

The Sgroi Financial

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Planning for Today and Tomorrow

SOCIAL SECURITY ?

Ever since it's inception as a centerpiece of "The New Deal" Social Security has been an important, though not easily understood, part of our financial life. It's companion program, "Medicare", enjoys a similar status on both accounts. Currently, each program is in the media and political spotlight as Washington wrestles with how to "save" them.

Social Security was originally started to serve as a retirement program for working people and their survivors. The need for such a program still exists today as nearly half of our work force has no other pension plan in place. In this respect, Social Security has functioned quite well. Medicare is a health insurance plan for the elderly, to pay doctor and hospital costs. Each program is run solely by the federal government on a national basis. (Medicare sometimes gets confused with "Medicaid", a completely different program, run by the individual states to provide health care for the poor, i.e. welfare.)

Benefits -The benefits provided by Social Security fall into three main categories: Disability Benefits, Survivors Benefits and Retirement Benefits.

Disability Benefits are provided to those who have worked and contributed to the system but are no longer able due to physical or mental disability. To qualify one "must have a physical or mental impairment that is expected to keep you from doing any "substantial" work for at least a year". The amount of benefit is based on the recipients age, prior earnings and contributions and the existence of a spouse or dependent children. The charts provided to us show benefits ranging from \$826 to \$2,076 per month. Benefits normally begin six months after the onset of the disability and run indefinitely.

Survivors Benefits are provided to certain eligible family members after one passes away. Those eligible include the following:

- A widow or widower age 60 or older;
- A legally disabled widow or widower age 50 or older;
- A widow or widower, of any age, who cares for a child under age 16 or a disabled child;
- Unmarried children under the age of 18;
- Unmarried Children, under age 19 still

attending an elementary or secondary school;

- One's parents may even be eligible under certain circumstances.

Widows or widowers will normally receive 75 to 100 percent of a spouses benefits. There is a cap on how much a total household may receive and there are formulas, naturally, for calculating such amounts. The same holds true when deciding whether to collect under a deceased spouses earnings or ones own. If you fall into these categories, simply contact the Social Security Office and they will guide you. That, of course, is their function.

Retirement Benefits are the most widely received benefit provided by Social Security. Nine out of ten Americans over age 65, more than 30 million, receive retirement benefits. Benefits are calculated on an individual basis depending on a persons age and contributions to the system. 62 is the earliest age to begin collecting, at a reduced rate. Presently full retirement begins at 65. (that is being increased to 67 in the year 2003). For those who decide to work past age 65 there is an increase in benefit for each additional year they work up to age 70. Once age 70, even if still working, one should always apply for Social Security.

The spouse of a recipient is also eligible for retirement benefits, based on the retired workers earnings. In short, they receive fifty percent of the spouse's benefit. If someone is eligible for retirement benefits based on their own earnings and also for spousal benefits, they will be paid the benefit from their own earnings first and then any increase due as a spouse.

An example of this would be as follows: One partner has benefits based on their own earnings of \$400 per month, the other partner \$1,300. The first partner's benefits would total \$650 per month (half their spouses \$1,300). However, if the first partner's benefit under their own earnings was \$800, then \$800 is what they would receive. If the higher earning spouse passed away first, the remaining spouse's benefit would then become \$1,300 per month as a survivor's benefit.

continued

A personal letter from Joe

Dear Friend,

Hello! What exciting times these are! The new millennium is upon us, the Dow Jones Industrial Average has cracked the 11,000 mark, the national economy continues to grow and new wonders of computer technology present themselves each day. With the computer industry we now have a huge sector of our economy that essentially didn't exist 15 years ago. This is an economic revolution sure to continue for years to come. My hope is that the business, labor and governmental leaders of our own local community will begin working together and help the economy here expand the way the rest of the country's has.

This past February many of you attended a dinner and presentation we held. It was a wonderful night and I want to thank the companies that helped to sponsor it: Royal Life Insurance, Oppenheimer Funds, Massachusetts Financial Services (MFS), Putnam Investments, Boston Capital and Wells Real Estate. These are all quality companies that take good care of your assets and I am proud to be associated with them. I also want to thank the people at Kotecki's Grandview Grove for the outstanding meal and service.



