> *?We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which 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.?•Franklin D. Roosevelt, Statement on the signing of the Social Security Act, August 14, 1935.*

Social Security wins the award for the most misunderstood Federal program. At Clarity, we conduct Saturday morning Social Security and retirement preparation ?*breakfast & learn-shops.*? Per feedback received, I?m surprised to discover that future and current retirees who attend these gatherings are more knowledgeable about Social Security than their financial advisers. Comments range from ?the topic is glossed over,? to ?I was provided misinformation.? A thorough understanding of Social Security has never been so important to current and future recipients of benefits. According to the U.S. Census Bureau that derives estimates based on tax receipts, only about a third of workers are saving in a 401(k) or other types of employer-sponsored retirement plans. A majority of those who do contribute bear the risk of not saving enough, stock market instability, high fees, inadequate choices and a lack of stable, lifetime income alternatives. Social Security is no longer just a measure of protection for the average citizen as stated by FDR. It?s become the primary pension albeit an insufficient one to overcome longevity risk. Those who earn above the U.S. median income of $59,039, especially six figures, have done a better job saving for retirement, yet even they suffer by not having a permanent income option or pension. But Rich, there are defined contribution plans like 401(k)s, right? Well, yea, but I believe they?re not the best alternatives nor were 401(k) plans intended to replace pensions. As I wrote in January 2017:

> *Let?s return to September 1980 when an unknown workplace benefits consultant for a mid-sized company based out of suburban Philadelphia, stumbled upon a sub-section of the U.S. tax code ? 401(k) that was designed primarily to replace or limit the use of executive cash-deferred plans and thought it could benefit employees and their companies. Why not replace a limited corporate tax-sheltered saving plan with a vehicle which would allow a majority of employees to save more than they could in traditional IRAs and at the same time, employers would save Social Security and other payroll taxes by creating and contributing? Win-win. You see, Ted Benna had a noble intent. He had a vision to help American workers EXPAND the limited retirement savings vehicles available to SUPPLEMENT pensions. You see that?* ***SUPPLEMENT pensions.*** *Mr. Benna figured the costs of converting old savings plans were marginal, partially offset by payroll tax savings and employees would be provided an another saving and investment alternative. At the time, Mr. Benna?s company became record keepers (for a nominal fee) for organizations converting to 401(k) plans. He was ahead of his time as he suggested his employer, The Johnson Companies, outsource investment responsibilities to a company still in its infancy ? the Vanguard Group. According to Mr. Benna in an interview from 2011, he began to think 401(k)s may not be the right thing and lamented how he created a monster that should be ?blown up.? He felt his original concept had deviated from its intention and had become proficient at enriching the financial services industry and not the savers.*

Again, I?m not an advocate for 401(k) plans as primary retirement savings vehicles for reasons identified here. However, I do believe an auto-form of deferred payroll savings and investment strategy is critical to long-term financial success. Social Security is an iteration of such a plan for as it?s funded through payroll taxes (sort of an auto-deduction, correct?). Those who work for 40 quarters and have paid in to the system through payroll or self-employment taxes qualify for benefits. Social Security utilizes the average of the highest 35 years of earnings to calculate benefits. For 2018, to earn the maximum retirement benefit of $2,788 at full retirement age, recipients would need to have exceeded Social Security?s annual earning ceiling every year for their 35 highest earnings years. In 2018, that earnings cap subject to payroll taxes for Social Security is $128,400. Candidly, I?m tired of Social Security classified as an entitlement; the 1935 Social Security Act signed into law by Franklin D. Roosevelt, has become a critical income replacement program paid in for and by workers with earned income. It?s not an entitlement anymore. It?s a necessity. Without this social safety net, many Americans would be out on the street. This isn?t a startling assessment by any degree. According to the Social Security Administration, among elderly Social Security beneficiaries, 50% of married couples and 71% of unmarried persons receive 50% or more of their income from Social Security. Once envisioned as a safety net, Social Security has become a lifeline for wage earners, especially those who fall below the current median income threshold. The great failure of Social Security was to impossibly anticipate that corporations would place the risk of retirement savings squarely on the employees? shoulders and decide that speculating in stock markets as opposed to the safety of defined benefits was the best option for retirement security. It would be a challenge to change my mind about how strongly I feel about how many corporations have screwed their employees. Why? I see firsthand how pensions positively affect financial plan outcomes. Income is the life-blood of retirement; it?s all about cash flow a retiree can?t outlive. Without Social Security considered, 1 out of every 6 plans completed are borderline successful or fail. When a retirement contains a pension to supplement Social Security, unsuccessful outcomes are rare. In the face of low-return headwinds for risk assets like stocks (due to extended valuations), Social Security should gain importance when it comes to positive plan results over the next 10 years when compared to the past decade, especially as remaining pension options offered by employers fade away. According to Willis Towers Watson a global powerhouse of workplace analysis, employees look to their employers for support in improving their health, well-being, and becoming more financially secure.• Boy, employees may be in for a rude awakening. In a comprehensive global benefits attitude study, WTW?s concern is widespread about whether employees are saving enough for retirement, *especially in a defined contribution world.* Lifetime income alternatives or pensions have never been so important and so missed. Making the most of Social Security is the best we have available to us for now. **I greatly encourage RIA readers to purchase the new book ?Rescuing Retirement ? A Plan To Guarantee Retirement Security For All Americans,? written by Teresa Ghilarducci and Tony James.** It outlines the downright scary retirement crisis facing America. The authors offer a viable solution called a Guaranteed Retirement Account which is a federal revenue-neutral hybrid defined-benefit plan with flexible options, full portability and a guaranteed monthly income for the life of a worker and spouse. The GRA is designed to supplement Social Security and defined contribution plans and close the widening shortfall between savings and income required to survive retirement. In other words, it takes the place of pensions that corporations were happy to do away with. It?s a solution I support wholeheartedly. The GRA is not a government entitlement. It?s mutually funded by employers and employees for a total of 3% of gross income. This program would provide *all* workers through mandatory payroll deductions, a much-needed lifetime income solution. Unfortunately, this amazing program fails to exist; so, let?s make the most of Social Security by avoiding the following myth, ok?

