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TAKE OR DELAY?

Most American workers who have at least 10 years of work history will be able to start taking Social Security benefits as soon as they reach age 62. But should they?

Some years back, there was considerable debate about whether a person was better off receiving the monthly checks early and investing them in the markets, or waiting until full retirement age (currently age 67)—or, alternatively, waiting until age 70 and receiving even higher benefits.

Today, that debate has largely gone away. Most advisors recommend waiting, if you can, at least until full retirement age and, even better, holding off until age 70.

Why? The problem with most of those older calculations was that they were assuming that the U.S. investment markets would follow historical long-term averages—which, as I think most of us have seen—is not guaranteed. What IS guaranteed is that the Social Security benefits will rise with each and every year that a qualified recipient waits to start taking them. For persons born after 1943 (that is, pretty much everybody who is qualified to take Social Security benefits), the "delayed retirement credit" is a whopping 8% a year. Yes, that means that each year you wait means that the monthly check will be 8% higher than it would have been before. You will not get that kind of guarantee from the investment markets.

The Social Security Administration offers a calculator on its website which shows the percentage of your normal retirement age benefits you would receive depending on what age you start taking your monthly checks. For a person born in September of 1960 who decides to turn on the Social Security benefits at age 62, the benefits represent 70.42% of the checks that same person would have received if he or she had started taking benefits at age 67. By waiting until age 70, the same person would receive 124% of the so-called "primary insurance amount."

But there's more to the story than simply larger checks. Social Security is the only guaranteed source of retirement income that is protected against inflation, which means offering protected purchasing power. Those larger checks become proportionately larger depending on the inflation rate. That is not the case with annuity checks and most pension accounts—where the amount received will be less valuable with each passing year.

Of course, there are always questions about Social Security's solvency. The Social Security Trust Fund has been projected to run out of money in 2033, which wouldn't mean a total loss of benefits, since working taxpayers would still be paying into the system. In a worst-case scenario, those payment amounts would cover 78% of today's projected benefits. But it seems unlikely that Congress would fail to shore up a system that currently delivers benefits to 69.1 million voters. In fact, the Social Security Enhancement and Protection Act was recently reintroduced in the U.S. House of Representatives; among the provisions is a 5% increase in monthly benefits for all beneficiaries who have been retired for 20 years, and bolstering the Trust Fund by phasing out the Social Security payroll tax cap, which currently applies only to wages up to $142,800. In addition, the payroll tax rate would gradually rise from the current 6.2% to 6.5%.

Sources:

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POPULATION DECLINES HERE AND ABROAD

Americans are having fewer babies. As you can see from the graph, since 1960, the number of births per thousand people has dropped from just under 24 a year to fewer than 12 today. Put another way, it takes an average of 2.1 babies per adult woman to maintain the current population. Today, in the U.S., this 'fertility rate' has fallen to 1.7.

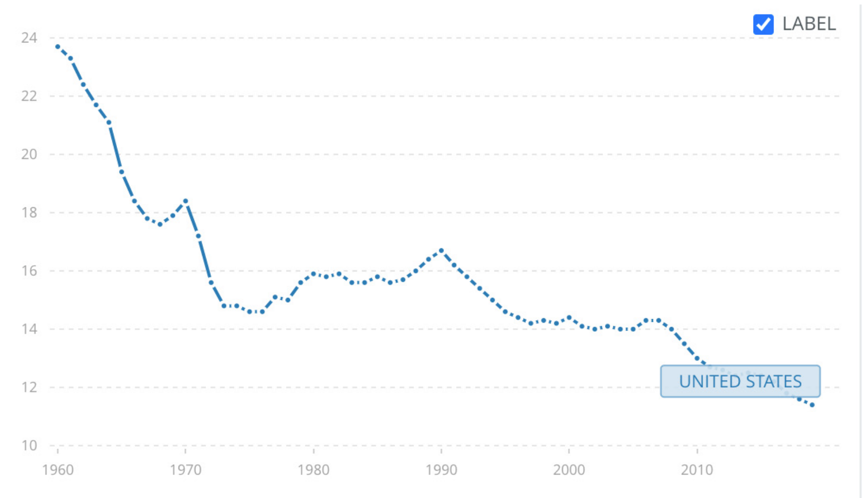
We are not alone. The World Bank, which keeps these statistics for every country, shows a decline pretty much across the entire world, some more drastic than others. The worldwide fertility rate is around 2.4 children per woman, roughly half the 1950 level (4.7).

