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THE FINANCIAL NEWSLETTER OF FINARC, LLC

What's Really Going On with Social Security?

By Liv Nash, MBA

Social Security funding is running out and that is a fact. The question of what can be done about it has America very concerned and confused. Even our lawmakers can't agree on how best to handle the problem. One thing they do agree on: there is a problem and it needs to be fixed sooner rather than later.

According to the Social Security trustees 2005 report, by 2017 the system will no longer be taking in enough in payroll taxes to fund the outflow of benefits promised. By 2041, the system's trust fund will no longer be able to pay full retiree benefits. Some analysts predict that payroll taxes will only be able to cover about 72% of promised benefits. How could this have happened? Changes in demographics are responsible.

People are living longer. The current life expectancy for a male is 74.7 years and is projected to rise to 81.6 by 2080. Females can expect their life expectancy to rise from 79.6 to 85.3. Add to this a lower birth rate and you end up with a worker to beneficiary ratio that has fallen from

16.5 to 1 in 1950 to 3.3 to 1 today. This ratio will drop even more in the next 40 years.

How is the government going to make up this shortfall? There have been several proposals to be implemented either alone or in some combination. Some of these alternatives may be familiar to you. One is to raise the current payroll tax to 16.66 percent at the time of the fund's exhaustion in 2041 and continue the rise up to 18.10 percent in 2079. Or, benefit payouts could be reduced 26% and 32% respectively.

Other options include the use of general revenues in addition to President Bush's proposal of personal savings accounts or direct investments of the trust funds. Bush's latest proposal suggests a "progressive price indexation" plan, similar to a plan proposed by Robert Pozen, chairman of MFS Investment Management.

The President's personal account idea would allow workers to take

News

Congratulations to **David Malone** on the birth of his son **Ryder Ulrich Malone**. Ryder was born on Sunday, May 8th - a very Happy Mother's Day for Dave's wife **Kara**. All are doing well.

Catherine Friend White was showcased in the latest edition of "Babson Magazine." The issue's focus is "Doing Well and Doing Good: Rec-

ognizing the Value of Social Entrepreneurship."

Catherine Friend White and **David Malone** were interviewed for an article on investing in international bonds. The opportunity is that the dollar will decline against foreign currencies, increasing the bonds' valuations for U.S. investors.

Simplifying Your Financial Life

By Catherine F. White, MBA

Two of the most practical uses of the Internet are streamlining bill payments and financial planning. I use Billpay offered through Schwab and Quicken, purchased separately, for budgeting. They connect easily and all bills can be downloaded into Quicken. Although it took a while to set up, it has been well worth it in time saved and in having a clear view of my financial picture. If you dislike spending your time paying bills and doing finances, you may want to consider using this or a similar system.

First call Schwab to get a username and password to www.schwaballiance.com. Their Signature Services representatives can be reached at 800-515-2157. Then download and set up Quicken. It is fairly intuitive but each new version takes some getting used to. The most recent version is quite robust in its ability to create reports and a financial plan. I use Quicken to track my spending so I can make sure I am saving. It prompts you to set up different accounts and you can simply follow the “wizards” to get all of your information in the system.

Setting up Billpay is next. Log onto the Schwab website and go to that section. First set up the payees with account numbers, addresses, and phone numbers. This information was on the bills I was

paying when I got started, which made it easier. Second, set up recurring bills. Those that are for the same amount each month, like mortgage and car payments. They now get paid automatically at the same time each month. For the other bills where the amount changes each time, such as a credit card, I simply select the vendor, type in the amount to be paid, hit the “pay” button, and am done. Schwab sends the check to the vendor by the date stated on the website. Sometimes I want to pay a non-recurring bill or have a check to give someone, so I write it myself. The system downloads the check information into Quicken when the check clears and I can then categorize it manually. I went one step further and now have the utilities and phone companies email me my bill. It shows up as an alert in Schwab that I can click on to pay. Another option is to set up automatic payment of bills emailed to you. You simply review the amount and allow the bill to be paid, unless you change or cancel it.

