

Where the Buck Stops

Is it or isn't it a crisis? To some, especially President Bush, Social Security is on the skids and doomed for failure. Others believe its problems are overrated. Still others acknowledge a problem, but think that it will fix itself with reasonable economic growth, just give it time.

I don't know how you feel about it, but since I've never really counted on Social Security to contribute significantly to my lifestyle when I retire, I didn't give it too much thought. But when I realized that 48 million Americans receive Social Security payments and for one-fifth of retirees, it's all the income they have, it's important to pay attention. And it's not just for retirees; it also benefits disabled workers, widows and children.

What's the problem? Social Security is a "pay as you go" system. So payroll taxes from today's work force and its employers go to pay the benefits of today's retirees. That's OK now, but consider this: in 1955, there were 8.6 workers paying for each retiree, today there are 3.3 workers, and in 2080, there will only be 1.9 workers. You and I might not know our great grandchildren yet, but that is a huge burden on them.

Right now there is a surplus in the Social Security trust fund, but that's expected to run out in 2018 when costs will surpass income, if nothing is done. From 2018 to 2041, retirees will still get 100% of benefits, but from 2042 onward, the trust fund will be empty, and the income from taxes will cover only about 70% of the promised benefits.

The proposed solution of diverting a portion of the social security taxes we pay into a private account that could be invested as we choose and then paid out to us as an annuity over time, makes sense. There are at least three reasons it might be a good solution. First, with a private account, at least some of the

money you put in would be there for you alone rather than funding another generation's golden years. Second, when you see a connection between what you put in now and how it can grow for the future, you might be motivated to save more elsewhere. Third, and I think most important, the returns from even a portion of money invested in stocks and bonds would be better than the government's current ultra conservative investments earning around 2-3%.

Despite the factors in favor of such a plan, the costs of transitioning from the current system to a private account system would be enormous – estimated at up to \$2 trillion. And if returns in private accounts can be improved by investing in the markets, the opposite can also happen. Given the costs and perceived risk, most Americans, except for Republicans and the rich, think they will do better under the current system, according to an article in *Time* magazine (Jan. 24, 2005).

Is there a solution? One plan worth considering was proposed by Boston University professor Laurence Kotlikoff. He calls for creating private accounts that would be invested in a global, market-weighted index fund run by the government. Because the fund would track the market, the risks of making poor investment choices would be much less.

Perhaps the "takeaway" value we can get from all the focus on Social Security is to review our own retirement plans. Are we maxing out our 401(k) contributions, using SEP IRAs and other plans to our benefit? Are our investments appropriate for our age/stage of life, or are they too conservative or too aggressive? Are they diversified across industry sectors? Do they include U.S. and international stocks and bonds? No matter what happens with our Social Security system, we need to count on ourselves – not the government – for funding our financial future. ☺

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