



ANALYSIS-Rising rates no boon for US fixed-income retirees

By Kelly Evans

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WASHINGTON - While rising U.S. interest rates might look on the surface like a boon to those living on fixed incomes, higher living costs are keeping retirees from reaping the full reward.

Retirees with savings accounts get a better return on their money as interest rates rise, as they have over the last two years, while Social Security checks are adjusted annually in an effort to keep up with inflation.

The 48 million retirees who receive Social Security benefits are getting 4.1 percent more this year than in 2005 -- the biggest cost-of-living adjustment since 1990.

But financial planners say that adjustment, which works out to an additional \$39 each month for the average retiree, is not enough to cover the rising cost of living.

"If you have to depend on government-provided retirement benefits, you're really at risk," said Howard Aberman, a financial planner in Coral Gables, Florida. Aberman said the rising costs of taxes, insurance and energy are eating into retirees' monthly income.

"You're digging into personal savings to offset those increases to maintain your quality of living," he said.

Some analysts say part of the problem lies in the specific consumer price index that is used to adjust Social Security payments each year, which gives less weight to housing and medical care costs than the government's main CPI gauge.

But Chris van Slyke, managing director of Capital Financial Advisors in La Jolla, California, says those are the two primary costs facing retirees.

"They're particularly sensitive to housing and medical care," he said. "Everything else is discretionary."

Van Slyke also downplayed the importance of rising interest rates as a boon to retirees' savings.

"If (rates) go from 3 percent to 5 percent and inflation goes from 2 percent to 4 percent, you didn't gain any ground," he said. "It's an illusion when people think that rising rates help."

HOME SWEET HOME

Many retirees have paid down the mortgage on their home but still face a barrage of housing-related costs. Property taxes, insurance premiums and utility bills can quickly drain monthly resources.

"The costs of heating and cooling have doubled in the last four years," said Mark Wolfe, executive director of the National Energy Assistance Directors' Association, a group that works to help low-income households pay their energy bills.

"Social Security is not keeping pace overall with the increase in these prices," he said.

CPI-W, the gauge used to adjust Social Security payments for shifts in the cost of living, estimates that fuels and utilities comprise about 6 percent of expenses while medical care accounts for 5.2 percent.

But analysts say retirees spend much more than 5 percent of their income on medical expenses, even with the help of federal insurance programs such as Medicare.

"Medicare only covers a fraction of an individual's medical costs," said Louis Kokernak, a financial adviser in Austin, Texas.

Approximately 40 million Americans are enrolled in Medicare, a government-sponsored health-care insurance program aimed at those age 65 and older. One important part of the program, known as "Part B," helps retirees pay for doctors' fees and outpatient hospital visits, but those who opt-in must pay a monthly premium.

While, by law, annual increases in Part B monthly premiums cannot exceed the increases in Social Security checks, the premiums are rising swiftly enough to erode much of the increase in Social Security payments.

This year's \$10.30 increase to \$88.50 per month for Part B premiums eats up about a quarter of the additional \$39 retirees are receiving each month for Social Security.

"For retirees a big fraction of their expenditures is medical costs and those costs are increasing at a rate that is faster than the consumer price index," Kokernak said.

"If we really tried to generate some index to match the spending habits of retirees, Social Security would be bankrupted in short order," he added.

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