

**abacus** planning group  
smart financial decisions

## Social Security Roundtable

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## Purpose

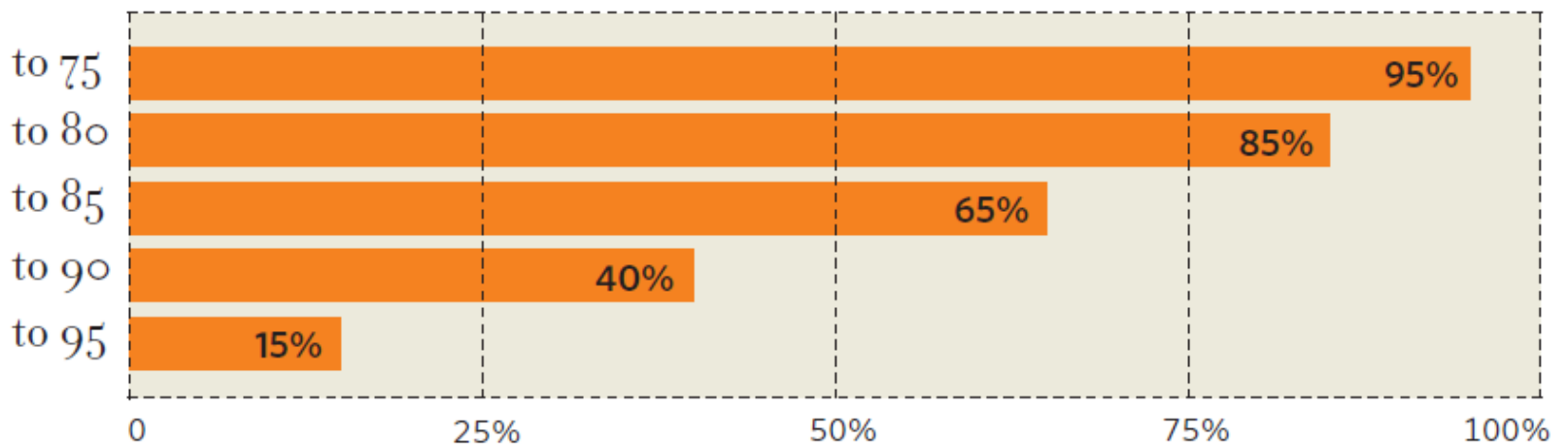
- ☐ Social Security overview
- ☐ Status of current system
- ☐ Potential changes to benefits
- ☐ Strategies to maximize payment options



# How much secure income will you need?

Social Security is great for providing a basic retirement income. The income is inflation-proof and the payments last over the life of the surviving spouse.

**YOUR CHANCES FOR A VERY LONG LIFE ARE EXCELLENT**  
Chances that one person in a married couple, both age 62, will live...





## Social Security

An important financial decision...

