Depending on Social Security?

Future benefits may not be there in full for program beneficiaries

If you’ve ever read the fine print on your annual Social Security statement, you’ll see it written in black and white: “Social Security benefits are not intended to be your only source of income when you retire.” But here’s the real clincher: “The law governing benefit amounts may change because, by 2034, the payroll taxes collected will only be enough to pay about 79% of scheduled benefits.”

That doesn’t mean the program is expected to run out of money, though. It only means that, unless Congress acts, the program will not be able to generate enough revenue to cover the costs of the program. That said, given the risk that Social Security could run short of money within a couple of decades, you should plan for the possibility, however remote, of reduced benefits.

Why benefits may fall short: slower growth, aging population

- In 2018, Social Security’s cost exceeded its income for the first time since 1982, partly due to lower projections for economic and labor-force growth, forcing the program to dip into its $3 trillion trust fund to cover benefits.

- The 83-year-old program’s costs are rising because America’s population is aging, and revenue growth is slowing because the economy isn’t growing as fast.

Does that mean you’ll get no Social Security benefits, or reduced benefits? There’s no way to know for certain how the government will address the issue (Congress has debated how to shore up the program’s finances but has not yet agreed on what to do).

Don’t ignore the “What if’s”

It may be sensible to consider a couple of alternatives if Social Security runs short of its growth projections — just to be on the safe side. You can do that by estimating your Social Security benefit at 80%, 50% and 0% to see if you will have enough to fuel your future lifestyle and spending needs. SmartAsset has a simple calculator that uses your age, annual income and marital status to project what your annual Social Security payments might look like (https://smartasset.com/retirement/social-security-calculator).

If you’re a younger saver, you may need to change your spending, saving and investing strategies to make up for lost guaranteed income.

Penny wise?

President Franklin D. Roosevelt signed the Social Security Act into law on August 14, 1935, a law which he said “will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age.” In January 1937, Ernest Ackerman was the first person to collect Social Security benefits. He received a one-time payment of 17 cents.

2. Ibid.
Getting Rid of Financial Clutter

How long should you keep finance-related documents?

Keeping things simple is a worthwhile goal. In addition to making investing easier, it can help you keep your finances, including your financial records, in order. The benefits include less confusion and less time spent combing through papers.

Many people struggle over which financial statements and records to keep—and for how long—and which ones to throw out. And what’s the best way to organize your files? Here are some guidelines:

Think about why

Why are you holding on to various records? Some documents clearly have short-term value while others have a long-term purpose. One way to put your financial files in order is to separate your short-term paperwork from your long-term items.

Current files

• Unpaid bills, paid bills, canceled checks, bank statements, credit card statements;
• Receipts for major purchases, this year’s income-tax receipts, including tax deductions and charitable donations
• Insurance policies: life, health, disability, home and auto

Long-term files

• 7 years of income-tax records, including back-up information, such as W-2 forms and anything relating to tax deductions
• 7 years of bank statements, canceled checks and check registers

Time to throw out

• Credit card receipts: Toss them once you match them with your monthly statement unless you need to claim them as a business expense, or unless you need them for proof of purchase—for example, for a major purchase.
• Credit card statements: Throw them out as soon as your payment is posted unless you need them for tax purposes.
• Pay stubs: Keep the latest couple in case you apply for a mortgage; toss older ones.
• ATM receipts: Throw them out after reconciling them with your monthly bank statement.
• Utility receipts: Throw them out after your bill payment shows up on the next month’s statement, unless you need them to deduct a home-office expense.
• Investment statements: Throw out monthly or quarterly statements after you compare them for accuracy with a year-end report.

Hold indefinitely

• Investments: Hold on to annual investment statements and records that show what you originally paid for stocks and mutual funds until you sell them and report tax gains and losses.
• Home ownership: Keep home improvement receipts and mortgage bills as long as you own your home
• Receipts for major purchases
• Estate planning: A copy of your will, inheritance papers, health care proxy forms, gift tax returns, powers of attorney
• Warranties and operating instructions for appliances
• Retirement investment statements: IRA and 401(k) statements
• Insurance policies
• Personal papers: Birth certificates, Social Security cards, legal papers about formerly owned properties

Be Organized

• Keep all your financial files in one place
• Keep the most recent files accessible
• Back up your computer files; keep the backup data in a safe place; provide computer passwords with your other vital information
• Keep your system easy — easy to keep, easy to use, easy to change.
• Each year, go through your short-term files and either throw out (recycle/shred) items or place them in your long-term file
Balancing Act: Income, Expenses and Withdrawals

In projecting what you’ll need to save in order to generate enough retirement income, it helps to (1) prepare a realistic household budget and (2) understand what types of expenses you’ll have once you stop earning a regular paycheck.

