



Investment Insights

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Social *In*-Security

Financial advisors like myself continually recommend that investors put plans in place to ensure their financial security and reach their goals. Unfortunately, the large majority of Americans does just the opposite, consuming most of their income today with the idea that the government, through programs like Social Security, will be there to fund their retirement. Let's take a look at that strategy

One Spoon for Five Mouths

Social Security, on the surface, sounds like a wonderful idea: we all contribute to a government-run "retirement account" through mandatory taxes, and upon retirement we are guaranteed a steady income for life. This works wonderfully for private, self-directed accounts like IRA's or 401(k)'s. The problem with Social Security is that the demographics of our population are undergoing a massive and perilous shift, and because of that, the system might run out of money. Specifically, the Baby Boomer generation is nearing retirement age, and as that disproportionately large percentage of the population goes from being a *contributor* to being a *dependent* of Social Security, the math stops working. In fact, President Bush himself said just over a year ago that, "Social Security, in its present form, is unsustainable for the long term" (March 17, 2003). Federal Reserve Chairman Alan Greenspan added his thoughts to the argument just a few weeks ago, when he said, "We have constructed a good deal of the benefit structure over the last quarter century without a real firm look at whether or not the real resources were there to meet those benefits" (Congressional testimony, February 12, 2004). D-Day, by many calculations, arrives in about 12 years, when revenues from Social Security taxes are exceeded by Social Security payments, and the program starts to implode.

Too Big To Fail?

Of course, the government can't and won't let the Social Security system fail. Ultimately, the government can take on more debt to fund obligations, although this still does nothing to fix the structural problems in the program. Chairman Greenspan floated two strategies the government could study to "fix" the problem, neither of which will make our retirement any more enjoyable or financially secure.

Don't Die

The first strategy is to increase the age the government considers "retirement age". The argument is that our lifespan is now longer, so benefits shouldn't be paid until later in our lives. This sounds good on paper for policymakers, but for those of us who plan on retiring before we're 70, it does us no good. The burden of funding our retirement until Social Security kicks in falls back in our laps.

There's No Inflation

The second scheme Greenspan proposed is to link the cost-of-living increases in Social Security to an index other than the Consumer Price Index (CPI). He recommends finding a "less-generous" index to fix benefit increases to, meaning the value in real terms of our future benefits might be even less than what our current position is. Many people feel that the CPI already doesn't fully reflect the inflation rate in goods important to retirees (medical costs in particular), and using an index that minimizes inflation even more will make the discrepancy even worse.

The Bottom Line

This all brings us back to the original idea: we all need to take responsibility for securing our own retirement. Vehicles like 401(k) accounts, IRA's, and ROTH-IRA's were created to help everyone save toward their future. If you hope to have some say in how and when you retire, you need to participate in these programs as soon and as much as possible. Otherwise, retirement might look a lot different than you think.

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