Retirement Income, Part 2

By Gary Case

In last week's column, I reviewed Alan Greenspan's comments regarding scaling back social security and Medicare expenditures by the government. Of course, congress must act to provide legislation and the mechanics if the current law is to be revised. When the Social Security Act was originally enacted, it was vigorously challenged in America's courts. It is not out of the questions that attempts at reforming the Act would generate similar litigation today.

In the 1920's, a few people worked for companies that offered retirement annuities. Though in the early decades of the 20th century, only about 2% of employees were covered. During the same time frame state governments enacted old-age pension plans, but they were generally under funded and did not cover many employees.

The poorhouse was a real place, primarily financed by local taxes. These shelters housed a region's indigent, and most counties had one in the early 20th century. The standard of living was meager and most people wanted to avoid going there, due to poor living conditions. Another common occurrence was the dismissal of older employees, and many places of employment had maximum age limits for new employees. Today, many of the conditions that existed a hundred years ago are no longer tolerated by society.

While laws have been enacted to address issues associated with a comfortable retirement, the past few years have seen a dramatic shift in responsibility in the private sector, and in some government sectors. The source of retirement income for many people of Tom Brokaw's "Greatest Generation" came from pensions, benefits paid to a worker (and often times to his/her spouse) in the form of a lifetime income. Today, many companies find the financial obligation daunting and are moving to scale back or eliminate pensions in favor of plans designed to place investment risk and funding responsibility on individual employees. These plans include 401(k)'s, SIMPLE IRA's, Thrift Savings Plans, and Deferred Compensation plans, to name a few.

Even where pension plans remain intact, often they have been changed from a traditional pension plan to a Cash Balance plan, which can dramatically lower income benefits at retirement. Also, with interest rates rising, companies may use those higher rates to scale back contributions to pension plans.

What does all this mean? Simply that individuals who wish to live comfortably in retirement MUST take responsibility for planning and executing a retirement savings plan. Further, more than ever before, a retirement SPENDING plan must be followed to provide for a comfortable lifetime income stream. A trusted advisor can be an indispensable asset in the process. More next week.

Gary Case, CFP™, Cornerstone Financial Planning, *is a registered representative and investment advisor representative of Lincoln Financial Advisors Corp., 917 2nd St. South, Nampa, 466-1971, offering insurance through Lincoln affiliates and other fine companies.* *This information should not be construed as legal or tax advice. You may want to consult a tax advisor regarding this information as it relates to your personal circumstances.*