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FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

"Money is an ideal gift—everything else is too expensive!"

—Anonymous

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SOCIAL SECURITY AND OTHER MYTHS

It's not a bad thing that the holiday season comes close on the heels of our elections. Perhaps after months of negative ads and social media feuds, we could all use a big dose of "goodwill toward men."

This was a rare election cycle in which Social Security was not a top debate issue, though concerns remain over the health of the program and status of future benefits. Seems like a good time for a review. What's true about Social Security, and what's myth?

Myth: Social Security is bankrupt, or going bankrupt. This persistent bit of misinformation has been making the rounds for decades, even as the fund has taken in more than it has paid out in benefits. But according to Kenneth Terrell, writing for AARP Bulletin, this is the first year that is not true. As baby boomers have continued to retire at a rate of about 10,000 each day, the Social Security trust fund is now paying out more in benefits than it is taking in. That means we need to dip into trust fund reserves to continue to pay 100% of benefits. Fortunately, there is a positive balance in the reserve account. In fact, there is almost $3 trillion in the account.

Current estimates project that without any changes to the program, the reserves could be depleted by 2034. But when and if that occurs, it doesn't mean retirees and other recipients will get nothing in benefits. It just means the amount paid in benefits will need to equal the amount received from payroll taxes and other sources of revenue. The current projection is that recipients would get about 80% of their benefits. That might be a tough cut for a retiree living on a fixed income, but it is way better than losing all Social Security income benefits.

True: Removing the payroll tax cap could ensure benefits for decades. The Social Security tax is 6.2% of wages up to $132,900. That cap rises a little each year, but bottom line, it means someone earning $133 million pays the exact same amount of Social Security taxes as someone making $133 thousand. By eliminating that cap, revenue would once again top benefits paid out and worries of reduced benefits would be alleviated.

Myth: That last thing could be done easily. Social Security reform is not top of the agenda in Washington, and with control of Congress now split, there is no sign that the Republican Senate and the Democrat-controlled House of Representatives will come up with a bipartisan bill. The two parties are not on the same page about how to keep Social Security in the black, not to mention their voting constituents. Seems this can might get kicked down the road a while, until a crisis is imminent. In other words, usual Washington.

True: Social Security benefits can be taxed. Up to 85% of your benefits could be taxed if you have other income, and those income limits are pretty low: $34,000 for a single filer and $44,000 for couples filing jointly. In addition, 13 states tax benefits under certain conditions: Colorado, Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont, and West Virginia.

Myth: You can get retirement benefits only if you're retired. Well, how could that be a myth? Jeez, don't words mean anything anymore? Truth is, if you start taking benefits at full retirement age, you can continue to work and it won't impact your benefit amount (although as stated above, you may be subject to taxation). If you take benefits early, your benefits may be reduced if you earn more than $17,640, but whatever the reduction is, you'll receive it later when you reach full retirement age.

True: Social Security benefits don't keep up with inflation. While the Social Security Administration (SSA) increases benefits each year based on increases to the cost of living, the formula to calculate the increase doesn't fully account for medical expenses, which for many years have been rising at a much faster rate than other goods and services. For retirees on fixed income, that means they'll need to reduce expenses or increase income from other sources to make ends meet as they age.

Myth: Social Security will make you secure. It's right there, in the name. Social Security is intended to provide security, right? Well, right. Just not to who you think. It is for the economic security of the country that we ensure seniors don't live in poverty, and retirement benefits from the Social Security program do just that: Keep seniors out of poverty. But they are not intended to fund a comfortable lifestyle. You're getting just enough to keep off the government dole. Hence, the name *Social Security*.

The Center on Budget and Policy Priorities says that this year, the average retirement benefit was about $1,413 a month, or about $17,000 per year. That would replace about 39% of an average worker's salary. Even with expected decreases in household expenses post-retirement, that is going to leave quite a gap to continue to maintain your lifestyle.

If your retirement plan depends solely on Social Security for income after you stop working, then cuts in benefits or program bankruptcy are not your risks. You just won't have enough to live anything more than a meager lifestyle. If that's your plan—the whole tiny-house, no-vacation, walk-to-the-market, darn-your-socks, recycle-the-bathwater thing—then you're good. Otherwise, you need to plan for substantial income from other sources to retire comfortably and stay comfortably retired.

—Steve Tepper

Sources:

12 Top Things to Know About Social Security by Kenneth Terrell, AARP Bulletin, November 2018.

Policy Basics: Top Ten Facts about Social Security from the Center of Budgets and Policy Priorities, updated August 14, 2018.

