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TENON FINANCIAL
RETIREMENT PLANNING & INVESTMENT MANAGEMENT

Retirement Planning Insights

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Up Front

Tax return filing options

Now that it's March, you likely have all the documents necessary to complete your income tax returns. In addition to doing your taxes yourself or paying a professional to do them for you, there are a few options to get free assistance:

- **IRS "Free File"** provides free use of commercial tax return software for those whose income is $69,000 or less.
- The **Volunteer Income Tax Assistance ("VITA")** program provides free tax return preparation for the elderly, disabled, those with limited proficiency in English and those whose income is $56,000 or less.
- The **Tax Counseling for the Elderly ("TCE")** program provides free tax return assistance to persons age 60 or older.

As I mentioned in January's newsletter, I'm an IRS Enrolled Agent and I also have a tax return preparation business, Tenon Tax Preparation LLC (**www.tenontaxprep.com**). If you're interested in learning more about Tenon Tax Prep's services, please e-mail me at **andy@tenontaxprep.com**.

Back to financial planning… I'm proud to share February was another active month for Tenon Financial media contributions:

- **U.S. News & World Report - "A New Tax Form for Seniors: A Guide to the 1040-SR"**
- **Business Insider - "7 Books, Podcasts and Apps Financial Planners Always Recommend to Their Clients"**
- **InvestmentNews - "Advisers Want Age to Continue to Climb for Mandatory Retirement Savings Withdrawals"**

As usual, don't hesitate to reach out if you'd like to learn more about something I said in an article, on social media or in one of these newsletters. And don't wait until April 15 to do your taxes!

-Andy

Andy Panko, CFP®, RICP®, EA
Owner of Tenon Financial

Contact Us

www.tenonfinancial.com

hello@tenonfinancial.com

T: 732-902-0066

Tenon Financial LLC
33 Wood Ave South, Suite 600
Iselin, NJ 08830

Retirement Planning News

Mind the (retirement planning) gap

On February 16, 2020, *Forbes* published an article titled "Mind the Gap! These Gaps in Your Retirement Plan Will Surprise You," by Joseph Coughlin.

"Mind the Gap!" is a phrase made famous in public announcements on London's subway system. In the article, the author borrows the phrase to apply it to the widening gap in planning a secure retirement.

Mr. Coughlin states most people follow the same basic retirement preparation plan: 1) save a bit every year to build a nest egg and 2) rely on Social Security. However, retirements are changing and therefore retirement planning must change as well.

Coughlin highlights three retirement planning "gaps" which should be addressed:

1. **Retirement is likely to be longer than you think** – For many people, retirement will be about 1/3 of adult life; it's now common for retirement to last 20+ years. Therefore, you should give serious consideration to how you'll spend your time in retirement. It's one thing to say you want to travel and garden. But are broad goals like that enough to fill up a few decades?
2. **You will probably live longer than you think** – This is related to point # 1 but focuses more on the financial aspects of a long retirement whereas point # 1 focuses on how you will spend your time. Will you have enough income and assets to financially provide for a multi-decade retirement? Most retirees will have Social Security but in most cases that alone will not be enough to cover life's expenses. Therefore, it's important to have other sources of income.
3. **You may have less social connection than expected** – When you're in school, working or raising kids, it's easy to organically foster social connections. You may not realize it at the time, but your network of friends, colleagues and acquaintances often helps provide a sense of fulfillment and purpose. When you stop working and your children move out to build their own lives, you may experience social isolation. To help avoid this, it's important to actively build and maintain social engagement and companionship during retirement.

No two retirements will look the same. Furthermore, the concept of retirement is continually changing. Have you given thought to what your retirement may look like?

The first step in retirement planning is to be aware of the considerations which need attention. Coughlin's article helps bring to light a few commonly overlooked aspects of modern-day retirement.

Practical Retirement Planning

Social Security is NOT going away

Contrary to what you may have heard or read, Social Security is NOT going away.

Yes, the Social Security system is strained. Yes, the Social Security trust fund is expected to deplete in 15 years. Nonetheless, there is still no reason to believe benefit payments will stop.

To better appreciate the facts of what may happen, it helps to understand how the Social Security system works:

All the income received by the Social Security program goes into the Social Security trust fund. All the benefits and expenses paid by the program come out of the trust fund. If there is more coming in than going out, the trust fund grows. If there is more going out than coming in, the trust fund shrinks.

It's also important to understand the inflows and outflows of the Social Security system are separate and distinct from all other general government inflows and outflows. Therefore, the health of the Social Security system is independent of the health of the broader U.S. government budget.

There are three sources of income into the Social Security trust fund:

1. **Payroll taxes** – most people who are employed in the U.S. are required to have Social Security taxes deducted directly from their paychecks.
2. **Taxation on Social Security benefits** – up to 85% of Social Security payments may be subject to income tax.
3. **Interest on trust fund balances** – all money in the trust fund is invested in interest-bearing securities issued by the U.S. Treasury.

There are three uses of funds from the Social Security trust fund:

1. **Benefit payments** – all the benefits paid to Social Security recipients.
2. **Administrative expenses** – the cost of maintaining Social Security offices, employee wages, technology, etc.
3. **"Other" expenses** – mainly special retirement benefits paid to certain railroad workers, but also other miscellaneous expenses.

In recent years, the Social Security system has been taking in more than it has been paying out. Therefore, the trust fund has been growing. However, during 2020, the system will begin paying out more than it takes in. Additionally, it's anticipated this trend will continue for the foreseeable future. Based on current estimates, these deficits will deplete the trust fund in 15 years.

Once the trust fund is depleted, the money coming into the system will only be enough to cover about 80% of what's supposed to go out. That means, even after the trust fund runs out, people can still expect to receive about 80% of their benefits.

There are many changes which can be made to help bolster the Social Security system. However, all potential changes ultimately boil down to 1) making people pay more in and/or 2) paying less out. Obviously, neither of these options are palatable.

In my opinion, politicians are more likely to implement changes which will adversely impact people who are not yet receiving Social Security as opposed to those who are.

So, what's my practical planning advice with regards to Social Security??? I feel it's safe to assume people who are 60 or older can expect to receive their full benefits for the rest of their lives. People who are in their 20's should expect to receive only 80% of their estimated benefits. Everyone else should probably plan on something in between.

If you would like to learn more about how Social Security should factor into your retirement plan, we'd be glad to assist. You can always contact us at **hello@tenonfinancial.com**.