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CLIENT NEWSLETTER, FEBRUARY 2005

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Business Advisor

Tax Planning

Tax Preparation

Retirement Planning

Accounting

Financial Statements

**Personal Financial
Planning**

ABOUT APPOINTMENTS

MON	TUE	WED	THU	FRI	SAT
9:30 AM	9:30 AM	Skiing at	9:30 AM	9:30 AM	9:30 AM
11:00 AM	11:00 AM	Eldora	11:00 AM	11:00 AM	11:00 AM
2:00 PM	2:00 PM	2:30 PM	2:00 PM	2:00 PM	
3:30 PM	3:30 PM	4:00 PM	3:30 PM	3:30 PM	
8:00 PM	8:00 PM		8:00 PM		

The table above shows the normal times each week when I set appointments. If you need an evening or Saturday appointment, you should call as soon as possible to set it up (I will give you the entry code for the office building).

During the first half of April, I may add appointments in between the regularly scheduled times. Then it's especially important to arrive near the scheduled time so that we don't encroach on the next appointment.

If you just need to drop materials off, my office door has a mail slot (now wider so you can insert large envelopes without folding) that you can use if I am not in.

If you need to call me, the best times are 10:45AM or 3:15PM. I'm most likely to be between appointments then, and can answer the phone "live."

Wednesday mornings I generally ski tour at Eldora. If you'd like to join me, please call for specifics.

Memberships

American Institute of
Certified Public Ac-
countants

Colorado Society of
Certified Public Ac-
countants

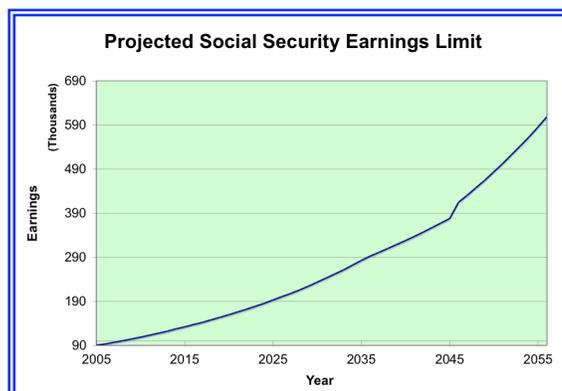
Society of Certified
Senior Advisors



Why Private Accounts Won't Work

The reason Social Security works at all is that it is a pay-as-you-go system, more like a traditional pension plan, rather than a plan in which your contributions guarantee your payout, like your 401(k). Here's why:

The present system. In figuring the initial benefit, the earnings you have each year are grossed up to reflect the current wage scale, not the much lower earnings early in your career. Thus, maximum earnings of \$27,900 in 1985 (20 years ago) are treated as though they were "worth" \$90,000 this year. One can argue whether this is the best approach, or whether this needs to be adjusted (for example by slightly raising the retirement age), to permit social security to continue long into the future. And the collection of payroll taxes (plus income taxes on social security payments) is based on the current wage scale, not on the scale when you were much younger.



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The proposed system. Private accounts, like 401(k)s, work best if the “magic” of compound earnings can work for many years. But early in your career, your wages are much lower than later, even if you are able to earn at the maximum subject to Social Security tax each year. Likewise the amount of Social Security tax withheld is low (I know it doesn’t seem like it, but look at the statement you receive from Social Security each year to see how the amount 10 or 20 years ago compares to the amount now.). So, if 100% of the Social Security tax were put into private accounts (which I believe is the ultimate objective of those supporting private accounts), it would have to grow phenomenally just to keep up with purchasing power, and give you the same benefit as you get from the Social Security system.

The growth of an investment is equal to the earnings on the investment plus the growth in value of the underlying security. When considering private accounts, the underlying security has to be the U S economy as a whole. We can’t use managed accounts, where someone gets to pick the winners and may do better than the economy as a whole. Even using an index like the S&P 500 is based on winners. The losers drop off the list. The long-term growth of the economy has been about 3.1% per year (6.9% including inflation) since World War II (source – [Bureau of Economic Analysis](#)). The average dividend yield is well under 2% (S&P 500 at 1.79%; NASDAQ at 0.34%, let alone all the companies that aren’t on these lists –source: [IndexArb.com](#)).

So the *best* growth rate for investment in private accounts would about 4.5% in real terms (8.3% including inflation). From that would need to be subtracted the following costs: management fees (say, 2% in the account per year), disability insurance, and life insurance.

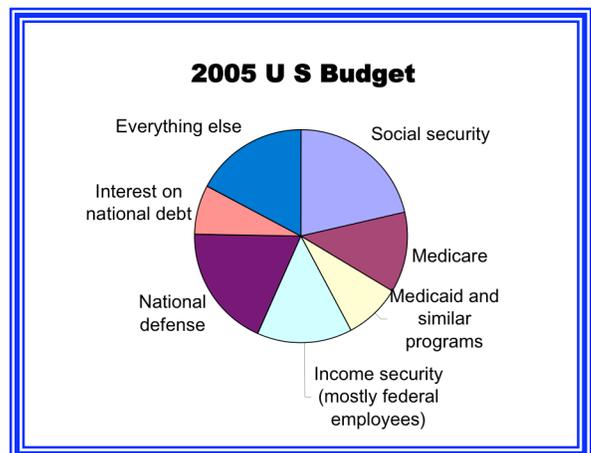
What’s missing? Wait a minute: disability insurance and life insurance? Nearly 40% of social security payments in a year is for payments to disabled workers and survivors of those who die before retirement. If you’ve shopped for disability insurance, you know that it isn’t cheap; and it’s usually integrated with social security. And you need to buy life insurance sufficient to provide for your family in the event you die before retirement, because they won’t get anything from Social Security. So, let’s say 3% of your wages per year, or about a 24% cut in funds available for investment in the private account.

Put that all together and you’ll be lucky to have a monthly payout that’s equal to social security, but that would run out after your normal life expectancy, while social security would continue until your actual death. And that’s if the economy continues in average form after the additional borrowing that the government would have to do to finance the conversion.

Some people argue that younger workers will never recover their payment into Social Security. This is flat wrong. I have calculated that someone born in 1990 (just approaching the start of a work career) is likely to break even in just 11 years, retiring at 65, even if the benefit is not indexed after retirement.

Budget “Solutions.” Those who want to privatize social security, like Dick Armey, talk about cutting things like the National Endowment for the Arts as a way to offset the cost of privatizing social security. That’s like a business owner asking employees to keep careful track of the paper clips and floppy disks used in the business instead of focusing on increasing sales. Notice in the chart that “Everything Else” uses less of the budget than Social Security.

Government transfer payments (Social Security, Medicare, Medicaid and Income Security) are about 57% of the budget. There is no way on earth that cutting NEA, or any other program of the government, including national defense, can offset an increase in the cost of these programs caused by diverting tax revenues into private accounts.



Promote the inherent worth and dignity of every person.