

## **Time Passes By**

Today, as this issue is being written, I am entering my seventh decade in life. The first six have been fabulous, filled with great people and wonderful experiences. This also marks the beginning of the last decade of full time work for me. Entering new seasons in life brings about different challenges, opportunities and things to ponder. In your 60's, Medicare and Social Security become part of "the program". A recent article highlighted a few things worth sharing with you. The challenge is how to take pages of analysis and distill some fairly complicated observations into something that makes sense. Here goes, you'll have to let me know how I did.

### **Something Has To Be Done**

In the 1930's the country was hurting. The Great Depression made times tough, especially for the elderly. So there was a lot of pressure on officials to develop a safety net that led to the creation of the Social Security Act of 1935. Franklin Roosevelt insisted on a funded system, where taxes on workers' incomes would be saved to fund their future benefits. While infinitely more sound in the long run, this left a short fall of current resources to pay benefits at the start. Since few political processes win where short term pain is shouldered for long term gain, we ended up with today's "pay-as-you-go" system, where one group is taxed to provide benefits for someone else. The more cynical among us have observed that it might be the world's largest Ponzi scheme.

### **Early Bird Benefits**

The desire to cover as many Americans as possible led to the current provision in the law where by paying in for just 10 years you will receive full benefits. It also meant that people were covered from the start, even if they were towards the end of their careers. In fact, for those born before 1938, according to Dan Lerner, an analyst at the Social Security Administration, they will on average receive more in benefits than they contributed. Taxes on younger wage earners will pay for these benefits bestowed on others. Current calculations suggest that weight will increase in the future and on future generations.

### **Alchemy Never Made Gold**

If one group gets paid more than they put in, it makes sense that another group would be paid less. Pay-as-you-go means your taxes fund someone else's benefits. It also means that you are very likely to receive less than the value that you paid into the system. Some groups will actually receive roughly half as much as they contributed according to a 2013 study. In the Middle Ages alchemy tried to turn different substances into gold. Today's

creation of benefits by government bares a slight resemblance to these efforts, but at the expense of others.

## **Falling Short**

Projecting retirement cash flows for clients is one of the privileges of the work that I do. Giving people a sense of where the money will come from helps them plan for their financial wellbeing in retirement. It's a good feeling when people see that it will be enough. While helping, Social Security payments fall well short of what people need to feel secure. Only their own efforts to save and invest will provide the majority of the resources they will need.

## **Bottom Line**

I admire FDR's wisdom in understanding that benefits must be funded in advance. Putting money away is one of life's toughest things to do when so many needs and wants present themselves every day. The secret sauce in this recipe is to put the money away first and automatically in a place where you will not touch it until retirement. Systematic and continuous processes are the most profound. As time passes by, millionaires are made. I've seen it done even by those earning more modest incomes. Fund in advance and problems diminish over time, pay-as-you-go and problems increase over time, there's a valuable lesson in here somewhere.

## **Your Feedback**

I would love feedback on this newsletter. Future issues may include a host of good ideas, insights, specific steps to take financially, life insights and of course "Wit and Wisdom". Most importantly, I'd like it to be of value to you and to encourage an exchange of great ideas and insights. Please send your feedback to:

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