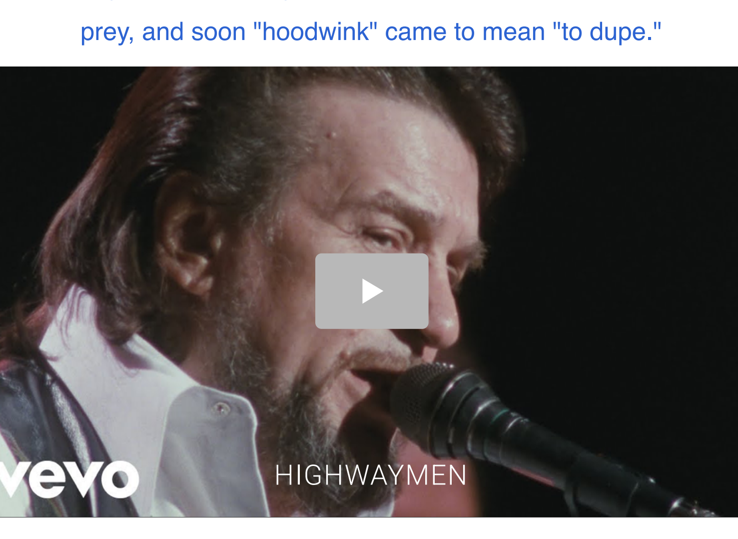
RETIREMENT PLANS THAT "CLEARLY" WORK FOR YOU.

Prizant Group

HOODWINK: TO DECEIVE OR TRICK

Hoodwink" reflects an obsolete meaning of "wink." Today, "to wink" means to close one eye briefly, but during the 1500s it meant to shut both eyes firmly. So a highwayman who placed a hood over a victim's eyes to effectively close them, was said to "hoodwink" his prey, and soon "hoodwink" came to mean "to dupe."



The hoodie became popular in the 1970s, with several factors contributing to its success. Hip hop culture developed in New York City around this time and high fashion also took off during this era, as Norma Kamali and other high-profile designers embraced and glamorized the new clothing (I briefly thought about going another way on the whole "Hood Thing," but based on the current political/social climate; I decided to "deep six" it).

So, the question of the month for this Missive is: HAVE WE (and not the "Royal We") BEEN "HOODWINKED" ABOUT SOCIAL SECURITY? When speaking to groups about Social Security, I like to inform them that Franklin Delano Roosevelt (FDR) goal was to provide a basic income to the poorest of the poor who had suffered so much during the Great Depression. It was NEVER intended to be the main source of income for retirees. Furthermore, the brilliance of the program was that few contributors to the system were alive to collect at the original 65 Normal Retirement Age (NRA). However, in today's world, one who makes it to 65 years of age has a 50% chance of living into their 90's! As stated in the ASPAA (American Society of Pension Professional Actuaries and DON'T mess with actuaries) article "Social Security Myths That Cloud The Legend" , the original social security monthly payment (1930's) replaced around 20% of an average family income ($120/mo). Boy, have times changed as you will see from the below blurb from www.cpp.org:

Social Security benefits are much more modest than many people realize; the average Social Security retirement benefit in February 2024 was about $1,862 per month, or about $22,344 per year. (The average disabled worker and aged widow each received less.) For someone with average earnings who retires in 2024 at age 65, Social Security benefits replace about 39 percent of past earnings. Social Security's "replacement rate" fell as the program's full retirement age gradually rose from 65 in 2000 to 67 in 2022.

As you can see, the 20% has grown to around 39% and, for many, it hovers around 50% and some covers close to 70%. As one who thankfully was able to wait to collect my Social Security check until 70 (picking up 32% increase in monthly benefit from 66 NRA plus COLA increases along the way), that monthly deposit helps offset necessary living expenses. However, in no way would I be able to exist on that income alone. Alas, my working days are far from being over (if ever!). I have always maintained that Social Security is sacrosanct and will NEVER discontinue paying benefits. There will be tweaking around the edges, raising of Normal Retirement Age, a dramatic increased the TWB (Taxable Wage Base i.e. the ceiling for paying the FICA tax), and possibly a reduction in benefits for higher income retirees.

Editor's Note: This is Part I in a two-part series concerning myths surrounding Social Security and dispelling them. https://www.asppa-net.org/news/2025/1/social-security-myths-that-cloud-the-legend/

Social Security, a staple of government policy and retirement security, will turn 90 in 2025. But legendary status doesn't necessarily spell clarity — there are myths that persist that cloud understanding of the program and how it works. Industry experts offer their perspectives on those misconceptions.