It was delicious. The response we received back from those of you who attended has been uniformly positive and I am glad we could all enjoy ourselves. The next one will be even better even though it will have to be in a larger facility.

I would also like to thank so many of you for the interest in and support of our community golf course. My thanks especially to Bill Thornton, Jerry Hathaway and Tim Greenan who manned the Golf Course Table at our dinner. These gentlemen are close friends of mine and very active supporters of our community.

This issue's main article deals with Social Security which, for good reason, is more and more a topic in the news. Social Security is a cornerstone in just about every retiree's financial plan. It is paid for solely out of the wages of America's workers, you and I, and deserves to be protected. My personal feeling is that current Social Security surpluses should not be used to fund general government expenditures. I urge you to contact our elected federal representatives and demand honest reforms of the system. It's just too important of a system and we have too much invested in it to be abused the way it has been.

If you are unsure of your personal Social Security contributions and earnings history, I recommend you call them at 1 - 800 - 772 - 1213. They will send you the form which is quite easy to fill out. If you are unsure of your retirement plans and options or if you have not been in for a while, please call and schedule an appointment. The closer we work together the more success we will achieve.

I also want to welcome back my firm's receptionist, Jill Kazmierczak. She recently had a wonderful little baby girl. Jill has been with us for over five years and is a very important member of the team. We missed her and we're glad she's back.

Finally, thank you for all of your continued support and encouragement.

All the Best,

SOCIAL SECURITY?

As stated earlier, retirement benefits are calculated for each participant on an individual basis. Currently, the maximum retirement benefit is \$1,375 per month. There is no minimum. If a person is collecting benefits and continues to work, there is a reduction of benefit depending on age and earnings.

A recipient under 65 years old may earn up to \$9,600 without penalty. Benefits will be reduced \$1 for every \$2 in earnings above that. If the recipient's age is between 65 and 70, the earnings allowance increases to \$15,504. After that they are penalized \$1 for every \$3 in earnings. Once one reaches 70 all penalties disappear and earnings are no longer restricted.

For those contemplating an "early" retirement you can see an obvious need for careful planning as there will be a lower retirement income, less allowed earnings and a longer life expectancy.

Medicare - Medicare is the national medical and hospital insurance plan for people age 65 years and older, people with kidney failure and those with certain disabilities.

Medicare is composed of two parts: A and B. Part A is Hospital Insurance, Part B is Medical Insurance.

Part A helps pay for up to 90 days of inpatient **hospital** care during a single "Benefit Period". (A Benefit Period starts on the day one enters the hospital and ends when one has been out of the hospital or primary care facility for 60 days in a row). Coverage includes a semi private room, meals, nursing services, operating and recovery room costs, medication, lab work, X-rays and other essentials. Part A also helps cover the first 100 days of skilled care in a nursing home or rehabilitation facility, home health care and hospice care for the terminally ill. Eligibility guidelines and formulas exist to calculate the benefit for individual cases.

Part B helps pay for **doctor** services and **other services** not covered under the hospital insurance plan such as ambulance service and outpatient hospital care. Any one who is eligible for Part A is automatically enrolled in Part B. However, because Part B carries a monthly premium, currently \$45.50 per month, one can opt out of the system should they so desire. Furthermore, each year the recipient pays the first \$100 of costs, called the deductible and then Part B picks up 80% of subsequent costs.

There are a number of notable items that Medicare Parts A or B do not cover, included in the list are: dental care, eye glasses, hearing aids, most prescription drugs, most immunization shots, routine

checkups, most nursing home care and custodial care.

How It's Paid For - Being federally run, both programs are paid for by federal taxes. Anyone who is employed sees the first deduction from their paycheck listed as F.I.C.A. This stands for Federal Insurance Contributions Act. 7.65 percent of ones wages (6.2% for Social Security and 1.45% for Medicare) get taken for this tax. In addition ones employer is required to pay another 7.65 per cent for each employees benefit. The self employed, of course, pay the full 15.3 percent for themselves. Once ones income reaches \$71,600 the Social Security part of the tax, 6.2%, ends but the Medicare portion, 1.45%, continues.

