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Post-Election Investing & More On Social Security

Like comedy, secret to Social Security is timing – Headline story, Investment News, 11-14-2011

Before discussing Social Security strategies, I would like to offer a few words on what's happening in the stock market.

The election is over and the focus of investors has turned to the economic problems that loom in the near future, especially the large tax increases that are slated to take place on January 1, 2013. An assumption for some time now is that a deal would be reached in this lame duck Congress to avert or delay plunging over the "fiscal cliff". However, with the balance of power in Washington essentially unchanged, there may not be enough incentive for either side to compromise. The unthinkable has suddenly become more of a possibility.

Stocks have slowly weakened over the past few months, and the slide in stock prices has begun to steepen since the election. Despite a rally last week, the stock market has weakened enough that many investors have begun to think about selling. In this environment, stocks become more susceptible to a large decline triggered by an unexpected event. This trigger event may not happen- but for investors who are concerned about risk, it is usually a good idea to become more cautious once the stock market starts to show a slow and steady decline. We may be at that point now.

In addition, we can and should expect continued market volatility until some type of deal is struck on the fiscal cliff issues. Even when (or if) a deal is struck, the market may not react as we might think it should. Investors may simply choose to sell if the compromise includes sharp tax increases or sharply lower federal spending. Even in a normal year (if there is such a thing), December investing can be difficult due to many year-end factors. The cross currents this year are far from normal, so the potential for greater volatility is significant. The Money Management Program is closely watching how current events unfold, has already made some changes in your portfolios and is on "red alert" for the near future.

Back to our ongoing discussion on Social Security. When you elect to begin receiving Social Security payments is important. You may retire from a career at age 62, but beginning benefits at age 62 may not be the best choice. The age at which you begin will impact your benefits for the rest of your life -- and potentially benefits available to your spouse if you are married.

There are several factors that should be considered before selecting the optimal date to begin benefits. Important individual considerations are: health status, life expectancy, need for income, whether or not you plan to continue working, and how concerned you are about running out of money in your lifetime. If you are married, there are additional considerations that may influence your decision. Those factors may include: your spouse's life expectancy, which of you is the higher wage earner, and how concerned are you about the risk of running out of money in your joint lifetimes. The factors and considerations become complex. Analysis requires careful consideration of the inputs, assumptions and other factors that will impact your Social Security benefits including the taxation of those benefits.

While having a strategy for when to begin Social Security benefits is important, it is critical to consider Social Security benefits in conjunction with all of your retirement assets for an optimal strategy. Incorporating your benefits into an overall retirement income plan can make a material difference in the amount of income available to you throughout your retirement.

To guard against living longer than you anticipate, the best strategy is for you to balance your cumulative lifetime benefits with income protection. This concept is known as "longevity risk," or the risk that you will run out of money in your lifetime. The reason this is an important part of your Social Security decision is that, the longer your life, the longer your retirement savings must last. Getting more from your Social Security benefits means that you will need to withdraw less from your portfolio over the years, giving your savings time for continued growth.

Consider the example of John and Mary Smith. John is currently 61 and expects to receive $2,365 per month at Full Retirement age of 66. Mary is currently 59 and expects to receive $2,105 per month at full retirement age of 66. In an optimal strategy they would do the following:

- John files and suspends benefits based on his earnings record in October 2019 age 68, which makes Mary eligible for spousal benefits at age 68.
- Mary Files a restricted application for spousal benefits only in October 2019 at age 66.
- John begins benefits based on his earnings record in October 2021 at age 70.
- Mary switches to benefits based on her earnings record in October 2023 at age 70.

Many people may be unfamiliar with these strategies; they will be discussed in future newsletters. The net effect of following this particular timeline is that over a long life span, John and Mary could expect to receive an additional $570,000 more in benefits than if they had filed and started collecting benefits at an early age. This additional money is significant. Do you really want to collect benefits at age 62 without, at least, considering alternatives such as these?

As we approach this upcoming holiday season, I would like to wish you and your families a Merry Christmas, Happy Chanukah, Joyous Kwanzaa and a Prosperous New Year. I would also like to say thank you for your loyalty and your business. Take good care.

Preventing Identity Theft

Millions of Americans fall victim to identity theft each year. What can you do to help reduce your chances of having your identity stolen?

You want to be on the lookout for publishing scams, particularly those that appear to come from a credit card company, bank, retailer, or anyone else you do business with.

Millions of Americans fall victim to identity theft each year -- and their financial losses are in the billions. In 2010 (the latest data available), an estimated 8.6 million Americans experienced identity theft, causing losses of $13.3 billion.[1]

The steps below can help you prevent significant losses:

- Check your credit reports every year. You have the right to obtain a free copy of your credit report every 12 months from each of the three credit reporting bureaus -- Equifax, Experian, and TransUnion. Check thoroughly to ensure that there aren't any unidentified accounts on your report.
- Place a freeze on your credit reports. This can help stop an identity thief from opening a credit card account under your name. You simply contact the three credit bureaus and request a credit freeze. This prevents lenders who don't already have a relationship with you from viewing your credit report. If they can't access your credit report, they won't issue a new account. There is often a fee to request a freeze, depending on your state of residence and whether you've ever been the victim of identity theft in the past.
- Monitor your email. You want to be on the lookout for publishing scams, particularly those that appear to come from a credit card company, bank, retailer, or anyone else you do business with. Many of these emails will direct you to a phony website that will ask you to input sensitive data, such as your account numbers, passwords, and Social Security number.
- Be careful online. When banking or shopping online, be sure to use websites that protect your financial information with encryption, particularly if you are using a public wireless network via a smartphone. Sites that are encrypted start with "https." The "s" stands for secure. Also be sure to use anti-virus and anti-spyware software.

What do you do if your identity is stolen?

First, call one of the three credit bureaus and ask them to place a 90-day fraud alert on your credit report. They must contact the other two bureaus to place fraud alerts on your reports. You also want to get a copy of all three credit reports.

Second, file a complaint with the Federal Trade Commission (FTC). You'll create an FTC Affidavit, which you should then take to your local police department and file a police report. Your copy of the FTC Affidavit and the police report make up an Identity Theft Report, which can help you:

- Get fraudulent information removed from your credit report.
- Stop companies from collecting debts caused by the theft.
- Get information about accounts that were illegally opened in your name.

Source:

1 Source: Bureau of Justice Statistics, November 2011.

This column is provided through the Financial Planning Association, the membership organization for the financial planning community, and is brought to you by James H. Fydroski, a local member of FPA.

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