YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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In This Issue

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Social Security: Income Replacement Trends Declining for Working Couples

In a way it seems counter-intuitive. Yet a recent report published by the Center for Retirement Research at Boston College found that as more women have left their posts as full-time homemakers and joined the workforce, the income replacement rate that Social Security provides to two-earner married couples has been in steady decline.

Demographic Shifts

The study found that as more women went to work, the "family benefits" component of Social Security -- i.e., spousal and survivor benefits -- began to decline sharply as a source of household retirement income. For instance, more than half of all women born in the early years of the Depression who became eligible for Social Security benefits in the 1990s were entitled to a spousal and/or survivor benefit in their initial claim. By contrast, fewer than a third of the oldest baby boomer women were entitled to family benefits when they first became eligible for Social Security benefits between 2010 and 2015.[1]

This decline in family benefits has been the main catalyst behind the erosion in household Social Security replacement rates, which have dropped from about 50% for older couples born in the early 1930s, to 45% for the oldest baby boomer couples. Another steep decline in replacement rates (to just 39% of pre-retirement income) is forecast for Generation Xers when they begin to retire after 2028.[1]

The study summed up the factors driving the trend quite simply:

"The labor force activity of women has a significant effect on the couple's replacement rate, which is the household's total Social Security benefit as a percentage of pre-retirement earnings. As women work, they increase the couple's pre-retirement earnings more than their Social Security benefits, so the household's replacement rate declines."[1]

Estimate Your Benefits Annually

The declining income replacement rate is a critical issue to keep in mind as couples plan for their retirement years. Make a point of checking out your estimated benefits at least annually so you know how much to expect -- and how much you'll need to provide from your own savings. You can estimate your retirement benefits online at SSA.gov, using one of the following methods:

- The Retirement Estimator gives estimates of your retirement monthly benefit, based on your actual Social Security earnings record. The calculator shows early (age 62), full (ages 65-67 depending upon your year of birth), and delayed (age 70). The Retirement Estimator also lets you create additional custom estimates by inputting different stop-work ages and future earnings.
- If you do not have an earnings record with Social Security or cannot access it, there are also other benefit calculators that do not tie into your earnings record. The calculators will show your retirement benefits as well as disability and survivor benefit amounts if you should become disabled or die.

Social Security should be a part of your retirement income planning. Also, remember that Social Security benefits don't automatically increase every year. They typically are raised to reflect an increase in the cost of living.

[1]*Center for Retirement Research at Boston College, "How Work and Marriage Trends Affect Social Security's Family Benefits," June 2016.*

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Will Debt Hinder Your Retirement Outlook?

Citing reasons why they are not saving (or not saving more) for retirement, workers pointed to their current level of debt as a key obstacle.

The number of Americans in or nearing retirement who are still holding significant mortgage, auto, even student loan debt has been rising in recent years. According to recent data released by the Federal Reserve Bank of New York, the average 65-year-old borrower has 47% more mortgage debt and 29% more auto debt than 65-year-olds had in 2003, after adjusting for inflation.[1]

One key takeaway from the trend, as cited by a Federal Reserve economist, is that since the Great Recession there has been a significant shift in the allocation of debt away from younger consumers with weaker repayment records to older individuals with strong repayment histories.[2]

While on the surface, this shift should not be cause for concern, if debt levels were to rise to the point where older Americans were struggling to repay debt as they entered retirement, the story could play out quite differently.

Is Debt an Obstacle to Your Retirement Readiness?

The Employee Benefit Research Institute's annual Retirement Confidence Survey has consistently made a connection between the level of debt and retirement confidence. For instance, citing reasons why they are not saving (or not saving more) for retirement, workers pointed to their current level of debt as a key obstacle. Just 6% of workers who describe their debt as a "major problem" say they are very confident about having enough money to live comfortably throughout retirement, compared with 35% of workers who indicate debt is not a problem. Overall, 51% of workers and 31% of retirees reported having issues with debt.[3]

Types of Debt Held by Workers and Retirees

Type of Debt	Workers	Retirees
Home mortgage	46%	23%
Car loan	38%	17%
Credit card	37%	27%
Student loan	23%	3%
Health/medical	21%	14%
Home equity line of credit	15%	17%
Loan from workplace retirement plan	5%	1%
Home improvement loan	4%	4%
Other	17%	9%

Source: Employee Benefit Research Institute and Greenwald & Associates, 2015 Retirement Confidence Survey.

If you are concerned with the impact your current debt load may have on your ability to save for retirement or on the quality of your lifestyle once you retire, speak with a financial advisor now. Together you can craft a plan to lower and/or eliminate your lingering debt.

[1,2]*The Wall Street Journal, "People Over 50 Carrying More Debt Than in the Past," February 12, 2016.*

[3]Employee Benefit Research Institute and Greenwald & Associates, 2015 Retirement Confidence Survey.

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