Where The Money Goes - Social Security and Medicare are termed "Pay As You Go" programs. What that means in practical terms is that the money currently being paid out in benefits comes directly from the money being collected in the present. In other words, even though ones benefits are based on what one earned and paid into the system, the money itself comes not from an account but from current contributions from those still working.

Presently the Social Security system collects around \$90 billion dollars more per year than it pays out and therein lies the problem. For years the Federal Government has been taking this "extra" money from the Social Security Trust Fund and spending it on other things. Then when that wasn't enough they would go out and borrow even more and that borrowed amount is what they called the "deficit". Now that they are spending only the "surplus" Social Security money they are saying there's no deficit. (If all this sounds dishonest and confusing, it's because it is).

The current debate in Washington is just more politics with some parties proposing to "save" Social Security by not spending all of the "surplus" for new programs and the other wanting to give a "tax cut" by not spending quite as much.

What To Do - If you have questions about your Social Security "account" there is a form that can be used to get a statement of your earnings and contributions. It is called the "Request for Earnings and Benefit Estimate Statement". The Social Security Administration provides a toll free number, 1 - 800 - 772 - 1213, which can be called to order the form or get other questions answered. The people who man the phone lines were found to be knowledgeable, helpful and friendly. The Internet Site is www.ssa.gov. There are also a number of local offices where one can meet directly with a representative. The addresses are right in the US Government listings under Social Security Administration. ☺☺☺☺☺☺☺☺

Tax Credits

A Way to Pay Less Income Tax!

With April 15th finally behind us, but still fresh in our minds, I thought it would be appropriate to revisit the subject of "tax credits". When we talk about a tax credit we are saying that one's tax bill is *reduced* by a certain dollar amount. Tax credits are granted by law for specific reasons. A recent example is the Child Tax Credit that gave parents a credit of \$400 per child, provided the parent earned less than a legally specified amount. An example of this would be as follows: say the parents of two owe taxes of \$1,000. Because they have the two children (under 17 years of age) their tax bill would be reduced by \$800, \$400 per child, and they would only owe \$200.

There are investment programs that provide you with tax credits in very similar ways. There is one plan that we use that provides a tax credit as the main form of return on your investment. The program is managed by Boston Capital, one of the firms represented at our recent dinner. Because so many of you have high taxable incomes or have invested in IRAs and other retirement plans, which will be taxable when withdrawn, a tax credit component for your portfolio may be advisable. If you would like more information on this or other "tax advantaged" programs, please call. ☺☺☺

Recipe For Success

Sandy's Special Cherry Cake It's Delicious

Preheat your oven to 350 degrees.

In a large bowl, cream one cup of butter, gradually add one cup of sugar and beat until light and fluffy.

Blend in two eggs, one at a time and add one teaspoon of vanilla. Continue blending.

Slowly add two cups of flour and continue to blend thoroughly. Fold in one cup of chopped nuts.

Spread two thirds of you batter into a greased and floured pan.

Pour one can of cherry pie filling over the top of the batter and then spoon the rest of the batter on top of this.

Bake at 350 degrees for 45 minutes.

When cool, sprinkle with confectionery sugar and cut into squares.

You'll absolutely love it.



What Is The Dow?

The Dow Jones Industrial Average is a statistical index based on the stock prices of 30 of the largest companies in America. Each of the stocks trade on the New York Stock Exchange. The theory is that the price movement of these stocks acts as an indicator of how the overall market is doing. Since we are asked so often we thought you'd like the list of companies

that make up the Dow.	Goodyear
A T & T	Hewlett Packard
Alcoa	I B M
Allied Signal	International Paper
American Express	Johnson and Johnson
Boeing	McDonalds
Caterpillar	Merck
Chevron	3 M
Citigroup	Morgan JP
Coca Cola	Phillip Morris
Disney	Proctor and Gamble
Dupont	Sears
Eastman Kodak	Union Carbide
Exxon	United Tech.
	WalMart