



Dignum Financial Partners

Partnering with You

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Upcoming Events

July 4:
Independence Day Holiday (the NYSE and our offices will be closed)

August 1:
Social Security Seminar

August 22:
Medicare Seminar

September 2:
Labor Day Holiday (the NYSE and our offices will be closed)

September 10:
Kim's birthday (and it's a big one!)

Kim's Korner

We've had the privilege of working with many of you for more than 30 years. We've watched you buy houses, put children through college, weathered health issues, and more. All of these goals encompassed several components of financial planning – cash/flow management (budgeting), risk management (insurance), investment (portfolio management), and tax planning. This quarter's newsletter touches on the area of financial planning most important to the majority of you – retirement planning.

Retirement is where all of the past planning comes together for the next phase of your life. It is also one of the most critical parts of the financial planning process. Do you have the enough money to retire? Will you outlive your money? Will Social Security survive? What about Medicare? Which account do you draw from first? What happens to your survivor should something happen to you? All of these questions can create a lot of anxiety and make your decision a bit daunting!

Our retirement analysis process can help simplify this transition. We gather your individualized information – cash/flow needs, sources of retirement income (Pension, Social Security, etc.), your portfolio asset allocation, most importantly your goals and objectives, and complete a Monte Carlo Simulation* to determine the likelihood of your success. If you're younger, we can see if you are on track; if you're close to retirement, we can help to make sure you're making the appropriate decision; if you're already retired, we can verify that you're still on track.

We prepare this analysis with your initial financial plan, however, it is important that we always review this important part of your plan. If you would like an update, please feel free to contact us. We want to relieve you of this stress so you can focus on being retired!

*Monte Carlo simulations are used to model the probability of different outcomes in a process that cannot easily be predicted due to the intervention of random variables. It is a technique used to understand the impact of risk and uncertainty in prediction and forecasting models. The projections or other information generated by Monte Carlo analysis tools regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Results may vary with each use and over time.

The Future of Social Security and Medicare: Here's What Trustees Are Projecting

Most Americans will eventually receive Social Security and Medicare benefits. Each year, the Trustees of the Social Security and Medicare Trust Funds release lengthy reports to Congress that assess the health of these important programs. The newest reports, released on April 22, 2019, discuss the current financial condition and ongoing financial challenges that both programs face, and project a Social Security cost-of-living adjustment (COLA) for 2020.

What are the Social Security and Medicare Trust Funds?

Social Security: The Social Security program consists of two parts. Retired workers, their families, and survivors of workers receive monthly benefits under the Old-Age and Survivors Insurance (OASI) program; disabled workers and their families receive monthly benefits under the Disability Insurance (DI) program. The combined programs are referred to as OASDI. Each program has a financial account (a trust fund) that holds the Social Security payroll taxes that are collected to pay Social Security benefits. Other income (reimbursements from the General Fund of the U.S. Treasury and income tax revenue from benefit taxation) is also deposited in these accounts. Money that is not needed in the current year to pay benefits and administrative costs is invested (by law) in special Treasury bonds that are guaranteed by the U.S. government and earn interest. As a result, the Social Security Trust Funds have built up reserves that can be used to cover benefit obligations if payroll tax income is insufficient to pay full benefits.

Note that the Trustees provide certain projections based on the combined OASI and DI (OASDI) Trust Funds. However, these projections are theoretical, because the trusts are separate, and generally one program's taxes and reserves cannot be used to fund the other program.

Medicare: There are two Medicare trust funds. The Hospital Insurance (HI) Trust Fund helps pay for hospital care (Medicare Part A costs). The Supplementary Medical Insurance (SMI) Trust Fund comprises two separate accounts, one covering Medicare Part B (which helps pay for physician and outpatient costs) and one covering Medicare Part D (which helps cover the prescription drug benefit).

Highlights of Social Security Trustees Report

- Social Security's total cost is projected to exceed its total income (including interest) in 2020 and remain higher for the next 75 years. The U.S. Treasury will need to withdraw from trust fund reserves to help pay benefits. The Trustees project that the combined trust fund reserves (OASDI) will be depleted in 2035, one year later than projected in last year's report, unless Congress acts.
- Once the combined trust fund reserves are depleted, payroll tax revenue alone should still be sufficient to pay about 80% of scheduled benefits for 2035, with the percentage falling gradually to 75% by 2093.
- The OASI Trust Fund, when considered separately, is projected to be depleted in 2034. Payroll tax revenue alone would then be sufficient to pay 77% of scheduled benefits. These figures are unchanged from last year's report.
- The DI Trust Fund is expected to be depleted in 2052, 20 years later than projected in last year's report. The significant depletion date change reflects the fact that both benefit applications and the total number of disabled workers currently receiving benefits have been declining over the past few years. Once the DI Trust Fund is depleted, payroll tax revenue alone would be sufficient to pay 91% of scheduled benefits.
- Based on the "intermediate" assumptions in this year's report, the Social Security Administration is projecting that the cost-of-living adjustment (COLA), announced in the fall of 2019, will be 1.8%. This COLA would apply to benefits starting in January 2020.

