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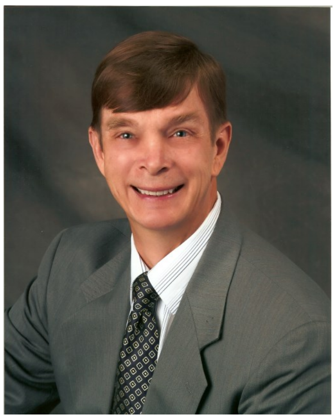
Happy Birthday & Thoughts About China



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"It is difficult now to understand fully the doubts and confusions in which we were planning this great new enterprise (Social Security)." Frances Perkins, Secretary of Labor for Franklin D. Roosevelt.

For all who were about to wish me a Happy Birthday, thank you, but that will not take place until October 21. My exact birth year escapes me right now (am actually trying to forget it) but my wife knows and would be very happy to tell you since she is younger than I am. Remember how as a kid you could not wait until it was your birthday? Now, they seem to happen so quickly…

Anyway, the birthday wishes of this article go out to one of my favorite topics: Social Security. On August 14, 1935 President Franklin Delano Roosevelt signed into law the Social Security Act of 1935. It was a bold and controversial move at that time. Liberals objected to the mandatory withholding of taxes to fund a pension that would not be collected until retirement; conservatives objected to the expanded role of government needed to implement the system as well as to the challenges it presented to the idea of rugged individualism. Eighty years later on August 14, 2015, Social Security and its payouts are the cornerstone of retirement plans for millions of Americans. The biggest controversy today seems to center on how to keep the system solvent.

Using data gathered in 2012 from the Social Security Administration, the staff of the congressional Joint Economic Committee estimates that about two thirds of Social Security beneficiaries receive a majority of their income from the program. Nearly a third (28%) of recipients rely on Social Security for 90% or more of their income. These individuals have very little, if any, investible assets and need Social Security to maintain even a meager standard of living.

Contrary to its early beginnings, today's Social Security benefit programs are essentially a pay-as-you go operation. Payroll taxes are collected from current workers and the money flows right back out in the form of monthly payments to the beneficiaries. The budgetary implications are huge as the baby boomer generation enters retirement with fewer and fewer younger workers contributing payroll taxes to fund the payouts. According to an analysis by the Center on Budget and Policy Priorities, retirement benefits averaging $1,329 per month were paid out to 39 million retired workers as of December 2014. Also included in the program were payouts to the following non-retired beneficiaries: 10.9 million disabled workers and their eligible dependents, 6.1 million surviving children and spouses of deceased workers and 2.3 million spouses and children of retired workers. As a result, in 2014, about $848 billion dollars or 24% of the total federal budget was allocated to Social Security payments.

As mentioned earlier in this article, the viability of the Social Security system is a major concern in our society both now and in the future. On the reverse side of this newsletter, I have included a press release from the Social Security Administration on the long term financial status of the Social Security Trust Fund. Social Security needs to be restructured by 2034 because there will only be enough money to cover 79% of scheduled benefits at that time. We need a fix **NOW,** and the longer we wait, the more difficult it will be to come up with a solution. To our elected representatives, please put partisan politics aside for a change and work for the good of the people!!!

Happy 80th birthday Social Security. As we say in Polish, "Sto-lat" or may you live to be one-hundred. For the well-being of our society, may Social Security continue to flourish at least two hundred years beyond that - and more!!!

In a short discussion about China before closing, I will start with a passage from Jason Zweig in the July 11-12, 2015 issue of the Wall Street Journal: "*There is something poignantly human about every attempt to make markets behave as we all wish they would: always rising and making us richer, never falling and inflicting pain upon us. Governments have been trying – and failing – to control markets for centuries. If the Chinese government succeeds, it will be the exception to that rule. If it fails, the results could be dire.*"

China was a sleeping giant for many decades and perhaps even many centuries. If you haven't noticed lately, China is now the second largest economy in the world and quickly catching up to the number one economy in the world – the United States. Billions of dollars are being spent by the Chinese government and their goal is to become not only the number one economy in the world but also the number one military force in the world. Neither has happened yet but they are making rapid progress toward both of those goals. Quite frankly, I do find the prospect of Chinese world domination frightening due to their lack of respect for human rights and their disregard for political freedom and expression. However, that is a story of its own and for another time.

