

Investment Time



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Beyond The Politics of Social Security COLA Freeze

You may already have heard the news that the Social Security Board of Trustees has placed a moratorium on increases in Cost of Living Adjustments — affectionately known as COLA — in benefit checks for 2010, citing the fact that cost of living was negative; in other words, prices actually fell. This situation is as valid for those of us who are not yet receiving Social Security — if not more critical — as it obviously is for the roughly 50 million people who currently receive Social Security checks.

Democrats say that seniors depend on these checks, so the good Democratic party is asking Congress to approve a \$250 check for each Social Security recipient to make up for the COLA shortfall. The message here: The Democrats care and are looking out for seniors!

The Republicans' view, on the other hand: Don't vote for Congressional Democrats in 2010 because they are refusing our seniors COLA while they approved raises for themselves.

Isn't it amazing that each party agrees that the elimination of COLA is bad, yet they still find a way to say their party is better than the other?

Yes, prices fell in 2008, when compared to 2007. Hooray! We know you're falling off your chair in stunned silence, but that is what negative inflation means — at least, in theory. Let's talk reality, though. Are your grocery prices lower today than they were a year ago? For those who are renters, did your rent escalate or decrease, since inflation has been negative? Oh, and what about the cost of entertainment? Do you remember how much movie tickets were a year ago, compared to what they are today?

You Must Understand the Bigger Picture

According to the May 2009 annual report published by the Social Security Board of Trustees, Social Security will start going broke in 2016 and will essentially be "exhausted" by 2037.

The 2008 version of the very same report predicted 2017 as the "start going broke" date, rather than 2016. The dead broke year was also further out — four years to be precise — in 2041. We really hope that by next year these numbers do not inch up yet again, becoming 2015 and 2033 respectively, and so on. Michael J. Astrue, the Commissioner of Social Security, described the May 12 report as "disappointing, but not unexpected."

There are, of course, those who claim that by law Social Security benefits cannot be decreased, so retirees should not worry. We agree with the law part, but ponder this rhetorical question: If your pension admin-

istrators continued to send you annual statements projecting that your funds "will be exhausted" by a particular date, wouldn't you seriously become concerned that the diminishing funds are a reality, rather than dismissing the news by claiming that you are protected by law?

So would someone be wrong to interpret the Social Security situation by stating that it is running out of money FAST and will be depleted, used-up, or bankrupt soon? Apparently not, as we continue to receive signed statements annually telling us this very fact.

Realistically Speaking

First and foremost, you do not want to count on the government for your retirement. Rather, you want to use it as the supplement/bonus it was intended to be. If you're planning to rely on Social Security as your only means of income, you would understandably be devastated if the Social Security trustees' forecasts turn out to be even partially true.

Consider the following statement from the front page of Form SSA-7005-SM-SI. This is the green and white statement you receive each year from — GET THIS — the Social Security Administration:

Social Security is the largest source of income for most elderly Americans today, but Social Security was never intended to be your only source of income when you retire. You also will need other savings, investments, pensions or retirement accounts to make sure you have enough money to

live comfortably when you retire. Saving and investing wisely are important not only for you and your family, but for the entire country.

Secondly, you should get your retirement funds out of the paths of taxable plan like 401(k)s, 403(b)s, and IRAs as soon as possible. It does not make sense to delay taxation into the future when rates are likely to spike. In case you hadn't noticed, that how Uncle Sam pays for most things, and it seems like Washington is going to need more money with each passing year. We put our clients in vehicles that do not create what the IRS refers to as "a taxable event when they access their money — meaning it's tax-free, so they do not have to worry about tax rates now or in the future.

We very much value and appreciate our seniors and we want them to live happy comfortable lives, especially after having toiled to make this nation the best and most powerful on the planet.

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