There are exceptions: a number of African countries, including Somalia (6.1 children per woman) and Niger (6.9), still have rapidly growing populations. But every single European country has a fertility rate below 2.0 (France is highest, at 1.9), and some demographers have called Italians 'an endangered species,' with a fertility rate down around 1.3. China's fertility rate is hovering at around 1.7, while Singapore and Hong Kong are among the lowest, at 1.1.

Is this a beneficial or worrisome trend? It is certainly beneficial in the sense that in the future there will be fewer people consuming the resources of the planet, and one can easily project lower pollution levels if there are fewer people consuming energy and dropping plastic into the oceans. But the declining birthrate could force our society—and others—to make some potentially complicated adjustments. For one thing, fewer babies means fewer future workers to contribute to the economy. At the same time, people are living longer, which means the population balance will shift toward older people. If the ratio of workers to retirees were to tilt too far, there would be major changes in consumption. For instance, healthcare would consume a much higher percentage of the total GDP, and services for the elderly would become a major employer of those younger workers.

And the most straightforward shift is a decline in total GDP—where increases in total production and consumption have historically come from increases in population. The U.S.—and the world—is moving into uncharted territory, and few policymakers seem to be making preparations.

United States birth rate per 1,000 population, 1960-2021



Sources:

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TOP RATE VS. ACTUAL CORPORATE TAX RATES

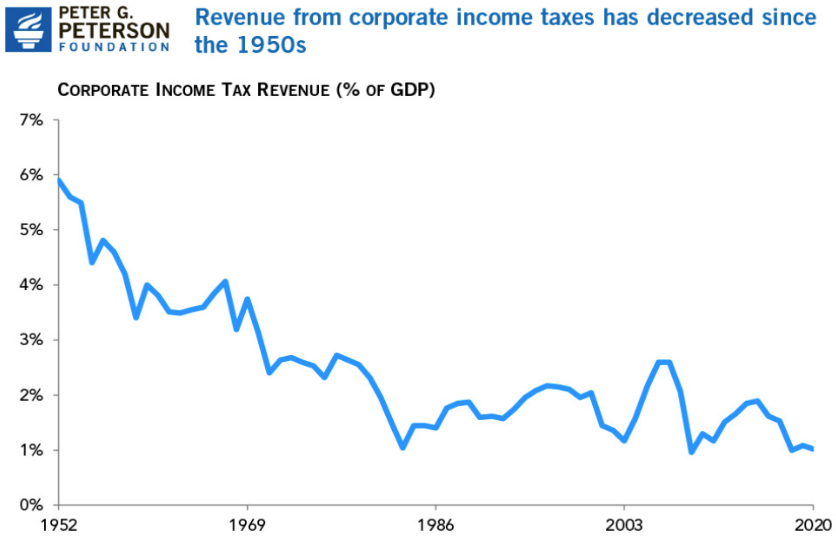
The most recent proposal in Congress would raise the top corporate tax rate from the current 21% up to 28%. But what would be the real world impact of this dramatic rate change? Will American companies be at a severe competitive disadvantage to the companies located elsewhere?

A couple of years ago, the Institute on Taxation and Economic Policy took a hard look at the actual taxes that corporations were paying—at a time when the top rate was 35%. Selecting from companies that were consistently profitable between 2008 and 2015, the organization found that the largest companies were extremely good at identifying ways to avoid taxation, and that the top rate really didn't apply to very many of them.

