
Age 67 (Full)	~\$2,000	~\$24,000	~Age 77–78
Age 70 (Maximum)	~\$2,480	~\$29,760	~Age 80–81

*\*Illustrative comparison only: results vary based on claim month, work income, taxes, health, and household benefits. Example based on \$2,000/month full retirement age benefit.*

# Your Three Strategic Options

*Social Security decisions do not exist in a vacuum—they are part of your total financial plan.*

## Strategy 1: Minimize Taxes

**Coordinate benefits with IRA withdrawals, Roth conversions, and required minimum distributions.**

- Time benefits with IRA distributions and RMDs
- Up to 85% of benefits are taxable based on your AGI
- Considering Roth conversions before claiming can reduce taxable income
- Coordinate spousal benefit timing carefully

## Strategy 2: Maximize Lifetime Benefits

**Use breakeven analysis to compare claiming early versus waiting for a larger monthly benefit.**

- Breakeven analysis helps compare claiming early versus waiting
- For some people, claiming earlier makes sense; for others, waiting creates more lifetime income
- Claim month, work income before FRA, health, and spouse/survivor rules can all change the answer
- The best choice is the one that fits your total retirement plan

## Strategy 3: Maximize Total Wealth

**Treat Social Security as part of your broader retirement plan, not as a stand-alone decision.**

The best Social Security decision is not always the one with the largest monthly check. For some households, claiming earlier may create usable cash flow that can reduce withdrawals or be saved and invested.

*The right answer depends on how Social Security fits into the rest of the financial plan.*

# The Muhlenkamp Wealth-Building Approach

*Think of Social Security as a resource for building wealth, not just providing income*



## The Wealth-Building Math

**Example: \$1,400/month benefit claimed at age 62**

Age	Years Investing	Total Received	Portfolio Value*
67	6 years	\$100,800	\$120,175
70	9 years	\$151,200	\$201,230
75	14 years	\$235,200	\$378,848
80	19 years	\$319,200	\$627,967
85	24 years	\$403,200	\$977,368

*\*Assumes 7% average annual return on diversified stock portfolio and investing the year's contributions at the END of the year. For illustration purposes only. Assumes you receive 12 months of benefits each year. Call us for help calculating YOUR benefits.*

**At age 85: You've built nearly \$1MM in portfolio value.**

## Traditional Approach vs. Muhlenkamp Approach

### Conservative Return Example: Investing at 3.75%

<b>Traditional Approach</b>	<b>Muhlenkamp Approach</b>
<b>Wait until 70 to maximize lifetime benefit</b>	<b>Claim at 62</b>
<b>Age 70-85:</b>	<b>Age 62-85:</b>
Monthly benefit: \$2,480	Monthly benefit: \$1,400
Total received: \$476,160	Total received: \$403,200
<b>Total Wealth at 85: \$636,648</b>	<b>Total Wealth at 85: \$635,908</b>

### Higher Return Example – Investing at 7%

<b>Traditional Approach</b>	<b>Muhlenkamp Approach</b>
<b>Wait until 70 to maximize lifetime benefit</b>	<b>Claim at 62</b>
<b>Age 70-85:</b>	<b>Age 62-85:</b>
Monthly benefit: \$2,480	Monthly benefit: \$1,400
Total received: \$476,160	Total received: \$403,200
<b>Total Wealth at 85: \$829,948</b>	<b>Total Wealth at 85: \$977,368</b>

### **IMPORTANT: This strategy requires that you:**

- Do not need Social Security income for living expenses
- Are not working (or earning below the earnings test limit of ~\$23,400/year)
- Can invest the full benefit amount into a diversified portfolio
- Are comfortable with stock market investing over 20+ years

*This is for educational purposes only and does not constitute investment advice. Consult with your financial advisor to determine if this approach fits your situation.*

# Your Next Steps

Use this checklist to take action:

- Download your Social Security Statement at [ssa.gov/myaccount](https://ssa.gov/myaccount)
- Assess your situation: Do you need the income, or can you invest it?
- Run the numbers for your specific circumstances
- Stress-test your plan against a 20% benefit reduction in 2033
- Review your overall retirement plan with your financial advisor
- Schedule a consultation to discuss which strategy fits your goals



## Questions to Ask Yourself

1. Are you still working, and if so, will the “earnings test” affect your benefits?
2. What is YOUR life expectancy based on your health and family history?
3. Do you need Social Security income to cover living expenses?
4. How does Social Security fit with your IRA distributions and tax planning?
5. Are you comfortable with stock market investing for wealth building?

## What Makes Our Approach Different

We evaluate companies like business owners, not like traders. We look for good businesses at reasonable prices, focusing on return on equity (ROE), price-to-earnings (P/E) ratios, and long-term value creation. When it comes to Social Security, we focus on how your claiming decision fits into your total wealth-building strategy—not just maximizing monthly income on paper.

# Find Out How Muhlenkamp Can Help

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The 5 P's of Rational Investing

PLAN  
POLICY  
PROFESSIONAL  
PHILOSOPHY  
PROCESS

At Muhlenkamp & Company, we believe successful investing requires partnership between you and your advisor. Here's how we work together:

## Your Responsibilities:

### PLAN:

Define your goals and timeline

### POLICY:

Determine risk tolerance and needs

## What Muhlenkamp Provides:

### PROFESSIONAL:

Expert guidance

### PHILOSOPHY:

Sound principles

### PROCESS:

Disciplined execution



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