As the number two economic world power, both the Chinese economy and Chinese stock market have recently began to cool off. The effects of this cool off are being felt in economies and stock markets around the world, including the United States. In early July, China intervened in their stock market with a number of restrictions to stem their stock market slide. The tactic worked for a few days but then their markets slid again. In August, China devalued their currency, the yuan, several times in an attempt to make their exports more attractive and provide a boost to their economic slowdown. The effects have been minimal and the Chinese stock market continues to fall. Jason Zweig seems to be right in saying that governments cannot control markets. Stock markets rise and fall as a part of their natural cyclical rhythm. China's growth slowdown and yuan devaluation appear to be the catalyst affecting and hastening the rhythm for the current global market meltdown. Based upon the research material I receive on a daily basis, it appears there may be more pain to come for the world stock markets and that includes the U.S. market.

Historically, managing risk for client's pre-retirement and retirement investment accounts mattered a great deal. It has not mattered the last two years because of the stimulus packages of the Federal Reserve. With the stimulus packages gone since last October and stocks markets tanking, risk seems to matter once again - as it always has in the past. Risk management for my client's accounts is my trademark, even though it has not been in vogue the past two years. Enjoy the remaining days of summer, manage your investment risks and take good care!!!

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For Immediate Release

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News Release

SOCIAL SECURITY

Social Security Board of Trustees: Trust Fund Reserve Gains One Year for Projected Depletion Date

The Social Security Board of Trustees today released its annual report on the long-term financial status of the Social Security Trust Funds. The combined asset reserves of the Old-Age and Survivors Insurance, and Disability Insurance (OASDI) Trust Funds are projected to become depleted in 2034, one year later than projected last year, with 79 percent of benefits payable at that time. The DI Trust Fund will become depleted in 2016, unchanged from last year's estimate, with 81 percent of benefits still payable.

In the 2015 Annual Report to Congress, the Trustees announced:

- The combined trust fund reserves are still growing and will continue to do so through 2019. Beginning with 2020, the cost of the program is projected to exceed income.
- The projected point at which the combined trust fund reserves will become depleted, if Congress does not act before then, comes in 2034 -one year later than projected last year. At that time, there will be sufficient income coming in to pay 79 percent of scheduled benefits.
- The projected actuarial deficit over the 75-year long-range period is 2.68 percent of taxable payroll --0.20 percentage point smaller than in last year's report.

"While the projected depletion date of the combined OASDI trust funds gained a year, the Disability Insurance Trust Fund's projected depletion year remains 2016. I agree with President Obama, we have to keep Social Security strong, protecting its future solvency. President Obama's FY 2016 budget proposes to address this near-term Disability Insurance Trust Fund's reserve depletion. By reallocating a portion of payroll taxes from Old Age Survivors to the Disability Trust Fund -as has been done many times in the past -would have no adverse effect on the solvency of the overall Social Security program," said Carolyn W. Colvin, Acting Commissioner of Social Security. "We believe that Congress must take action to reallocate a portion of the payroll tax rate between the trust funds to avoid deep and abrupt cuts or delays in benefits for individuals with disabilities who paid into the system while they worked and now need the benefits they earned to support themselves and their families," Colvin said.

Other highlights of the Trustees Report include:

- Income including interest to the combined OASDI Trust Funds amounted to $884 billion in 2014. ($756 billion in net contributions, $30 billion from taxation of benefits, $98 billion in interest, and less than $1 billion in reimbursements from the General Fund of the Treasury-almost exclusively resulting from the 2012 payroll tax legislation)
- Total expenditures from the combined OASDI Trust Funds amounted to $859 billion in 2014.
- Non-interest income fell below program costs in 2010 for the first time since 1983. Program costs are projected to exceed non-interest income throughout the remainder of the 75-year period.
- The asset reserves of the combined OASDI Trust Funds increased by $25 billion in 2014 to a total of $2.79 trillion.
- During 2014, an estimated 166 million people had earnings covered by Social Security and paid payroll taxes.
- Social Security paid benefits of $848 billion in calendar year 2014. There were about 59 million beneficiaries at the end of the calendar year.
- The cost of $6.1 billion to administer the program in 2014 was a very low 0.7 percent of total expenditures.
- The combined Trust Fund asset reserves earned interest at an effective annual rate of 3.6 percent in 2014.

The Board of Trustees comprises six members. Four serve by virtue of their positions with the federal government: Jacob J. Lew, Secretary of the Treasury and Managing Trustee; Carolyn W. Colvin, Acting Commissioner of Social Security; Sylvia M. Burwell, Secretary of Health and Human Services; and Thomas E. Perez, Secretary of Labor. The two public trustees are Charles P. Blahous, III and Robert D. Reischauer .

View the 2015 Trustees Report at www.socialsecurity.gov/OACT(TR/2015/.