Retirement and Social Security: Caution… Plan Carefully!

Charles L. Schlapp, CFP®

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Most workers look forward to retirement, but not all of them plan well for it. Lying awake at night worrying if and when they can retire will certainly not bring them closer to their goal. For both personal and financial reasons, it is important to understand that a comfortable retirement is usually the end result of an extensive process that incorporates central planning and often many years of participation. Even for those who are fortunate enough to reach a comfortable retirement, managing their income and savings on an ongoing basis is a big responsibility. Luckily, a good financial adviser can help make this process easier.

Today's challenging economic environment has forced many Americans to review their retirement planning goals with a more critical eye centered toward self-funding. Why? The uncertainty surrounding both Social Security and Medicare has left many doubtful that these will be available as secure parts of their retirement plan strategy.

In a recent news release, the Social Security Board of Trustees offered information on the health of the Social Security Trust funds. This report discussed the fact that the current economic downturn has led to a worsening of the long-range financial outlook. Specifically, in a recent Annual Report to Congress, the Social Security Board of Trustees announced:

- The point at which non-interest income fell below program costs was 2010. Program costs are projected to exceed non-interest income throughout the remainder of the 75-year period

- The projected point at which the trust funds will be exhausted is 2033 – the same as projected in last year's report.

- The projected actuarial deficit over the 75-year long-range period is 2.72 percent of taxable payroll

"The Social Security Trust Funds' projected depletion dates have not changed, and three-fourths of benefits would still be payable after depletion. But the fact remains that Congress needs to act to ensure the long-term solvency of this vital program," said Carolyn W. Colvin, Acting Commissioner of Social Security. "The projected year for Disability Insurance Trust Fund depletion remains 2016, and legislative action is needed as soon as possible to address this financial imbalance."

What does all that mean for the average worker?

Based on current funding, the Social Security Administration expects to be able to pay both retirement and disability benefits in full until 2033, the same estimate as last year. After that time, without any major change, they expect that only 77% of currently scheduled benefits will be payable and that the percentage could decrease yearly. All this is subject to annual updates.

Social Security was introduced in the 1930s as a way to provide social insurance for the economic security of the elderly in the United States by creating a work-related contributory system. In fact, Franklin D. Roosevelt first called it the Social Insurance Program and established it as a way to address the permanent problem of economic security in response to the challenges of the Great Depression. In his initial message to Congress on June 8, 1934, President Roosevelt said that, "Security was attained in the earlier days through the interdependence of members of families upon each other and of the families within a small community upon each other. The complexities of great communities and of organized industry make less real these simple means of security. Therefore, we are compelled to employ the active interest of the Nation as a whole through government in order to encourage a greater security for each individual who composes it...."

Following this, President Roosevelt signed the Social Security Act into law on August 14, 1935 and set the stage for taxes to be collected and then benefits paid out. Today, many people are living longer, and with the first of a large wave of baby boomers nearing retirement, fewer new workers are paying into the system due to decreasing birth rates. You can begin to understand why the solvency of the system and its long-term stability are now key issues.

When you review some of the largest expenses for retirees, medical costs certainly come to mind. Add the problems with Medicare to the problems with Social Security and you typically reach one conclusion— it is even more important that we save carefully for our retirement years, as well as for any medical costs we may incur later in life.

Is it enough just to save for retirement?

Many individual investors do not look further than this. Some investors are fortunate enough to work with someone who provides true retirement planning. It is in your best interest to take a careful and thorough approach to retirement planning, and review all of the tax implications and estate planning issues involved. Typically, investors are not familiar with all the complex tax laws that affect retirement, and that lack of knowledge can hurt them. For example, forgetting to start taking your required minimum distributions at age 70½ can lead to a penalty as high as 50%. Other technical issues, like taking longer than 60 days to roll money over from one IRA to another, or rolling over an IRA more than once in a year, can sometimes also bring tough and unexpected tax penalties.

The bottom line is that now, more than ever before, the comfort of your retirement years depends largely on what planning you do today. Whether it is rolling over an IRA or withdrawing from one, the rules can be tricky and the fine print is complex. Fortunately, investors do not have to know it all—that is where they should consider working with a skilled, knowledgeable and trustworthy advisor.

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Chuck Schlapp is a Financial Planner with Superior Financial Management. He is a registered investment advisor affiliated with and also offers securities as a Registered Representative of North Ridge Securities Corp.
1895 Walt Whitman Road, Melville, NY 11747. Tel.: (631) 420-4242 – Member of FINRA/SIPC.

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