What's in a Name?

The first myth concerning Social Security may be its very name, suggests Phil Battin, President and CEO of Ambassador Wealth Management. "While it is a beloved benefit and has helped untold millions over many decades, the name is misleading," he says. Battin bases this suggestion on the premise that while Social Security has been "a lifeline for millions of people," by itself Social Security "does not provide complete security for most Americans." A "more apt description" of the program and how most people should regard it, he suggests, would be to call it "Social Retirement Supplement" rather than Social Security.

Extent of the Support Social Security Offers

Perhaps the biggest myth concerning Social Security is another fundamental one — why it exists in the first place.

The most prevalent Social Security myth," says Battin, is that it "will be enough to provide 'security' in retirement."

Social Security was enacted during the Great Depression in the 1930s, and has been a centerpiece of the effort to provide a bottom line of financial security for Americans ever since. But Social Security "was never intended to be the sole income source for people in retirement," Battin argues. Rather, he says, Social Security was originally intended "to help stave off abject poverty during one's 'golden years.'"

And that has only become more true as the years have passed, says Battin. He observes that the University of California, Berkley, reports in a study that the average life expectancy when Social Security was born was 62.1 years for men and 65.4 years for women, and one could not collect benefits until age 65. Further, at that time, just 53.9% of men who reached age 21 live to see age 65 at that time, and 60.6% of women did. Men who reached age 65 collected Social Security benefits for an average of 12.7 years for men and 14.7 years for women.

"So, for those who retired prior to age 65, there were no benefits and almost 40% of the population did not live long enough to collect benefits. For those that did, the benefit, on average, was $22 per month but the median income in 1939 was $102 per month. So, even at its inception, Social Security only covered about 20% of the average family income," says Battin. And he warns that will shrink even more. "With life expectancies only increasing, the risk that people will outlive their also increases," says Battin.

Going Broke

The most prevalent myth concerning Social Security, says American Retirement Association (ARA) Director of Regulatory Affairs Kelsey Mayo, "is that young or middle-aged workers won't receive any Social Security benefits because it is underfunded." Robert Kaplan, ARA Director of Technical Education, puts it succinctly. He says that the most common myth concerning Social Security is "Social Security is going broke!"

Both ARA experts warn that even if the Social Security system does not go broke, it remains possible that benefits could be reduced. Says Mayo, "While it's true that projections show that current funding won't be sufficient, benefits would be reduced (not eliminated) if the funding is not sufficient in future years." Similarly, Kaplan says that "if funding is less than needed then benefits might be lower for some individuals than currently expected."

Generation Gap

Generations often differ in many areas, and the myths to which they commonly subscribe concerning Social Security are among them.

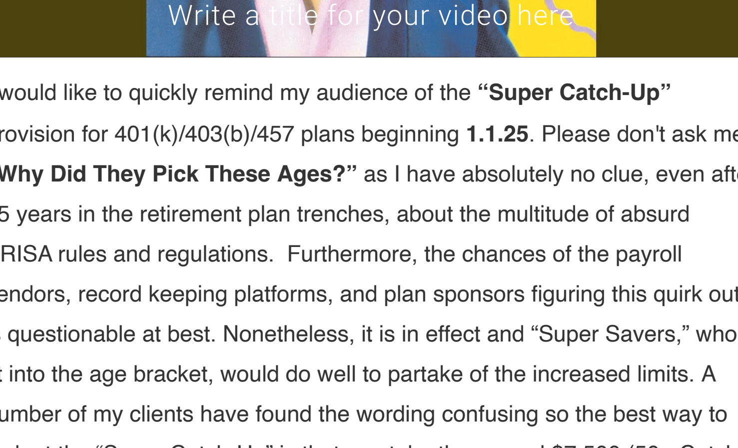
"Older Americans tend to rely more on Social Security in their planning," observes Battin, continuing, "for older generations, the myth is that Social Security will provide for most of their needs in retirement."

That is not a concern for their younger counterparts, Battin indicates. "Younger folks are unsure if they will receive benefits at all or how old they will be when they are allowed to start receiving benefits," he says. Battin says that the Social Security myth to which they subscribe is "that Social Security won't be there at all" by the time they are old enough to receive benefits from the system.

Battin says that their attitude is "understandable," since "the age at which benefits can begin keeps climbing higher, there are proposals for a 'means test' which could eliminate benefits for those that have been good savers outside of Social Security and well, as other proposals to reduce benefits."