YOUR YEAR-END FINANCIAL CHECKLIST

It's once again time for our annual reprint of a handy year-end financial checklist. I think we're up to about 10 years in a row we've done this. As I'm way too lazy to rifle through a decade of old newsletters, I officially, if not accurately, dub this our 10th Annual Checklist. Enjoy:

Employer-sponsored retirement accounts: In order to take a deduction for contributions to an employer-sponsored plan such as a 401(k) or a SIMPLE IRA, you must make your contribution **through payroll deduction** by the end of the year.

Your primary goal should be to save at least enough to earn any company match offered. Contribution limits for 2018 if you are under 50 are $12,500 for a SIMPLE IRA and $18,500 for a 401(k), 403(b), or 457(b) plan. If you are over 50, the limits are $15,500 for the SIMPLE and $24,500 for the 401(k), 403(b), or 457(b).

Charitable giving: Make your contributions (either of cash or donated goods) by the end of the year, and get a receipt from the charity.

Gifting: You can contribute up to $15,000 per recipient per year ($30,000 if married and filing jointly). This includes contributing to your child's 529 college savings plan. Note: Gifting is not tax deductible, but gifting in excess of limits could result in a very high gift tax.

Required minimum distribution: If you are older than 70½ years at the end of the year, you must take a distribution from your tax-deferred retirement savings. This is important because the penalty for not taking your RMD is very high—as much as 50% of the amount you should have taken!

RMD rules can also apply to inherited retirement assets even if you are younger than 70½. There is a small caveat to all of this, however. The year you turn 70½ you can delay your distribution until the following year. But that would mean you would have to take two distributions that year (one for the prior year and one for the current year).

See the doctor: Most medical and dental plans offer free annual or biannual wellness visits. Of course, nothing is free—you are paying for those appointments through those astronomical monthly insurance premiums. Or you may have already maxed out your out-of-pocket health care costs for the year. In either case, take advantage and go to see your doctor and dentist for a checkup.

Spend all your FSA dollars: Though they are not common these days, some people have flexible spending accounts (FSAs) to cover routine medical expenses such as prescriptions and doctor co-pays. So, if there's still money in that account, get all your prescriptions refilled or get an extra pair of glasses. Maybe that's why optometrists always walk around with a big smile in December.

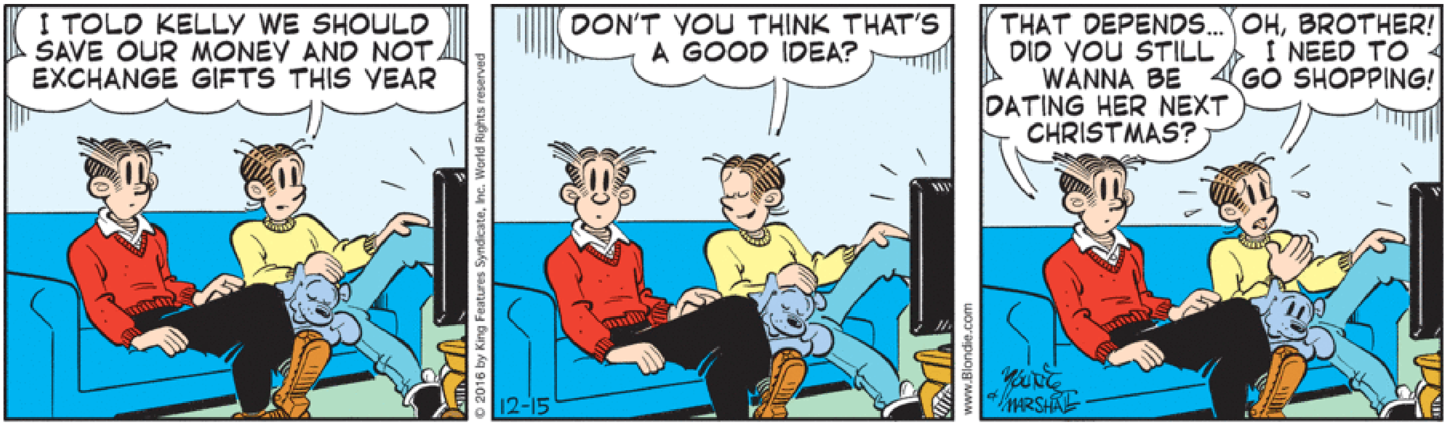
Check your credit report: You can get a free credit report from each of the major credit agencies once a year. You can do this any time of the year, but if you haven't done so this year, now is a good time. AnnualCreditReport.com is a good place to start.

Talk to your financial advisor: If you haven't talked to us in a year, let's get together or just catch up on the phone. It is important that we touch base with you occasionally to check our strategy and plan, especially if you have had important life-changing events this past year or anticipate big changes in 2019.

On behalf of the Northstar staff, I wish you and your family a safe and happy holiday season and new year.

—Steve Tepper

FINAL THOUGHT



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FROM CARL RICHARDS' NAPKIN BLOG