Social Security is going broke, so I must take it before full retirement age!

I hear this statement way too often. **No, no, no.** Taking Social Security early can be a big mistake for you and loved ones. Full retirement age is older than age 66 (if born after 1954). Every year the Social Security Board of Trustees releases a status of the Social Security Trust Funds. Funds are slated to be depleted by 2034 whereby at the time, 77% of benefits will be payable. Keep in mind, although this sounds dire, the payroll taxes of current workers can keep the program running. In addition, it wouldn?t take much to make up for the imminent deficit if Congress initiated a small increase to payroll taxes or adjusted retirement ages to reflect current, not 1935?s reality. People are living and working longer. •A 1983 amendment allowed for the full retirement age to be gradually raised to 67. It?s time to revisit life expectancies and again raise the full retirement age bar. **Per the report (from www.savvysocialsecurity.com):**

- *The asset reserves of the combined OASDI Trust Funds increased by $35 billion in 2016 to a total of $2.85 trillion.*
- *The combined trust fund reserves are still growing and will continue to do so through 2021. Beginning in 2022, the total annual cost of the program is projected to exceed income.*
- *The year when the combined trust fund reserves are projected to become depleted, if Congress does not act before then, is 2034, which is the same as projected last year. At that time, there will be sufficient income coming in to pay 77% of benefits.*

Are there reasons to take Social Security before full retirement age? Sure. They may include:

1. **Simply ? you require the income to survive**. I get it. You?re in a stressful job situation, or ill, and the early lifetime income choice is required to keep the lights on and food on the table. Make sure to consider a comprehensive retirement plan first as your retirement benefit will be reduced by 25% over your lifetime. A hefty sum. A plan can bring to the surface the overall impact to household cash flow.
2. **You don?t have a dependent or younger spouse to consider**. If you claim at age 62, spousal retirement benefits which are usually • of a working spouse?s primary insurance amount, will be reduced by 25%. A spouse can be negatively impacted as a survivor since benefits would be reduced accordingly. Keep in mind, a widow(ers) benefit is based on 100% of the decedent?s Social Security benefit if benefits have started. As an example, Richard is 59 with a PIA at full retirement age of $2,797. If Richard begins taking Social Security at age 62, his monthly benefit drops to $2,098. If Richard dies, his wife Kim?s benefit would also be reduced to $2,098. If Richard doesn?t claim his benefit at age 62 and passes away, Kim is eligible to receive his full retirement benefit of $2,797. Kim should wait until *her* full retirement age if possible, to claim Richard?s full retirement benefit.
3. **You go for the reduced amount and invest it**. Back in the early 90s, it was common for advisers to suggest clients take Social Security early and invest the difference as the great bull market allowed for growth opportunities. In 2002, I thought it best for new retirees to tap their IRAs and tax-deferred retirement plans first if necessary and wait until full retirement age to take Social Security. I believed then that stock returns would face a formidable headwind over the next decade. Today, I feel the same. I prefer in most cases that clients, especially those who consistently meet or exceed the Social Security earnings ceiling, delay benefits until age 70 to take advantage of the annual 8% Delayed Retirement Credit that applies to benefits from full retirement age to age 70. Based on the current CAPE ratio of 32.22, valuations portend lower returns ahead so 8% a year and robust monthly payments for life is a no-brainer. I don?t consider taking Social Security before full retirement age and investing it in risk assets like stocks an optimum financial decision unless valuations were to get more in line with the median Shiller PE which is roughly 16X. Even then, it would be a challenge to convince me that this is a smart strategy. Variable assets such as stocks are not designed to provide lifetime, safe income as much as you?re told by the financial services industry that they are!

It can be tempting to take the Social Security cash early and run. Please don?t. Step back and consider how others may be affected by the decision. Work closely with a financial adviser who understands how Social Security operates and can complete an analysis to show you how much you?re leaving on the table over a lifetime.