In a way, younger generations' attitude is not a bad thing, to Battin — since, he argues, that will be an impetus for saving. "It's probably better that younger workers plan on it not being there for them at retirement, because the risk is that they will over-save, which is a good thing." Mayo suggests that higher-income individuals also may have such a reaction, remarking, "Higher income workers might ignore Social Security in their retirement planning and therefore plan to save more than they need. Lower income workers, on the other hand, may react differently. Workers are commonly told that they need to be able to replace 70-80% of their income in retirement."

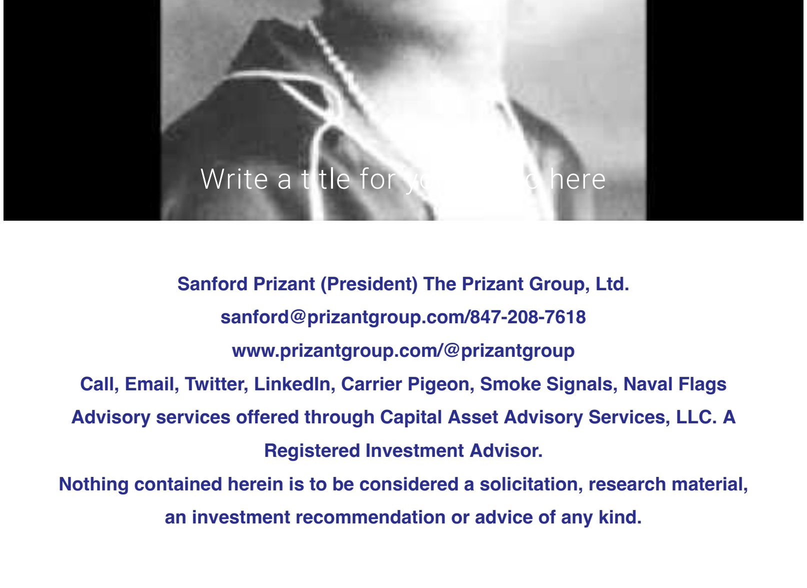
Battin does not share younger generations' pessimism. He says that younger generations "overstate the risk" that the Social Security system will not benefit them in their retirement. Batten stated that "The benefit will most likely survive."



I would like to quickly remind my audience of the **"Super Catch-Up"** provision for 401(k)/403(b)/457 plans beginning **1.1.25**. Please don't ask me **"Why Did They Pick These Ages?"** as I have absolutely no clue, even after 25 years in the retirement plan trenches, about the multitude of absurd ERISA rules and regulations. Furthermore, the chances of the payroll vendors, record keeping platforms, and plan sponsors figuring this quirk out, is questionable at best. Nonetheless, it is in effect and "Super Savers," who fit into the age bracket, would do well to partake of the increased limits. A number of my clients have found the wording confusing so the best way to look at the "Super Catch-Up" is that you take the normal $7,500 (50+ Catch-Up) and add $3,750. You **DO NOT** get the $7500 plus $11,250!

The 401(k), 403(b), and governmental 457(b) super catch-up applies to eligible plan participants who are between the ages of 60 and 63. The deferral limit is the greater of $5,000 or 150% of the normal "age 50" catch-up contribution limit for 2025 ($7,500). Thus the 2025 "super" catch-up equals $11,250 (150% x $7,500).

We, at The Prizant Group, strive to provide our retirement plan partcipants with the tools and knowledge in assisting them in their journey to financial independence in retirement. This is a seemingly hopeless goal in the current economic environment. The problems are many and the solutions are few. The pictures of elderly couples prancing through the ocean waves, traveling the world in opulence, or dining at the finest restaurants with friends are not overly realistic and downright disingenuous. The more likely scenarios are retirees plopping down at the neighborhood public pool, taking road trips to national parks, and noshing on the "Value Meals" at McDonald's. Don't get me wrong, as I have come to value health, family, good night's sleep (impossible between 200 lbs of snoring, immovable Labradors ensconced on the bed and frequent need to urinate) and regular bowel movements. If one maintains a realistic view of retirement and adjusts their exceptions accordingly; it is not untenable to have a financially comfortable lifestyle. You may have to forego costly pleasures to ensure an economically sustainable existence. One cannot hope to avoid the monetary crises that ever seem to rear their ugly heads. Unforeseen medical bills, home repairs, auto breakdowns, helping out a family member or stock market crashes can put a severe dent in one's finances. My theory on unexpectedly large bills is that as long as you work out a payment program and adhere to it; they can be resolved without the intercession of bill collectors and legal proceedings. Furthermore, your credit score will be saved from the downgrades that accompany non/late payments. We will close this month's Missive with a soulful rendition of "Money Blues" by the legendary Bessie Smith.



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