Social Security: Part of Your Retirement Income Plan

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Social Security was created to help Americans financially live through retirement. Today, many recipients rely on this government run program for the vast majority of their income. Social Security has become an important tool when putting together a personal retirement income plan. Although today's workers would like to count on Social Security benefits when they retire, there are many concerns surrounding this program.

With nearly 60 million beneficiaries, Social Security is the United States' largest and most popular government program. Steve Goss, age 66, is a career public servant who is currently the Chief Actuary of the Social Security Administration. He and his team of actuaries are vested with the responsibility of reporting how close or far our current Social Security program is from hitting financial disruption or disaster. This trillion dollar program is so crucial that its forecasts are closely monitored by many policy experts.

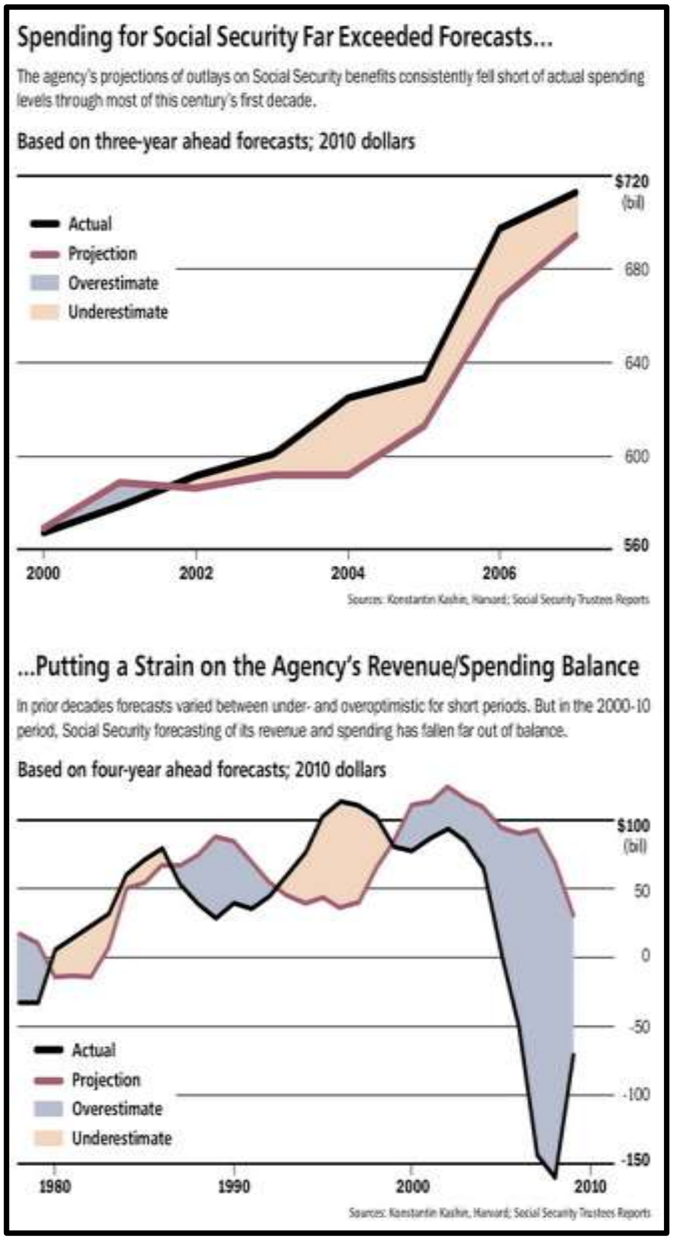
Gary King, a prominent Harvard University political scientist, along with colleagues Samir Soneji, a Dartmouth college demographer, and Harvard Ph.D. candidate Konstantin Kashin, have released a study that shows from 2000 to 2010 the Social Security Agency has gone increasingly off target. According to their research, the balance of Social Security's revenue, minus their spending, has gone off course in record proportions. The results of their study show that in the 1980s the agency's conservative projections underestimated revenues and overestimated costs and still missed the mark by $27 billion dollars. In the 1990s, this conservative projection was off by about $200 billion. Most importantly, in the first decade of the current century (2000-2010) the estimation error has reached nearly $1 trillion dollars (all amounts are in constant dollars).

Their report, which is documented in *the Journal of Economic Perspectives* and the *Journal of Political Analysis*, recirculated long-standing complaints that the methods used by government analysts like Goss are opaque and outdated compared with current data analysts that are employed by today's successful business enterprises. Critics are concerned that the forecasting inside of the Social Security Agency is faulty.

"This is the largest government program with the most intense politics," says King. "But not a single person, inside or outside of government, in or out of academia, or in or out of the commercial world has ever managed to fully replicate the Social Security Administration forecasts."

While Goss and his team's work is closely followed, officially speaking, the annual updated outlook at Social Security is the forecast of its trustees and not its actuaries. Having said that, the Administration still signs off on the trustee's overall report each spring.

When reviewing Social Security's internal forecasts, the cause for questioning was not limited to academics. The Congressional Budget Office (CBO), an agency that also monitors Social Security's solvency, no longer uses Social Security's actuarial projections and estimations for key demographic measures like mortality and immigration.