As an example, 258 of the corporations paid an effective federal income tax rate of just 21.2%, which was just over half of the 35% rate then in effect. Eighteen of the companies paid no federal income tax at all, at least 100 paid zero taxes in at least one of the survey years, while 48 paid an effective tax rate of less than 10%. More than half of the companies in the survey paid higher corporate tax rates to foreign governments than they paid in the United States on their U.S. profits. Five large companies—AT&T, Wells Fargo, J.P. Morgan Chase, Verizon and IBM—enjoyed more than $130 billion in tax breaks during the eight year period of the study.

Their conclusion: raising the federal corporate tax rate is not exactly an excess burden on American companies that makes the U.S. uncompetitive in the global economic landscape. Most companies never experience that top tax rate, or anything close to it.

A more recent study, by the Peter G. Peterson Foundation, noted that America's 21% maximum federal corporate tax rate in effect today is roughly in line with the rest of the world—in France, Mexico, Korea, Italy and Japan the top rate is 32%, 30%, 25%, 24% and 23% respectively. In the U.K., Germany, Canada and Ireland, the top rate is lower: 19%, 16%, 15% and 13% respectively.



SOURCES: Congressional Budget Office, *The Budget and Economic Outlook: 2021 to 2031*, February 2021; and Office of Management and Budget, *Historical Tables, Budget of the United States Government: Fiscal Year 2021*, February 2020.

But once again, the research showed that the top rate is largely irrelevant, given how many tax breaks are written into the U.S. tax code. The Peterson Foundation found that profitable Fortune 500 companies paid an average effective federal tax rate of 11.3%. In aggregate, U.S. tax revenues are just 1% of GDP. That's extremely low compared with, for example, Japan (4.2%), Canada (3.8%), the U.K. (2.5%), Germany (2.0%) and Italy (1.9%). The organization published a chart which shows how corporate lobbyists have been effective at lobbying for tax breaks even as the public's attention is focused on the (irrelevant) top rate; you can see that since 1952, corporate taxes have been chiseled down, tax break by tax break, from roughly 6% of GDP down to 1% today.

The result is a combination of a greater tax burden on individuals and small businesses who don't benefit from offshoring and the complex accounting necessary to score big deductions, plus a growing national debt from taxes that would otherwise have been collected. As the new Congressional tax initiative works its way through Congress, you are going to hear a lot of groaning from corporate lobbyists and trade organizations regarding the crushing effect of raising the top corporate tax rate. Just remember that this is a classic example of misdirection.

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THE REAL JOB PICTURE

Anecdotally, we hear that anybody who wants to find a job today will find him/herself in a competitive bidding situation. There are articles that advise job seekers on how to manage competing salary offers, while articles for employers offer advice on how to avert bidding wars for valuable members of their staff. Other articles simply say to current workers that this is a good time to ask for a raise.

So what, exactly, is the job situation here in the U.S.? The most recent report from the Bureau of Labor Statistics shows that the U.S. unemployment rate stands at 4.6%, trending downward, but still above the record low 3.2% before the pandemic hit. The good news is that this is down from an absurdly high 15% unemployment rate as recently as April 2020.

But if you dig a little deeper into the numbers, you find that 1.1 million workers are still on temporary layoff, down from 18 million in April 2020, but hardly budging over the last six months. The number of long-term unemployed (jobless for 27 weeks or more) still stands at 2.3 million, and the labor force participation rate has hardly moved since June 2020, now at 61.6% of people who are at employment-appropriate ages. Before the pandemic, in February of 2020, a total of 5 million workers were considered not in the labor force but currently wanted a job. That number today is 6 million, and they are not counted as unemployed because they have stopped actively looking for work.

Overall, average hourly earnings for all employees are trending upward, but hardly at levels which would suggest a bidding war. The average was up by 4.9% over the past year, up 11 cents in the past three months, to $30.96 an hour.

These statistics suggest that the anecdotal reports we've been hearing are just that: stories taken out of context in an economy that is clearly recovering, but nowhere near the tipping point where all workers have the upper hand and employers are desperate. The tipping point may be nearest, and the stories may be most likely to come from workers with a college bachelor's degree (2.4% unemployment rate currently), while high school dropouts are still coping with a 7.4% unemployment rate, and high school graduates are 5.4% unemployed.

Source:
https://www.bls.gov/news.release/pdf/empsit.pdf

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