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Relying on Social Security *is risky*

You worked your entire life for this. So, why not take full advantage of Social Security benefits the moment you can? There's some merit to that way of thinking, but the reality isn't as rosy. Relying on Social Security for the long haul--and to fund a significant portion of your retirement--is a losing proposition.

Social Security acts as a living, breathing entity. It's ever-changing. That makes it unpredictable and unreliable. Take the changes set for 2021, for instance. Approximately 70 million Americans will see a 1.3% increase in Social Security payments this year, which could mean about $20 extra each month. However, that amount is the second-smallest cost-of-living increase in the program's history. And it's no match for rising costs elsewhere, particularly when it comes to medical expenses. Fidelity estimates that about 15% of an average retiree's annual expenses will be used for health care, including Medicare premiums and out-of-pocket expenses. They call it a "retirement cost gap," and it's widening as the full retirement age to earn Social Security benefits increases (this year, it will be 66 years and 10 months for people born in 1959). According to the firm, the average couple around age 65 may need approximately $295,000 in after-tax savings to cover health care expenses in retirement.

Another change in 2021 is a mixed bag of good and bad news for wealthy retirees. The maximum payout in 2021 has increased $1,644 a year for high-wage earners who meet the criteria and qualify for full-time retirement. But the payroll tax that funds Social Security is rising, too. In 2021, the maximum earnings subject to the Social Security payroll tax will be from $137,700 to $142,800, an increase of $5,100.

Making a plan on how and when to retire isn't a one-and-done deal. Your plan should be revisited at least yearly with the help of tax and financial advisors who understand the many shifting forces that affect it (like Social Security). Use that time to consider:

- Your work situation. Perhaps you're not ready to retire fully but moving to part-time work or independent consulting sounds appealing. Or maybe the pandemic has forced you to consider early retirement options. Generally speaking, the longer you wait to take your Social Security payouts, the better. But there are exceptions.
- Retirement accounts and investments. Many retirees rely on distributions from their retirement accounts like 401ks and IRAs and income from investments as their primary source of retirement support. But using these sources of income to supplement Social Security can result in surprise taxes. It's essential to plan how and when you'll use each source of income to reduce tax consequences.
- Your eligibility for Medicare, disability, and other health care options currently available and your health in general. Are you taking more prescription medicines than before? Has your health or your spouse's health declined? How will those factors affect your costs during retirement?

You may believe Social Security will be your most reliable source of retirement income, but it won't be. While the payouts generally rise each year, they don't grow enough to cover living expenses. And there's no guarantee those benefits will be around at all when you need them. When and how you retire, the other retirement accounts you contribute to, and the combination of benefits you choose are more within your control. Finding the right combination to offset taxes is critical. Revisit your plan often because as Social Security rules change, so might your perfect retirement blueprint.

Steven Bankler has more than 44 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely-held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations, and estate planning. Visit www.bankler.com for additional tax strategy tips and to learn more about Steven Bankler, CPA, Ltd.