According to the financial publication, *Barron's*, when they asked Goss about errors he stated that his staff and the trustees of Social Security leave politics at the door when they prepare financial projections for each year's Trustee Report.

For over a half a century, a time period that predates most of today's super-efficient computers, Social Security actuaries have been forecasting the solvency period for Social Security funds. Much of the criticism comes from the concern on the way that Social Security predicts death rates. Death rates, birth rates and immigration projections can all effect the calculations that the Social Security actuaries prepare on over 100 computer programs and 300 massive spreadsheets.

King, who gained national notoriety for his works, including his 1986 article entitled, "How Not to Lie with Statistics", has developed software to calculate statistics for areas like public health and international affairs. Uncomfortable with the long-term projections provided by Social Security actuaries, the CBO officially stopped using their estimates for death-rates starting in 2013.

According to a recent Trustees Report, the trust funds that support Social Securities operations will be empty by 2033 (see chart). The report actually suggests that Social security's finances may be even worse than originally thought, and if nothing is done to prevent the current situation, benefits will be reduced dramatically.

Unfortunately for those who will rely on Social Security for a majority if not all of their retirement income, the future does not look optimistic.

What can investors and savers do?

One conclusion that investors and savers can make is that while Social Security can be part of your retirement income plan, you should still focus on maximizing your support from non-Social Security sources. As financial advisors, we take the time to analyze each of our client's specific circumstances. While we find it rewarding preparing customized strategies for our clients, here are five things to keep in mind:

1. Evaluate your cost of living and form a realistic retirement budget. For most retirees, Social Security is just a piece of the retirement income picture. Try to adopt a solid retirement income plan that includes Social Security but survives even if your benefits are cut or reduced. We help our clients address their lifestyle choices with the understanding of how a reduced Social Security benefit impacts their plans.

2. Review ALL of your retirement and savings plans. Even the most experienced of investors can benefit from reviewing their entire nest egg. All of your investment decisions and options need to carefully evaluate the risk of a

Social Security payment reduction. Carefully weighing your options is no longer just optional - it is imperative for anyone at or near retirement age.

3. Minimize your tax impacts when possible. Taxes always impact what "you keep," and that does not change during retirement. One of our goals is to focus on minimizing taxes where possible. On the Social Security website, www.SSA.gov, they state that "some people have to pay federal income taxes on their Social Security benefits. This usually happens only if you have other substantial income (such as wages, self-employment, interest, dividends and other taxable income that must be reported on your tax return) in addition to your benefits."

Federal income tax can be charged on up to 85% of your Social Security benefits based on Internal Revenue Service rules. There is a formula they use for "combined income." This formula is: your adjusted gross income + nontaxable interest + ½ of your Social Security benefits = your "***combined income.***"

If you file a federal tax return as an "individual" and your combined income* is:

- between $25,000 and $34,000, you may have to pay income tax on up to 50% of your benefits; or
- more than $34,000, up to 85% of your benefits may be taxable.

If you file a joint return and you and your spouse have a combined income* that is:

- between $32,000 and $44,000, you may have to pay income tax on up to 50% of your benefits; or
- more than $44,000, up to 85% of your benefits may be taxable.

Or, if you are married and file a separate tax return, you probably will pay taxes on your benefits.

4. Try to evaluate and time your Social Security payment options. People routinely ask,

Report Year	Estimated Run-dry Date
2014	2033
2013	2033
2012	2033
2011	2036
2010	2037
2009	2037
2008	2041
2007	2041
2006	2040
2005	2041
2004	2042

Source: www.socialsecurity.gov

"What is the best age to start your Social Security benefits?" The answer is that there is no one "best age" for everyone and ultimately it is your choice. You should make an informed decision about when to apply for benefits based on your individual and family circumstances. This is where we can potentially help you by looking at your entire situation so your decision incorporates as many facts as possible.

Conclusion

Our goal is to help each of our clients create a suitable retirement income strategy. Your entire retirement income plan including your Social Security benefits need to be reviewed periodically. If you have not yet applied for Social Security we would like to talk with you about your options. If you are already collecting Social security we will make sure we use your payments in helping you create your retirement income plan. The bottom line is that now, more than ever before, the comfort of your retirement years can be helped by planning. Whether it is calculating Social Security's impact or withdrawing from IRA's, the rules can be tricky, and the fine print is complex. Fortunately, investors do not have to know it all — that is why they should work with a skilled, knowledgeable and trustworthy advisor.

Help us grow in 2015!

This year, one of our goals is to offer our services to several other people just like you!

Many of our best relationships have come from introductions from our clients. Do you know someone who could benefit from our services?

We would be honored if you would:

- ✓ Add a name to our mailing list,
- ✓ Bring a guest to a workshop,
- ✓ Have someone come in for a complimentary financial checkup.

Please call Marlena at Superior Financial Management at (516) 939-2789 and we would be happy to assist you.

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Please visit our website: www.superiorfinancialmanagement.com

Source: *Barron's; www.ssa.gov; Wall Street Journal*