The lifetime value of Social Security benefits

\$2,346 per month + 2.8% annual COLAs

 Live 10 more years: \$320,000

 Live 20 more years: \$740,000

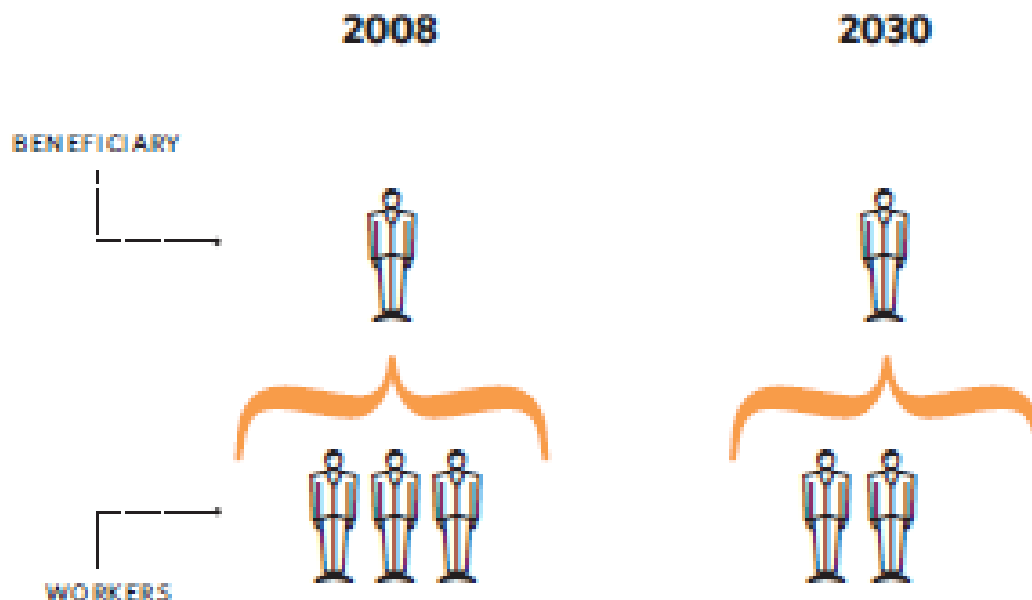
 Live 30 more years: \$1.3 million



# Social Security has a financial problem

Benefits are mainly financed by a 12.4% tax on earnings, split between workers and employers. However, far more of us will soon be collecting benefits with not many more paying taxes.

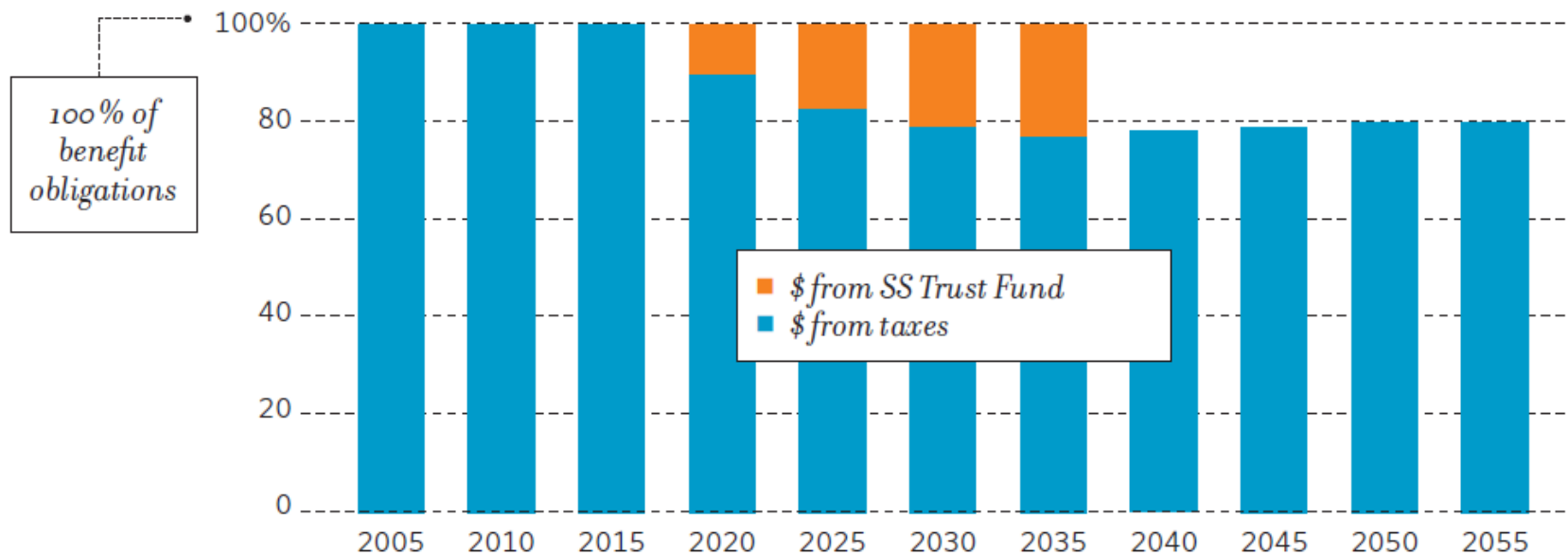
**TODAY 3  
WORKERS  
CONTRIBUTE  
FOR EACH  
BENEFICIARY.  
SOON THERE  
WILL BE JUST 2.  
THE TAXES  
2 WORKERS  
PAY WILL  
NOT FINANCE  
BENEFITS FOR 1  
RETIREE**





## Status of current system

Social Security has a financing problem. After benefit payments deplete the program's Trust Fund, in about 2037, Social Security will only be able to pay about .78 cents on the dollar.





