On Social Security, financial advisers tell clients to not count on much

Beyond debating its solvency, advisers embrace the reality of a broken system

Jul 27, 2017 @ 4:00 pm

By **Jeff Benjamin**

Ask two financial advisers what they think about the future of Social Security benefits, and you'll get two different answers.

Ask three financial advisers the same question, and you'll get three different answers. And on it goes.

Yet, for all the uncertainty and complexity surrounding the **future of Social Security**, financial advisers have no choice but to consider it when calculating their clients' future retirement income.

That's where the real speculation, best-guess estimates and hope comes into play.

"There is no guarantee with Social Security, because it's a transfer tax, and the surplus will run out," said Tia Lee, director of wealth planning at Spectrum Management Group, which manages $500 million in client assets.

"I do believe Social Security will continue to be available, but for my clients under 55, I discount what they will receive in retirement," she added.

Depending on where you look and how you like your numbers crunched, the **Social Security trust fund is estimated to be exhausted** somewhere between 2029 and 2034.

That doesn't mean money won't still be coming in through taxes and going out as benefits, it just means the end of the surplus account.

As the number of Social Security beneficiaries continues to climb, it's estimated that by 2025 the ratio of three workers paying in for each retiree will drop to two workers for each person collecting the benefit.

"The ratio of workers to retirees is falling, which means payroll taxes have to go up just for Social Security to stay broke," said Patrick Beagle, owner and chief executive of WealthCrest Financial Services, which advises on $150 million in client assets.

Mr. Beagle, who also contracts to teach pre-retirement planning to federal employees, said younger people are the most pessimistic about Social Security benefits.

"People in their 20s and 30s have no hope whatsoever about getting anything from Social Security," he said. "They look at it as a basic redistribution program of taking from them and giving to someone else."

He said a lot of the people he sees over age 50 are often naive and ill-informed when it comes to Social Security benefits.

"They don't know what to expect," Mr. Beagle said.

Citing **the fine print on Social Security** projected-income statements that explains by 2034 there will only be enough money to meet 79% of the obligation, Mr. Beagle tells clients between ages 50 and 60 to not count on more than 75% of their projected benefit.

"When I do planning projections, I try not to make any promises regarding Social Security," said Jon Ulin, managing principal at Ulin & Co. Wealth Management, which manages $50 million in client assets.

"It doesn't appear Social Security is going to vanish, but it does appear in an aging population, they will need to increase our payroll taxes and increase the retirement age and cut benefits," he added. "The most realistic approach for younger people is not to expect it at all."

Most financial advisers, when talking to clients about Social Security benefits, opt to skip past the hairy details and cut right to what seems logical.

Trouble is, what seems logical rests in the eye of the beholder.

"I just don't believe Social Security is ever completely going away," said Blair duQuesnay, chief investment officer and principal at ThirtyNorth Investments, which manages $135 million in client assets.

"Congress can't even manage to make changes to a seven-year-old entitlement [ObamaCare]; how are they going to get rid of something like Social Security?" she added. "For anybody collecting now, or within 10 years of collecting, there is just no way it won't be there."

Ms. duQuesnay said the future might include higher Social Security taxes or even some kind of means testing on benefits, but for her clients she always factors in Social Security as part of their retirement income, unless directed otherwise.

"I'm always happy to run simulations for clients who don't think Social Security will be there," she added.

Signed into law in 1935 by President Franklin D. Roosevelt, Social Security has undergone **31 material changes**, but only eight resulted in any kind of reduction in benefits.

The most recent change was in 2009, when Congress ruled that Social Security benefits would be eliminated for people who had broken the law and were currently incarcerated.

Social Security program: A timeline of important changes

Click on the year to see the details, and click on the arrow to see the next time range

Source: Spectrum Management Blog

In that same year, Congress approved a one-time $250 benefit to every adult eligible for Social Security benefits, illustrating why it has become known as the "third rail of politics" — **touch it and you're finished**.

Kashif Ahmed, president of American Private Wealth, said the younger the client, the less they should expect from Social Security.

"The financial planning software always includes Social Security, but I tell folks we shouldn't rely on it," he said. "If it survives, and you get some, it's likely good for some gas in your car. And if you truly are relying on Social Security for retirement, well, that really isn't much of a retirement."

Nik Schuurmans, founder of Pure Portfolios, a $50 million advisory firm, is 35 and works with a lot of clients in his age range.

From his perspective, Social Security is going to be drained by the older generations, and he doesn't believe "there is the political will in Washington to tackle this."

"For my clients over age 40, we calculate the full benefit, but for those under 35 we tend to omit it or give it a haircut," he said. "Most of the people I know who are my age are very dismissive and very cynical about Social Security and the federal government in general."