CASTLE ROCK WEALTH MANAGEMENT

Registered Investment Advisor Firm

©ISSUE IX, VOL. VIII – SEPTEMBER – 2019

Millennials & Social Security

A recent Transamerica survey found 80% of millennials, people born between 1979 and 2000, worry that Social Security won't be around when they need it. Not surprising, Gen Z and Baby Boomers have the same concern about Social Security running out of money.

Social Security benefits come from two sources: taxes collected from current workers' paychecks and a trust fund of specially issued US Treasury securities. This fund is projected to be depleted in 2034, but the system will still collect from payroll taxes. If Congress doesn't intervene, the system should still pay around 80% of projected benefits. Chances are good Congress will intervene, as it did in 1977 and 1983, to strengthen Social Security's finances.

Millennials could make bad choices about their retirement savings if they believe the shortfall is definite. The worst outcome would be if they didn't save at all, convinced retirement was hopeless. But any of the following strategies could cause problems.

Saving without Social Security
Currently, the average Social Security benefit is just under $1,500 a month. You would need to save $400,000 to generate a similar amount. (That's based on the use of financial planner's "4% rule", which recommends taking 4% of the portfolio in the first year of retirement and adjusting it for inflation after that). The Urban Institute projects the average-income single adult millennial will receive $1 million and $2 million for a couple during their retirement.

Trying to save enough to replace 100% of your expected Social Security benefit might well be impossible, and could cause you to short change other important goals such as saving for a child's education or even having a little fun once in a while. A more realistic yet still cautious approach would be to assume you'll get 70% to 80% of what your Social Security statement projects.

Ignoring your Social Security account
Your future benefits are based on your 35 highest-earning years. However,

your earnings need to be reported accurately. Employers may not report the correct information to Social Security or may not report your earnings at all. You can correct those errors if you catch them in time. Fixes could be difficult decades from now, if employers have gone out of business and needed documents may not be available.

Millennials may be more exposed to errors than previous generations because they tend to change jobs more often. Every two to three years, you should log onto your Social Security account and make sure that your earnings are correct.

Claiming Social Security too early
Millions of Americans make the mistake every year, locking in permanently reduced payments and potentially costing themselves up to $250,000 in lost benefits by early claiming. Congress is highly unlikely to cut benefits for those in or close to retirement age. There likely will continue to be incentives for delaying your claiming. Currently, benefits increase by about 7% to 8% for each year you wait to apply after age 62 until benefits max out at age 70.

Working an additional few years also can compensate for low- or no-earning years earlier in millennial's careers, when incomes may have been depressed by recessions or job-to-job work. A higher-earnings year can replace a lower one to fill in those gaps.

If you need help with understanding Social Security or any other financial questions, contact me at (707) 648-2024.

Q: Is there separate five year holding periods for each IRA to Roth IRA conversion?
A: There is a separate five-year holding period for Roth IRA conversions, but that rule only applies to the 10% early withdrawal penalty for those under 59 ½. There is another five-year holding period that applies to taxes on earnings. As long as five years have passed since you first opened any Roth IRA and you are older than 59 ½ , you won't owe taxes on the earnings.

Q: What is the cost basis of appreciated stock that you gift to your children?
A: If your child sells the shares, their basis will be your original cost basis. If instead your child inherits the stock, the basis is stepped up to the investment value on the date of your death.

FED Watch

There was no FOMC meeting in August, but the indication is 95% probability of a quarter point drop to 1.75% - 2.0% at the September meeting.

The FED will end the process of reversing the quantitative easing by allowing assets to mature off their balance sheets, rather than re-investing them and plan to taper this process and plan to complete in August of this year.

Next meeting:
September 17th and 18th.

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

Castle Rock Wealth Management custodies some client assets at Charles Schwab & Co. Bob's office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, please contact me by phone or through my email address at:
bob@crwmadvisors.com