# Proposed changes

## Cut benefits vs. increase revenues

The table lists the contribution each proposal makes toward closing both the 75-year shortfall and the shortfall on the other side of the 75-year horizon.

	SHORTFALL REDUCTION	
	FOR THE NEXT 75 YEARS	IN THE 76TH YEAR
<b>HOW BENEFITS COULD BE CUT</b>		
Cut benefits today by 13 percent	100%	50%
Raise the Full Retirement Age quickly, then in line with longevity	30%	35%
Freeze the purchasing power of benefits	100%	100%
Freeze the purchasing power of benefits on a sliding scale	65%	90%
Change the Cost-of-Living-Adjustment	25%	15%
Do nothing (but cut benefits in 2037)	100%	100%
<b>HOW REVENUES COULD BE RAISED</b>		
Increase the payroll tax today by 2 percent of earnings	100%	40%
Raise the earnings cap to cover 90 percent of earnings	40%	15%
Use the estate tax	25%	15%
Use general revenues to finance the legacy debt	100%	100%
Invest 40% of Social Security Trust Fund assets in stocks	35%	depends on size of Fund
Do nothing (but raise taxes in 2037)	100%	100%





## Strategies for maximizing Social Security benefits

- ☐ Work longer to earn more
- ☐ Apply at the optimal time
- ☐ Analyze your Social Security claiming strategies





## Work longer, earn more

Working longer raises the average of the highest 35 years of earnings on which you've paid Social Security payroll tax.

For example, say you are 62 in 2011 and have 31 years of employment at \$40,000 a year.

### If you retire and start to collect benefits at 62:

The average of your highest 35 years of earnings is:

\$35,400



Your monthly benefit, based on your average earnings and claiming age =

\$1,030

### If you work four more years, at \$40,000 a year, and retire at 66:

The average of your highest 35 years of earnings is:

\$40,000



Your monthly benefit, based on your average earnings and claiming age =

\$1,500

33% for claiming later  
+12% more for more earnings  
= 45% more overall



## Apply at the optimal time

Social Security benefit, as a percentage of Primary Insurance Amount (PIA), for those born between 1943 and 1954

AGE	PERCENTAGE OF PIA (%)	MONTHLY BENEFIT (\$)*
62	75%	\$750
63	80%	\$830
64	86.67%	\$866.70
65	93.33%	\$933.30
66	100%	\$1,000
67	108%	\$1,080
68	116%	\$1,160
69	124%	\$1,240
70	132%	\$1,320

\* Monthly benefit based on \$1,000 at age 66



## Two ways to analyze Social Security claiming strategies

### Breakeven age

- ▣ Age at which cumulative benefits from later claiming scenario exceed those from early claiming scenario.
- ▣ Views Social Security as an asset

### Longevity protection

- ▣ Maximizes lifetime, inflation-adjusted income in case of extreme longevity.
- ▣ Views Social Security as an insurance policy



## Breakeven age

Bob's estimated benefits:

62 - \$1,856

66 - \$2,457

70 - \$3,290

Claim at 62 vs. 70

- ☐ Age at which cumulative benefits from claim at 70 scenario exceed claim at 62 scenario - Age 83

Claim at 62 vs. 66

- ☐ Age a which cumulative benefits claim at 66 scenario exceeds claim at 62 scenario - Age 80



# Longevity Protection

☐ Maximizes income at advanced ages

☐ If benefit (PIA) = \$2,200

Benefit at age	If claim at 62	If claim at 70
70	\$2,058	\$3,622
80	\$2,172	\$4,774
90	\$3,575	\$6,292

