SOCIAL SECURITY WON'T GIVE YOU SECURITY

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If you're counting on Social Security to finance your retirement, you're in for a big surprise—and not the good kind. Let me give you two reasons why.

One: Social Security is going broke.

And, two: Even if it weren't going broke, it couldn't possibly cover the cost of a decent retirement.

Let's look at these two reasons in a little more detail, and then I'll propose a solution.

Social Security is going broke.

When this government program was set up in 1935, the average life expectancy was 60. But you couldn't collect your first check until you reached 65. In other words, most people didn't live long enough to receive Social Security. And most of those who did, didn't collect it for very long. Today, the average lifespan is 79. So now, most people do live long enough to receive Social Security—for 10, or 20, or even 30 years.

Here's another important piece of information: When the program started, the ratio between worker and retiree was 159 to 1. That means for every one person drawing benefits, 159 were paying in. Today the ratio is 2.8 to 1. Get that? We've gone from 159 workers supporting every retired person to fewer than three workers supporting every retiree. And it's going down.

You don't need an advanced math degree to figure this one out: Social Security is spending more than it's bringing in. Far more. Its own Board of Trustees has said that it will be bankrupt within twenty years.

That doesn't mean it won't exist. It means that either the government will pay you less than it promised, or it will have to raise taxes to make up the shortfall. Most likely, both.

Sounds about right for an entitlement program, doesn't it? Starts out small, but just keeps growing and growing until it collapses under its own weight.

But let's indulge in a fantasy and say that Social Security is perfectly designed, perfectly balanced, and efficiently run. And that you would get every dollar you were promised.

You'd still have a major problem if that's all that you're relying on.

To illustrate, in 2017 the average monthly Social Security check was a little over $1,400.

That's under $17,000 a year—barely above the poverty line for a two-person household. Do you really want to live at the poverty line in retirement? Why in the world would you plan for that?

But sadly, many people are. According to a recent study, 53 percent of un-retired baby boomers have no retirement savings. That means they're planning to rely on Social Security for their retirement income.

That's them. Don't let it be you.

Here's the right way to prepare for retirement:

First, get on a budget. I don't care if you're 55 or 25. I don't care if you're making $400,000 a year or $40,000 a year. You need to have a plan for your money. I love motivational speaker John Maxwell's line that "a budget is simply telling your money where to go instead of wondering where it went."

That means knowing, before the month starts, where every dollar you make is headed. Whether it's the mortgage or rent or groceries or a car payment or whatever, you need to give every dollar an assignment.

Second, attack and avoid debt like the plague. Most Americans spend 25% of their income paying off debt. Imagine how much money you could save if you didn't have this albatross around your neck.

Well, actually, you don't have to imagine. Again, it's simple math. A 30-year-old investing $500 a month in an investment fund with a six percent annual return will have over a million dollars by the time he's 70.

So make a plan to get rid of your debt for good. I like the "snowball method." List your debts, smallest to largest, putting every extra dollar you have toward the smallest while making minimum payments on the rest. Once the smallest is paid off, roll that payment into the next-smallest. And do this until all of your debt is paid.

Finally, put Social Security in perspective. Anything you get from it should be considered a fringe benefit—icing on the cake, not the cake itself. There's nothing wrong with getting Social Security checks. After all, you earned it by contributing to the system all those years. But there is nothing "secure" about Social Security. The last thing you want to do is rely on it.

If you do, well—good luck.

I'm Chris Hogan for Prager University.