

DJ PRACTICE MANAGEMENT: Weighing Means-Testing For Social Security

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- Advisers said means-testing Social Security is likely
- Testing may be based on lifetime earnings, not net worth, some advisers said
- Some wealthy clients aren't happy about it

By Veronica Dagher
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Means-testing Social Security, in which wealthy clients could see their benefits reduced or eliminated altogether, is a touchy subject among some advisers and their clients.

Here, three advisers give their predictions about the likelihood of means testing, how it might be implemented and how clients feel.

Bruce Barton, certified financial planner, San Jose

Prediction: "Means testing will eventually be part of the plan to save Social Security but Congress will go down to the wire on the needed changes in this program as well." Hence, there won't be any benefit cuts until 2018-2020, when some predict Social Security will become insolvent.

Implementation: Means testing based on lifetime earnings would be "easy" for the government to implement since the Social Security Administration already has the data on hand. While means testing based on net worth might make more sense, it is unlikely, especially if individuals have to self-report. "Some affluent investors may prefer to walk away from their benefit then report their net worth."

Client's take: "Stoic and resigned," Barton said. Clients don't like the idea that they have been forced to pay into a system that can't deliver the promised benefits.

William Baldwin, financial adviser, Waltham, Mass.

Prediction: "At some point, the government will realize that many Social Security recipients also have 401(k), 403(b) and IRA balances and may decide to deny benefits to some people with those plans."

Implementation: "It would be simple to phase Social Security reductions in relation to retirement-plan balances." For example, benefits could be decreased by 10% for every \$100,000 of qualified plan balances held as of the end of previous year. "Those with million-dollar balances would be made ineligible."

Client's take: Many clients are likely to feel "ripped off" if they become ineligible. Still, Baldwin predicts changes to the system will likely only affect those not yet collecting the benefit.

Jeremy Portnoff, certified financial planner, Westfield, N.J.

Prediction: "If the state of our country's finances get bad enough, it's only a matter of time before someone says, 'Hey, if you've got X amount of income/assets, then you don't need Social Security.'"

Implementation: A "phase-out" program, where an individual's benefit level would be determined by where they fall on a scale, is likely. "That would be the only possible relatively fair way to approach means testing."

Client's take: Portnoff has some high-net-worth clients who don't think they should get Social Security in the first place because they don't need it. Others, he said, take the "classic view" that it wouldn't be fair to pay into a system and then not get anything back. "The reality is, much of our tax system already works this way."

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