☐ Assumes 2.8% annual COLAs



# Maximizing Social Security benefits for married couples

- ☐ Take advantage of delayed credits
- ☐ Take advantage of spousal benefits



## Spousal benefits: traditional

Wife with low or no earnings can receive up to one-half of husband's PIA benefit

### Rules for spousal benefits:

- ❑ If wife files at Full Retirement Age (FRA), spousal benefit is 50% of husband's PIA; if she files at 62 it is 35% of husband's PIA.
- ❑ Husband must file for benefits in order for wife to receive spousal benefit (if over FRA he can suspend benefits to delay)
- ❑ No delayed credits for spousal benefits after FRA
- ❑ Same rules for divorced spouse if marriage lasted 10 years and spouse is currently unmarried.



## Spouses' benefits based on filing date

Ricky (62) and Lucy (62)

Ricky earned maximum over his career – retires at 62

Ricky's PIA (benefit) = \$2,375 ; Lucy no earnings

Age	Ricky's worker's benefit	Lucy's spousal benefit	Total monthly benefit	Cumulative benefit at age 85
62	\$1,781 (75% of Ricky's PIA)	\$831 (35% of Ricky's PIA)	\$2,612	\$ 1,053,228
66	\$2,652 (100% of Ricky's PIA - COLA adjusted)	\$1,326 (50% of Ricky's PIA)	\$3,979	\$ 1,257,087
70	\$3,910(132% of PIA -COLA adjusted)	\$1,481*	\$5,391	\$1,283,638

\*No delayed credits after FRA for spousal benefits – amount adjusted for COLA





## Spousal benefits: non-traditional

- ☐ Spousal benefit not limited to low-earning spouse
- ☐ Takes advantage of little known rules
- ☐ Generates additional income for the couple while one or both delay benefits



## File and suspend

- ❏ High earning husband files for own benefit at 66 to make wife eligible for her spousal benefit
- ❏ Husband suspends own benefit to earn Delayed Retirement Credits to age 70
- ❏ *Warning : Cannot file and suspend before FRA*



# Spouses' benefits based on file and suspend

Mike (64) and Emily (62)

Mike's PIA \$2,283    Emily's PIA \$648

Mike files and suspends at age 68 which entitles Emily to her spousal benefit at 66.

Mike claims his benefit at age 70

Mike dies at age 85

Emily's Age	Mike's Age	Mike's worker's benefit(COLA adjusted)	Emily's spousal benefit (COLA adjusted)	Monthly benefit	Cumulative benefit
66	68		\$1,275	\$1,275	\$15,298
68	70	\$3,557	\$1,347	\$4,904	\$89,870
70	72	\$3,759	\$1,424	\$5,182	\$212,551
80	82	\$4,954	\$1,877	\$6,831	\$938,709
90	92	0*	\$6,530	\$6,530	\$1,704,286



## Claim now, more later

- ☐ High earning husband claims his spousal benefits at 66 (wife must have filed for her own benefit)
- ☐ Switches to his own benefit at 70



# Spouses' benefits based on claim now – claim later

 Jack(66) and Jill(66) : Jack's PIA \$2,200    Jill's PIA \$800

Jack files for his spousal benefit at 66 : Jack claims his max benefits at 70

Jill switches to spousal benefits after Jack files

Age	Jack's worker benefit	Jack's spousal benefit	Jill's spousal benefit	Jill's worker benefit	Monthly benefit	Cumulative benefit
66	\$2,200	\$400		\$800	\$1,200	\$14,400
70	\$3,243		\$1,228		\$4,471	\$113,724
80	\$4,275		\$1,619		\$5,894	\$740,305
90	\$0		\$5,634		\$5,634	\$1,444,901



# Spouses' benefits based on claim now – claim later

 Jack(66) and Jill(66) : Jack's PIA \$2,200    Jill's PIA \$800

Jack and Jill both claim benefits at FRA age 66

Age	Jack's worker benefit	Jack's spousal benefit	Jill's spousal benefit	Jill's worker benefit	Monthly benefit	Cumulative benefit
66	\$2,200		\$1,100		\$3,300	\$39,600
70	\$2,457		\$1,228		\$3,685	\$209,403
80	\$3,238		\$1,619		\$4,858	\$725,813
90	\$0		\$4,268		\$4,268	\$1,285,205



# Spouses' benefits based on claim now – claim later

 Jack(66) and Jill(66) : Jack's PIA \$2,200    Jill's PIA \$800

Jack and Jill both claim benefits at age 70.

