CBS MarketWatch

Advisers' Rx for retirement legislation
Financial planners suggest Social Security reforms
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While Social Security reform has center stage in the presidential campaign, the financial-planning community has its own insights on financing retirement in the future.

"First of all, we need be honest with the public about the looming crisis ahead," said Phillip Harriman, a financial planner with the Million Dollar Roundtable.

"Second, we need to address the fact that a retirement system designed during the 1930s isn't relevant now -- for one thing, we're living longer," he said.

Today, for every person receiving Social Security benefits, eight to ten people work for a living, said Harriman. However, in 25 years, that ratio drops to two employees for every retiree.

"The retirement age needs to be moved upward," said Harriman. "Today when we reach 62 or 65 we're going to live another 20 years. Life expectancy was much shorter than that when the current Social Security laws were written."

In fact, retirement didn't even exist until these laws were written in the 1930s. Before that, people worked until they dropped.

Today, people who want to work past the mandated retirement age of 67 face a diminishing window to save: laws force people to make taxable withdrawals from retirement accounts by age 70.5, even if they remain employed.

This effectively cannibalizes late stage attempts to grow nest eggs - even though the majority of the population ends up in this boat.

Financial planners say that taxable withdrawals from retirement accounts should not be enforced until much later than they currently are.

As it stands right now, "The law favors old money over new money," said **Rob Johanson, an adviser with NBS Financial Services in Westlake Village, Calif**. "And it's also biased against annuities. Taxes can be deferred on them, but ultimately they are levied as full income."

Painful choices
Most people agree that rescuing Social Security entails one or both of the following: raising taxes and decreasing the benefits provided. How to arrive at that point gets tricky.

One way to do it: "give no benefits to high-net worth individuals, like the top ten percent in income," said Pete Swisher, vice president of wealth management at Unified Trust Company.

Of course, that would require some convincing, especially because most legislators fall into that top ten percent bracket.

Swisher also suggested the controversial option of raising the amount of taxes that go to Social Security. "If we were going to raise Social Security taxes, we could move it from today's 12 percent to as high as 18 percent."

Not relying on the government

Meanwhile, most financial planners advise clients to assume that Social Security will run out of money and to compensate for that problem through increased contributions to retirement accounts.

But of course, that requires discipline, which boils down to fighting the ubiquitous temptations of a culture devoted to consumption.

All too often people look at the recent downturn in the stock market and mistakenly figure that they're better off spending than investing.

Investment advisers unanimously agree on the antidote: some form of mandatory savings, most likely through employer-sponsored plans, which has the same net effect as privatizing Social Security.

Mandatory employee investing requires some diplomacy, but so far academia and government have been successful with it.

"Tell employees, 'You're in the plan. Do you want out?' rather than asking, 'Do you want in?" suggested Swisher of Unified Trust. "Or say, 'You're saving X. Do you want to change that?' rather than 'How much do you want to put in?'"

Even with such wording, people have a hard time understanding the benefits of investing. But how can society demonstrate what the advantages are? Incentives.

"People are more interested in the short-term benefit of getting a tax deduction on 401K contributions than in long term goals," said Johanson with NBS. "The tax deduction is essentially the government subsidizing your contribution."

Speaking of tax breaks, the ones available in states like Florida, Texas and Tennessee present role models for reform - although extending such perks across the nation would crimp the mass migration of retirees to these sunnier climates.

In the aforementioned states, the first $35,000 of income from a retirement account escapes taxation.

Speaking of which, taxes on IRA withdrawals are inordinately complex, to the point that most seniors end up foregoing possible writeoffs because the regulations are nearly inscrutable.

More teaching in financial planning urged

But many in the industry believe that further reaching reforms are needed in order to help people figure out how to finance retirement.

"The issue we're facing has its roots in the severe lack of any kind of financial planning education when people are young," said Michael Kitces, a financial planner in Columbia, Md. "A law ought to require schools to teach a course about money and investing. It's much harder to teach people about this when they're older."

That's precisely what most financial planners end up doing with clients. More often than not, this exercise proves the old adage about not being able to teach old dogs new tricks.

"The later in life you start investing, the harder it gets. You have to put in more money to catch up, and that's really hard to do if you've gotten used to a luxury lifestyle," said Kitces.

He continued, "When people start investing $10,000 a year earlier in life, they're not as likely to miss the money they're not spending. They become perpetual savers and have enough for retirement."

Already, few people have enough money for retirement. If drastic changes aren't made soon, this will only worsen over time.