Expert Contributor

Beyond Social Security

By Christina A. Nash, CFP® & Jodi M. Viaud, CFP® | Knox Grove Financial, LLC

We are often asked about the viability of the Social Security retirement program. A recent Nationwide survey found that 75% of respondents, aged 50 and older, believe that Social Security may diminish in their lifetime. That same survey found 40% of millennials and 45% of Gen Z thinking they will never collect any Social Security retirement benefits.

Concerns about the program's solvency are understandable given that the number of people claiming benefits is rising while the number of working-age people who contribute to the program via payroll taxes is declining. Recent projections indicate that without reforms, the trust funds could run out of money and Social Security will only be able to pay out around 80% of scheduled benefits.

Our belief is that while Social Security is a vital component of your financial security, it is not meant to be your sole source of retirement income. Rule of thumb says you will need about 75% of your preretirement income to retire comfortably. As it is structured now, Social Security will only replace about 40% of an average earner's preretirement wages. Considering that in the last few decades companies have moved away from private pension plans, saving for retirement is truly an individual's responsibility.

Instead of taking a doomsday approach by assuming there will be no Social Security program in the future, let's focus on what you can control when it comes to funding your retirement.

Social Security - How and when you file for benefits will impact what you receive over a lifetime. Briefly, some things to consider include:

- **Full Retirement Age** (FRA) entitles you to 100% of your retirement benefits. If you file for benefits before your FRA, your benefits will be permanently reduced, potentially by 30%.
- **The Social Security earnings test** is also applied to those taking benefits before FRA. For example, you will forfeit $1 in benefits for every $2 you make over the earnings limit, which in 2024 is $22,320.
- **Your marital status** can impact when you file for benefits. Spousal benefits allow one spouse to take up to 50% of another spouse's benefit. If you are eligible for both your own retirement benefit and a spousal benefit, Social Security will pay you the higher of the two amounts.

These are complex decisions, and we can't stress enough the importance of speaking with a financial professional before filing for Social Security benefits. The best Social Security strategy is going to be one that best fits your personal circumstances.

Retirement Investment Accounts

Another aspect of retirement planning that you can control and will have a greater impact on your financial security is the money you personally invest. If only 40% of your preretirement wages are replaced by Social Security, how will you replace the rest of that

income when you retire? It's advantageous to start at an early age and invest the maximum amount allowed each year in retirement vehicles such as **Individual Retirement Accounts (IRAs), Roth IRAs, SEPs, annuities, and employer-sponsored plans like 401(k) or 403(b) plans.** The compounding effect of these investments is powerful, especially for early investors. Other advantages of personal retirement accounts include.

Control – within IRS guidelines, you can control how much you contribute to your personal or employer-sponsored retirement account. The average retirement contribution to a 401(k) is 6% of gross income but the closer you are to retirement, the more you may want to contribute to grow that nest egg.

Tax advantages – many accounts offer tax-deferred or tax- exempt growth, or a combination of the two. With an IRA you can invest money, pre-tax, up to the IRS contribution limits for the year. Contributions may be tax deductible (speak with your adviser or accountant to see if you qualify) and earnings can potentially grow tax-deferred until you take them. Unlike an IRA, contributions to a Roth IRA are made with after-tax dollars, and you can withdraw funds, tax, and penalty free, if certain conditions are met.

Matching contributions – Many employers will offer a partial or full match of your contribution to a 401(k) up to a maximum amount of your salary. They can choose to offer a percentage, usually 3-6%, or a dollar amount such as the first $3,000 or $5,000 of your contributions.

Catch-up provisions – This provision allows those who are aged 50 and over, and participate in employer-sponsored plans like 401(k)s and 403(b)s, to make a catch-up, elective contribution beyond the IRS contribution limit. In 2024 the catch-up amount is $7,500 in addition to the $23,000 yearly contribution limit. This can be beneficial if you've missed investment opportunities during your working years.

At the end of the day, no one knows exactly what changes will be made to Social Security, but it is obvious that reforms will need to be made to ensure the long-term sustainability of the program. In the meantime, focusing on making the best decisions about the personal investments that will supplement your retirement income is something you can control and for which we can provide professional guidance. Leaving your retirement security to chance should never be an option. To start **Your Path Forward** to a financially secure retirement, contact the Knox Grove team at 609-216-7440 or visit our website at knoxgrovefinancial.com.

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