Age	Jack's worker benefit	Jack's spousal benefit	Jill's spousal benefit	Jill's worker benefit	Monthly benefit	Cumulative benefit
66						
70	\$3,243		\$1,179		\$4,422	\$53,064
80	\$4,275		\$1,554		\$5,829	\$672,763
90	\$0		\$5,634		\$5,634	\$1,373,136



## Rules for spousal benefits

- ☐ Spouse can't claim spousal benefit until worker files for own benefit (except divorced spouses if 2 years since divorce)
- ☐ If dually entitled and under FRA, must take higher of the two benefits. This means some strategies can only be done at FRA or later
- ☐ When filing for spousal benefit at FRA when own benefit is higher, must "restrict the scope of the application to the spousal benefit"
- ☐ Two spouses cannot both draw spousal benefits on each other's record at the same time (except divorced spouses)





## Survivor benefits

If both spouses are currently claiming benefits:

- ☐ If high-earning spouse dies first, low-earning spouse steps into higher benefit (lower benefit stops).
- ☐ If low-earning spouse dies first, high-earning spouse retains higher benefit.
- ☐ Amount of survivor benefit depends on when deceased spouse originally applied for benefits.



## Maximize survivor benefits

- ☐ Survivor benefits are available as early as age 60, or age 50 if disabled, but are reduced up to 28.5% if claimed before the recipient's Full Retirement Age.
- ☐ High earner files for Social Security at age 70
- ☐ Surviving spouse files for survivor benefit at FRA (or later if death occurs after FRA)



## How early filing reduces survivor benefit

- ☐ Sam and Sarah, both 62. Sam's PIA is \$2,200.
- ☐ Sam dies at 63
- ☐ If Sam had filed for early benefits, Sarah's survivor benefit would be based on Sam's reduced benefit, or \$1,650 (75% of \$2,200)
- ☐ If Sam had not filed for benefits, Sarah's survivor benefit would be based on Sam's age-66 benefit, or \$2,200.



## When survivor benefit is higher than earned benefit

- ☐ Widower(er) waits until FRA to claim survivor benefit
- ☐ Resist temptation to apply for survivor benefit at 60 (71.5% of PIA –permanent reduction)
- ☐ Apply for own earned benefit at 62 to bring in extra income



## Survivor benefit example

<u>Teresa (widow)</u>	<u>Deceased Spouse</u>
Age – 60	
PIA - \$800	PIA - \$2,200

Scenario 1: Applies for survivor benefit at 60

Scenario 2: Applies for own benefit at 62, switches to survivor benefit at 66

 Monthly income at age 80:

-  Scenario 1: \$2,733
-  Scenario 2: \$3,821



## When survivor benefit is lower than earned benefit

- ❏ High –earning widow(er) claims survivor benefit as early as age 60 and lets own benefit earn DRCs to age 70
- ❏ Claiming survivor benefit before FRA does not reduce own benefit
- ❏ Brings extra income until age 70
- ❏ High –earning widow(er) may not think to ask about this!



## Survivor benefit example

Peter

Age – 60

PIA - \$2,389

Paula

Age - 60

PIA - \$1,500

- ☐ Paula dies
- ☐ Peter claims survivor benefit at 60, receives \$1,072 (71.5% of \$1,500) from age 60 to 69
- ☐ COLA-adjusted total: \$146,000 in survivor benefits that otherwise would have been lost
- ☐ Also works for divorced-spouse survivor benefits



## Survivor benefits – things to remember

- ☐ Death of a spouse will cause loss of one income (widow's own benefit will stop when she switches to survivor benefit).
- ☐ Remarriage before 60 disqualifies a widow(er) from receiving survivor benefits.
- ☐ Same rules for survivor benefits also apply to divorced-spouse survivor benefits if marriage lasted 10 years.





