

DAILY RECKONING

**How to Survive the
Fall of Social Security**

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Welcome aboard,

Joe Schriefer
Publisher, *The Daily Reckoning*

How to Survive the Fall of Social Security

In early 2010, for the first time in decades, the Social Security Trust Fund began paying out more than it's taking in. Though there is some debate over exactly when the Fund started losing money, there will be no such discussion over the next few years... or maybe ever again.

As recently as its 2009 projections, the Congressional Budget Office expected the Trust Fund to briefly recover before the full brunt of retiring baby boomers made its red ink permanent.

Now, even the CBO projects indefinite withdrawals and an eventual bottoming out of the Fund. In the words of the SS Board of Trustees, "the program costs will permanently exceed revenues."

That means that as soon as the Fund runs out, current

law requires immediate slashes in benefit payments. Of course, current law could be changed.

The last time Social Security entered deficit, back in the early 80's, the U.S. government instituted all sorts of aggressive reforms. Most of them resulted in retirees receiving fewer benefits and paying higher taxes. For example:

- Social Security tax rates (including Medicare taxes) rose from 9.35% in 1983 to over 15% by 1990.
- The minimum age to file for full benefits was slowly raised from 65 to 67.
- The cost of living adjustment (COLA) was re-engineered to track growth in wages or inflation, whichever is lower. Previously, COLA just rose with inflation.
- The taxable wage base rose dramatically. In 1983, all individual income over \$32,400 was not subject to Social Security taxation. Today that base level is \$106,800.

No one knows exactly what the government will do to "fix" Social Security this time around, but it's hard to picture any scenario that will make your retirement more comfortable. Most likely, they'll do what they did 30 years ago... raise taxes and cut benefits.

Those tax hikes and benefit cuts this time around will likely be even bigger, thanks to the Baby Boom generation. The largest demographic America has ever known began hitting retirement age this year, and is already putting the largest strain on Social Security in its history. By 2030, when the majority of Baby Boomers are in retirement, there will be 1 Social Security beneficiary for every 2 workers contributing to the Fund. This is the primary reason for the projected depletion of the Fund.

And it's the number one reason you need to plan for a retirement without Social Security support. By the time you're ready to stop working, who knows how little benefits the government will be able to offer... or if there will be any money left in the Fund at all.

How to Build Your Own Retirement Fund

There's no way to opt out of paying your Social Security taxes, save denouncing U.S. citizenship

and moving abroad. But you can build up a fund of your own... here's how:

1. Minimize your tax footprint: It's never too late to take advantage of tax-deferred accounts like 401(k)s, IRAs and 529 plans. That's not just for you... be sure your family owns and contributes to accounts like these.
2. Stop trading. Brokers and banks make their money when you move yours around. Unless you are a very knowledgeable and experienced trader, stick with stable, long haul companies that you won't need to buy and sell every month. Some companies even allow you to buy shares directly, allowing you to skip brokerage fees all together.
3. Start investing in companies that pay sizable, reliable dividends. Instead of relying just on share-price growth, you can purchase dividend yielding companies that will reward you for your ownership once a quarter. Plus, when you enter retirement, those companies will supplement your income with their dividends.

If you build your portfolio carefully, you can have companies writing you dividend checks every week... and believe me, they'll add up. Some of my favorite dividend payers are Proctor & Gamble, Clorox and Waste Management.

If you want some help surviving the plight of Social Security, keep reading your *Daily Reckoning*. Each issue contains the valuable investing and economic analysis you'll need to prepare for your retirement... plus a healthy dose of contrarian thinking and dark humor.

Enjoy,

The Daily Reckoning Staff

PS. Do you have any of these coins in your pocket? If you find any of these coins floating around, you may want to begin saving them... In short, we've just uncovered what could be the safest (and easiest) investment idea we've ever found. And it's been hiding in our pockets the whole time. What coin is it? And why should you begin hoarding them now? **[Click here to find out.](#)**