Continued on page 3

The Future of Social Security and Medicare *(continued)*

Highlights of Medicare Trustees Report

- Annual costs for the Medicare program exceeded tax income each year from 2008 to 2015. There were fund surpluses in 2016 and 2017. In 2018, expenditures exceeded income, and this year's report projects that costs will exceed income by increasing amounts (excluding interest income). The report notes that in 2007, assets represented 150% of expenditures, but by the beginning of 2019, the ratio of trust fund assets to expenditures had fallen to 66%.
- The HI Trust Fund is projected to be depleted in 2026, the same year as projected in last year's report. Once the HI Trust Fund is depleted, tax and premium income would still cover 89% of estimated program costs, declining to 78% by 2043 and then gradually increasing to 83% by 2092. The Trustees note that long-range projections of Medicare costs are highly uncertain.

Why are Social Security and Medicare facing financial challenges?

Social Security and Medicare are funded primarily through the collection of payroll taxes. Because of demographic and economic factors, including higher retirement rates and lower birth rates, there will be fewer workers per beneficiary over the long term, worsening the strain on the trust funds.

What is being done to address these challenges?

Currently, not much, but both reports urge Congress to address the financial challenges facing these programs soon, so that solutions will be less drastic and may be implemented gradually, lessening the impact on the public. Combining some of these solutions may also lessen the impact of any one solution.

Some Social Security reform proposals on the table are:

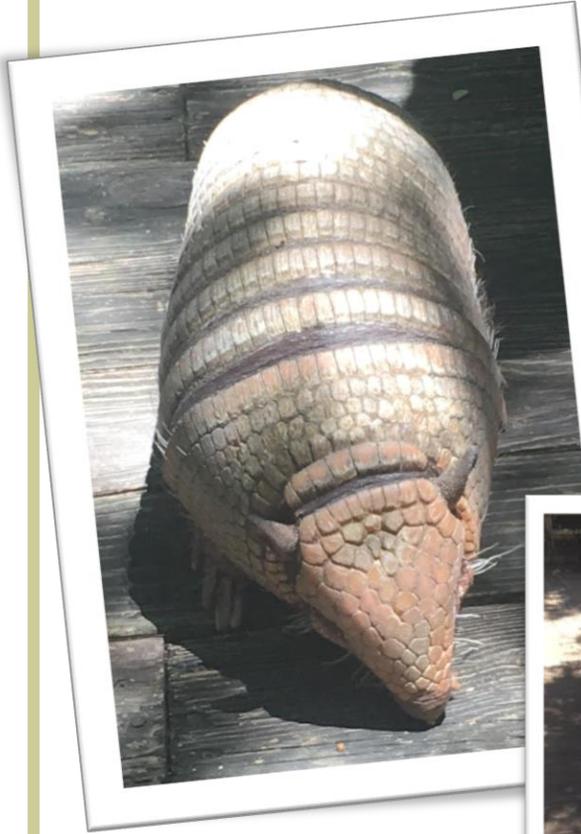
- Raising the current Social Security payroll tax rate. According to this year's report, an immediate and permanent payroll tax increase of 2.7 percentage points to 15.1% would be necessary to address the long-range revenue shortfall (3.65 percentage points to 16.05% if the increase started in 2035).
- Raising or eliminating the ceiling on wages currently subject to Social Security payroll taxes (\$132,900 in 2019).
- Raising the full retirement age beyond the currently scheduled age of 67 (for anyone born in 1960 or later).
- Reducing future benefits. According to this year's report, to address the long-term revenue shortfall, scheduled benefits would have to be immediately and permanently reduced by about 17% for all current and future beneficiaries, or by about 20% if reductions were applied only to those who initially become eligible for benefits in 2019 or later.
- Changing the benefit formula that is used to calculate benefits.
- Calculating the annual cost-of-living adjustment for benefits differently.

You can view a combined summary of the 2019 Social Security and Medicare Trustees Reports and a full copy of the Social Security report at ssa.gov. You can find the full Medicare report at cms.gov.

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Zoo Event

The Family Zoo Event was a huge success! We had 130 clients, children and grandchildren all in attendance. It also happened to be Dollar Tree's Employee Appreciation Day which made traffic a little challenging, but once we made it into the zoo it was worth it!



Dignum Financial Partner's Milestone

Throughout the years, many of you have brought your children in to begin their own financial planning process. Last month, Dignum Financial Partner's began working with a third generation!

Trinity Trail

As part of Dignum Financial Partner's community commitment, we have adopted part of the Trinity Trail. For those of you that were not aware Fort Worth has an impressive trail system that totals 72 miles of walking, running, and cycling trails. The Trinity River also offers areas to fish, kayak, ski, or to catch a concert while floating in a tube. The section of trail we adopted runs from University Drive to I-30 along the West side of the river. The "Adopt-a-River" program is available to everyone as long as you have 5 or more people willing to participate in two clean ups per year.

You can find additional information on the Tarrant Regional Water District website at <https://www.trwd.com/water-supply/environmental/community-programs/adopt-a-river/>. It is a worthy cause to help keep our river and trails clean for all to enjoy.



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If you have never accessed your account online and would like to get started, please feel free to contact us. We will be able to get you all set up in less than 5 minutes!

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