FINANCIAL PLANNING

UPDATE with Corner Post Financial Planning

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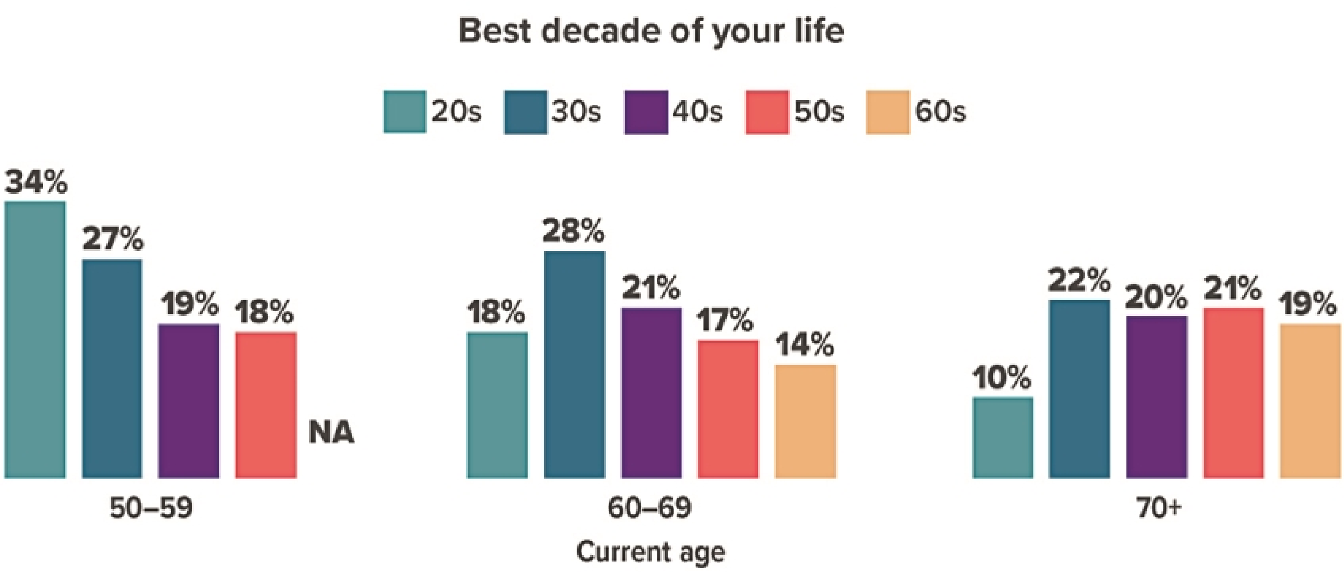
Happy Now but Happier When?

Despite the difficulties of aging, 86% of adults age 50 and older say they are happy, though only 21% say they are very happy, while 65% say they are pretty happy. It's probably not surprising that those who are in excellent or very good health are much more likely to say they are very happy.

Although a large majority of older adults are happy with their current prospects, about two-thirds say their best decade came before age 50.



Source: AARP, 2024 (Percentages do not add up to 100% due to skipped and "don't know" responses and some respondents choosing decades older than 60s.)

Let's talk about credit card balances

By Beth H. Watson, CFP®

In our financial planning business, we see two kinds of credit card users:

1) Those who use credit cards for convenience, security, and rewards.

2) Those who use credit cards for their emergency funds.

We cautiously support the first type of use and strongly discourage the second.

We seldom see credit card debt over $10,000. Like a wrinkle on linen pants, ongoing debt larger than this clings to the user.

When we see a client or prospective client who keeps both a credit card balance and healthy investment profile, our advice is almost always to pay off that high-interest debt. In case you missed it, credit card interest today averages 20 percent. Stock market returns do not.

Research on credit card holders by Scott Schuh at West Virginia University finds that about half of credit card users pay off their balance in full each month, and half keep a balance. He also notes that this behavior tends to be lifelong.

Meet Susan

Let’s look at how ditching the debt could help a hypothetical client we’ll call Susan.

Susan is a widow who has $650,000 invested. She also keeps a credit card balance of around $8,000, which is near the national average. Her savings and checking total $15,000.

My experience with clients like Susan is that she likes having money in savings and dislikes drawing on her nest egg. She uses her credit card for bigger-ticket items that come up and keeps making credit card payments from her monthly income. Of course, her nest egg is a backstop so things don’t get out of hand.

We would recommend that Susan pay off her credit card debt and establish a larger emergency fund. That fund would be replenished by ongoing contributions from her income that are currently paying credit card interest.

Assuming Susan is 61, which is old enough to not pay a penalty on IRA withdrawals, let’s have her make a withdrawal to pay off that balance. It will cost $10,000 at a 20 percent tax rate to net $8,000 for debt payoff.

Meanwhile, if she pays $200 a month to service her debt, she will pay more than $13,000 over nearly five and a half years.

That assumes she doesn’t add to the balance with future purchases! The sad reality is that Susan is usually adding to her credit card debt while paying it off and the cycle never gets broken.

It’s not about the numbers

Unless someone is on a low income and living paycheck to paycheck, the reasons for keeping credit card debt around are overwhelmingly psychological.

This debt is normally a source of frustration and, in many cases, shame. Credit revolvers, another name for those who don’t pay off their balance each month, also report that persistent debt stymies important goals, most notably emergency savings but also life-altering choices like changing jobs, having children, and helping others.