Next you can set up Quicken to automatically download your transactions. The software worked for all of my brokerage, retirement, and credit card accounts. Not only that, it dumped most of the transactions into the right categories, such as clothing, restaurants, and groceries.

(Social Security cont.)

up to 4% of the 12.4% social security tax and invest it in relatively conservative, government approved mutual funds. The Plan would offer a “lifecycle” fund later this year which automatically reduces an investor’s exposure to equities as he or she grows older. The President has acknowledged that the individual investment accounts will not solve the social security crisis, however he believes these individuals will be able to have an alternate source of income that might benefit from market returns which have historically been higher than the growth in Social Security payments.

The proposed plan, which is similar to Mr. Pozen’s, would index Social Security to price increases instead of wage increases as it currently

does. Wages tend to increase faster than prices. The plan would leave lower income workers, those that average \$25,000 annually, with their current benefits, slowing down the rate of increase in benefits on a sliding scale for those earning more. Individuals averaging over \$113,000 annually would stand to lose the most.

The Senate Finance Committee is currently holding Congressional hearings on the President’s privatization proposal.

The White House has stated that current beneficiaries of Social Security and those expecting to retire in the next five to 10 years will not see a cut in benefits. For the rest of us, we will have to wait and see.

Advisory Board Spotlight

By Liv Nash, MBA

Simplifying Your Financial Life (cont.)

When I started doing a retirement plan, I wanted to know how much I was currently spending, and what I was spending it on, in order to get a close estimate of my retirement needs and goals. By taking my current spending, deducting the amount we put into savings each year and the mortgage and commuting expenses, I arrived at a net amount spent. From there I was able to estimate a minimum amount for retirement and a generous amount, including more travel and charity. That gives me a range to shoot for in my savings and helps me to establish the asset allocation needed to reach those goals. This methodology could also be used to determine whether you have enough disability and life insurance. Quicken can be used to track the value in your home and other assets, as well, to give you a total net worth report. It shows your level of progress and you can quickly see where your money is going.

Although the initial setup takes some time, this has more than come back to me in time saved paying bills and monitoring my retirement goals. Schwab waives the \$6.95 monthly Billpay charge for FinArc clients who have an Access account, which adds to the saved postage and time.

Community News

Catherine Friend White is a mentor to a Olin Graduate School of Business student, Chandi Nebauer. Chandi recently accepted a position as a retail analyst at a New York City hedge fund.

Matthew C. Slaney completed the Boston Marathon last month. Good going Matt!

Liv Nash was appointed co-chair of the Campaign for Needham High School. Liv is an active member of the Citizens for Needham Schools, a committee dedicated to educating the community about issues affecting Needham public schools.

This issue of Building Capital introduces you to **Paul Teplitz**, another member of FinArc's Advisory Board.



Paul is a Founder and Principal of Cambridge Research Institute where he was the head of the financial services unit. Currently as President of Research Boston, Mr. Teplitz provides strategy and forecasting advice to existing businesses, including Fortune 500 companies. Additionally, Paul works with non-profit organizations and community-based operations, including his role as chair of a home health agency that provides coverage for 91 towns. Paul received both his Bachelor and Masters of Science Degrees from the Massachusetts Institute of Technology and his Business Doctorate from Harvard University. With over 25 years of experience, Paul has given speeches and talks to various professional boards and associations and has authored books on banking and professional baseball.

In his earlier career, Paul focused his research on the mutual fund industry, specifically, customer behavior and the fundamental drivers behind it. This understanding of customer behavior is of great value to FinArc. Getting "below the surface" to identify with a client's most important needs and being able to differentiate a firm's distinctive characteristics and who best benefits from them, is essential to a successful business.

For fun, Paul enjoys hiking, traveling and flying his own small plane.

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Have a referral?

FinArc benefits from referrals from our existing clients. If you are happy with the service you receive from us and know of anyone who is in need of financial and investment advice, pass along our name. We would be happy to provide them with information about us and to have them come in for a complimentary meeting.