Types of Expenses

<table>
<thead>
<tr>
<th>Fixed Expenses – “Must Haves”</th>
<th>Discretionary Expenses – “Nice to Haves”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage or rent</td>
<td>Eating out</td>
</tr>
<tr>
<td>Taxes (income and property)</td>
<td>Entertainment</td>
</tr>
<tr>
<td>Car payments, gas and maintenance (if applicable)</td>
<td>Travel</td>
</tr>
<tr>
<td>Health insurance</td>
<td>Sports and hobbies</td>
</tr>
<tr>
<td>Food</td>
<td>Gifts</td>
</tr>
<tr>
<td>Utilities</td>
<td>Shopping</td>
</tr>
</tbody>
</table>

Sensible savers will plan to cover all must-have expenses before they consider splurging on nice-to-have items. You’ll also need to factor inflation into your expense projections: certain sectors of the economy, such as health care, have seen prices rise much higher than everything else.

How much should you take out of your savings?*

Retirement brings with it many unknowns, including how much you can spend each month from the so-called “three-legged stool” of Social Security, retirement plan and personal savings. Withdrawal amounts depend on how much you’ve saved and the expected return on your current investment mix and age, among other factors.

Much research has focused on what percentage of account value retirees can take each year so that the money won’t run out — assuming various rates of inflation. Some analysts suggest that 3.0% to 4.0% is a sustainable withdrawal-rate range in the early years of your retirement. A 4% withdrawal rate is considered sustainable except in cases where inflation creeps above 5%. But withdrawal rates of 5% or higher are risky, especially when inflation approaches 4%. Depending on the size and health of your nest egg and the growth rate of your expenses, you may be able to adjust this rate in future years.

Order of withdrawals can make a difference

Deciding which of the “three legs of the stool” to spend first depends to a great extent on tax laws. Most people know that delaying taking Social Security payments until age 70 can mean higher payments later; they may not realize that a portion of Social Security income is taxable at ordinary tax rates, which currently is set at a maximum 37%.

Remember that tax issues and IRS rules on qualified plan distributions can be very complicated. For example, although your money can grow tax-deferred inside a 401(k) or pension account, once you take a withdrawal, the entire distribution is hit with your ordinary-income tax rate and possible penalties if you’re under age 59½. On the other hand, selling stocks that you have held for more than a year in a taxable account means that only your long-term capital gains will be taxed up to the current maximum of 20% (depending on your income). Some think it’s best to take money first from regular taxable investment accounts and let tax-deferred accounts continue to grow.

Not everyone agrees with this strategy, though. Depending on your circumstances, some think it makes sense to withdraw money from your IRA and 401(k) before spending down your taxable assets. “The idea is to let the assets that will be taxed at the lowest rate accumulate for the longest time,” says Robert Carlson, author of The New Rules of Retirement: Strategies for a Secure Future. For example, if you think income tax rates will be higher in the future, you may want to spend down your taxable assets sooner. Consider enlisting the assistance of online tools or retaining a financial planner to tailor the order of withdrawals to your specific needs and tax situation.

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*Withdrawals from qualified plans prior to age 59½ may be subject to a 10% IRS penalty. Account values are subject to income tax upon distribution. This discussion is not intended to show the performance of any fund for any period of time or fluctuations in principal value or investment return. Periodic investment plans do not ensure a profit nor protect against loss in declining markets.

### First-time Home Buyers Rely More on Family for Mortgage Help

The way that people are financing their first home purchase is changing. More than 26% of mortgage borrowers who used FHA-insured loans received help from a relative to make the down payment, according to 2018 FHA data reported by the Wall Street Journal. That number is up from 22% in 2011. Rising home prices and interest rates made it difficult for buyers to save enough for down payments — not to mention generally higher debt loads from college loans. Further adding to borrower stress is the fact that the gap between owning and renting continues to widen, according to Freddie Mac.

### Q&A

**How can I include funds that consider ESG in my portfolio?**

The companies you choose to invest in can matter to you just as much as the financial results. Many 401(k) plans offer funds that incorporate environmental, social and governance (ESG) criteria as well as financial fundamentals in their investment process. Studies show that a growing number of investment managers consider ESG factors when selecting companies for investment. To learn how to incorporate more ESG exposure into your portfolio, talk to your plan administrator or HR department.

### Quarterly Reminder

With changes in the new tax law, you may have decided to lower your federal tax withholding so that you’re taking home more pay. It may be very tempting to use a fatter wallet to buy more things. But if you are falling short of your retirement goals, consider increasing your 401(k) contribution instead.

### Tools & Techniques

**Investment concepts you should understand**

Fraud is a rapidly growing risk for all Americans, not just the elderly. The AARP Fraud Watch Network has useful tips to avoid credit card scams, get scam alerts delivered to your phone and offers a scam-tracking map to see (and report) what’s been perpetrated in your local area — and much, much more: https://www.aarp.org/money/scams-fraud/.

### Corner on the Market

**Basic financial terms to know**

**Inflation**

Inflation measures the rate at which the average price level of a basket of selected goods and services in the economy rises over a period of time. When prices rise, money loses value. That’s why it’s important that your investments keep pace with inflation — so that you don’t lose purchasing power.

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Not intended as tax advice. Consult your own tax, legal, and accounting advisors before engaging in any transaction.