Today’s mix of rising prices, increasing digital transactions, and buy now/pay later offerings may prove particularly challenging for individuals accustomed to living with credit card debt. More credit availability historically has meant greater use for those not committed to debt freedom, which is a recipe for hard times in an uncertain economic environment.

Resources

1) WVU Today. "WVU research shows credit card behaviors are lifelong, whether users carry debt or pay balances monthly.” Monday, March 17, 2025

2) Bankrate , Bankrate’s 2025 Credit Card Debt Report

A planner's view on Social Security

By John Berry , CFP® and Beth Watson , CFP®

Politics aside, Social Security is a very popular program, and it plays a big part in our financial planning practice as a steady, inflation-adjusted income for most seniors.

From a planner’s perspective, Social Security benefits aren’t incredibly generous, but they provide a baseline defense against extreme poverty in old age–the program’s original intent.

However modest, a Social Security check would be expensive to replicate in the private market.

Consider the average monthly benefit of $1,976. To support a lifetime retirement benefit that size on your own could cost more than $350,000–far more than the average Social Security recipient pays into the system.

Most people get less than they could

Sixty-seven is now the age for full benefits, but because most people claim Social Security at 65 or before, they lock in lower monthly checks for themselves, their spouses, and their survivors.

Consider a woman we’ll call “Anna.” She earns a less-than-average salary of $60,000.

Her Social Security statement projects the following monthly benefits:

Age 62: $1,569

Age 65: $1,989

Age 67: $2,324

Age 70: $2,912

“Anna” can receive an above-average benefit on her below-average salary just by waiting to file for Social Security at her full retirement age.

And notice the $1,343 monthly difference between ages 62 and 70!

Clients often ask for help with the Social Security claiming decision. Many of our analyses show that if you expect to live into your late 70s or early 80s, it might pay to wait if you can afford to.

For a typical senior, Social Security isn’t a terrible deal. The retiree gets a benefit they can count on for the rest of their lives that would be very expensive–if not impossible–to fund themselves.

Typical Social Security benefits

People who hire financial planners tend to have more wealth and higher incomes than those who do not hire financial planners. Both groups still face gaps between their pre-retirement salaries and what Social Security provides.

Our typical client’s Social Security check is around $3,000 at age 67, with couples receiving $4,500 to $5,500.

As above, it’s not bad given how much it would cost to replace a monthly income that size.

But an average client household may have a lifestyle that requires at least $9,000 to $10,000 per month to support.

Even if you enjoyed a large salary, you can only get so much Social Security. The maximum benefit for individuals who file for benefits at age 70 is currently $5,108.

For retirement, most high-earning households enjoy income from government or private pensions, rentals, business profits, or withdrawals from investment accounts. In most cases, it’s a combination of several of these.

Conclusion

Social Security was not designed for people to receive decades of benefits covering a middle-class lifestyle. Passed in 1935, these “old age” benefits kicked in at 65 when neither the average man nor the average woman lived that long. (The early claiming age of 62 was legislated in 1961.)

Now, more than 95 percent of Americans over 60 are expected to receive some type of Social Security benefit. While the cost to taxpayers is substantial, these stable monthly checks boost most recipients’ quality of life.

Today’s realities, though, are that people live longer, and government benefits remain modest. This requires many families to amass substantial supplemental savings and assets to keep the standard of living they enjoyed during their working years.

A Backup Plan for Your Paycheck

Your ability to earn a paycheck may be your most valuable asset. In a 2024 survey, 48% of Americans without disability insurance said their household would have to use personal savings to pay daily expenses in the event of a disability, and 26% said they would have to tap retirement savings.[1]

Social Security offers some disability protection, but only one out of three applications is approved, and it typically takes almost eight months for an initial decision and seven more for an appeal.[2] The average monthly Social Security Disability Insurance payment of $1,581 would not meet the needs of most families.[3]

Unfortunately, the odds of a disability are higher than you may think. The Social Security Administration projects that almost one out of four 20-year-old workers will experience a disability before they reach their full Social Security retirement age of 67.[4]

Portable individual coverage

If you're concerned about the potential effect of losing your paycheck due to sickness or injury, you might consider an individual disability income insurance policy, which could replace a portion of your income up to policy limits. Your employer may offer long-term disability coverage, but group plans typically don't replace as large a percentage of income as an individual plan could, and benefits from employer-paid plans are taxable to the employee if the premiums were paid by the employer.

An individual disability income insurance policy will stay in force regardless of your employment situation as long as you pay the premiums. If you have employer coverage, those benefits would generally be paid first, and your individual policy would pay any benefits that are higher than the employer coverage. Benefits may be paid for a specified number of years or until you reach retirement age. If you pay the premiums yourself with after-tax dollars, benefits are usually free of income tax.

Unlike group policies, individual policies can generally be customized to meet your specific needs. There are a variety of optional riders available at additional cost that provide the potential for higher benefits and/or for benefits to be paid under a broader range of circumstances.

Disability premiums are typically based on your age, gender, occupation, and the amount of potential lost income you are trying to protect, as well as the specifics of the policy and any additional riders. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. Carriers have the discretion to raise their rates and remove their products from the marketplace.

1) LIMRA, May 2, 2024

2) Center on Budget and Policy Priorities, August 6, 2024

3) Social Security Administration, January 2025

4) Social Security Administration, August 2024