

Social Security: Your Piece of The Pie

Rumor has it that Social Security may not be around for you to collect in your retirement years. There's plenty of controversy surrounding the Social Security system, and certain trends are worrisome. To understand the concern, consider how Social Security works.

When you're employed, you pay into the Social Security system in the form of taxes withheld from your paycheck. Through these payments you earn Social Security credits. Your employer also pays into the fund, and together your contributions are used to pay today's Social Security recipients. When you retire, some of the money you draw upon will be contributed by tomorrow's workers.

The amount of your Social Security benefit will depend on your earnings averaged over most of your working career and on the age you begin receiving the benefit. The earlier you decide to retire, the smaller your monthly check will be. But did you know that Social Security is likely to provide you with less than 40% of the amount you earn at the time you retire?

Now back to the key question. Will you ever see your payout from Social Security? Consider this: Census figures indicate that in the near future, when the huge population of baby boomers begins to reach retirement age, the number of retirees will grow much more quickly than will the number of workers supporting them. So, money will be flowing out of the system faster than it flows in. There is concern that tax revenues will fall below Social Security costs as early as 2017. The trust fund will be depleted in 2041.¹

The federal government has promised that the money *will* be there. In order to keep its promise, however, the government will have to cover a shortfall, probably by increasing taxes or reducing benefit levels now or in the future.

Whether Social Security will be more than pie in the sky remains to be seen. Whatever happens with Social Security, your future financial well-being is in your own hands. Used effectively, your 401(k) plan is still the best opportunity you will have to provide adequately, even handsomely, for your retirement years.

¹Source: 2008 Trustees report

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