## Maximizing benefits for divorced women and men

### Rules for divorced-spouse benefits:

- ❑ Benefit = 50% of former spouse's PIA if claimed at FRA
- ❑ Marriage must have lasted 10 years
- ❑ Former spouse must be 62 or older (does not need to have filed if divorce was more than 2 years ago)
- ❑ To receive must be currently unmarried

### Rules for divorced-spouse survivor benefits:

- ❑ Benefit = 100% of former spouse's benefit if survivor claims at FRA (100% of PIA if former spouse dies before claiming)
- ❑ Marriage must have lasted 10 years
- ❑ May receive if remarriage occurs after age 60
- ❑ If entitled to multiple benefits, may receive highest one



## Guidelines for maximizing Social Security for women and men

- ☐ Consider prior marriages
  
- ☐ Determine which benefits you may be entitled to:
  - ☐ Retirement benefit from own earnings record
  - ☐ Spousal benefit from current spouse
  - ☐ Survivor benefit from current spouse
  - ☐ Divorced-spouse benefit from previous spouse(s)
  - ☐ Divorced-spouse survivor benefit from previous spouse(s)
  
- ☐ Get help from SSA in determining amounts
- ☐ Consult with an advisor to recommend optimal claiming strategy to maximize interplay of benefits over lifetime



## Summary

- ☐ Maximize Social Security for couples by taking full advantage of DRCs and spousal benefits
- ☐ Maximize survivor benefits for widows and widowers by applying for the higher benefit last
- ☐ Maximize income for divorced women and men by taking advantage of divorced-spouse benefits or divorced-spouse survivor benefits and coordinating with earned benefit



## Answers to frequently asked questions

- ❏ You may get less over your lifetime if you claim later – **not necessarily it depends on life expectancy and marital status.**
- ❏ Monthly benefits are set so that lifetime benefits are much the same no matter when the average person starts to collect. **Yes, for average single person. However, one needs to consider social economic status, life expectancy and consider marital status.**
- ❏ If you are in poor health and unlikely to live as long as the average person, you will probably get less, over your lifetime, the later you claim. **Don't forget spouse(s) or dependents under 18. They benefit from your earnings record.**



## Common misconceptions about Social Security

- ❏ You have to be old to collect – dependents under 18, disabled widows at 50 and widows at 60.
- ❏ The system is going broke – The system has a “financing problem.” As long as there is a tax assessed for Social Security there will be funds available for benefit. The amount available for benefits is what will be impacted as of 2036 - \$.78 per every dollar.
- ❏ Benefit amounts are too small to bother with – not really, the inflation adjusted income stream has a significant value.
- ❏ Social Security personnel can help - The personnel can help you estimate benefits but does not offer advice or strategies on how to maximize claims.



## Taxation of Social Security

- ☐ Your Social Security benefits are not subject to federal income tax if your “combined income” (adjusted gross income + non-taxable interest + 1/2 your annual benefits) is less than \$25,000 (\$32,000 if married and filing jointly); 85% is taxed if your “combined income” is between these two amounts.



## Additional Information Slides



## Strategy for Joe & Mary

Joe

Age – 66

PIA - \$2,200

Mary

Age - 62

PIA - \$1,200

- ☐ Joe could claim his spousal benefit because he is 66.
- ☐ The problem: Mary is only 62.
  - ☐ If Mary files now, she will be given her own benefit because her PIA of \$1,200 is more than one-half of Joe's PIA of \$2,200. (Can't elect the spousal if under FRA)
  - ☐ Mary's age 62 benefit would be 75% of \$1,200, or \$900. This would be her permanent benefit (plus COLAs), and she may never take advantage of her spousal benefit later.
  - ☐ Four years worth of spousal benefits for Joe would not make up for the permanent reduction in Mary's benefit





## Advice for Joe and Mary

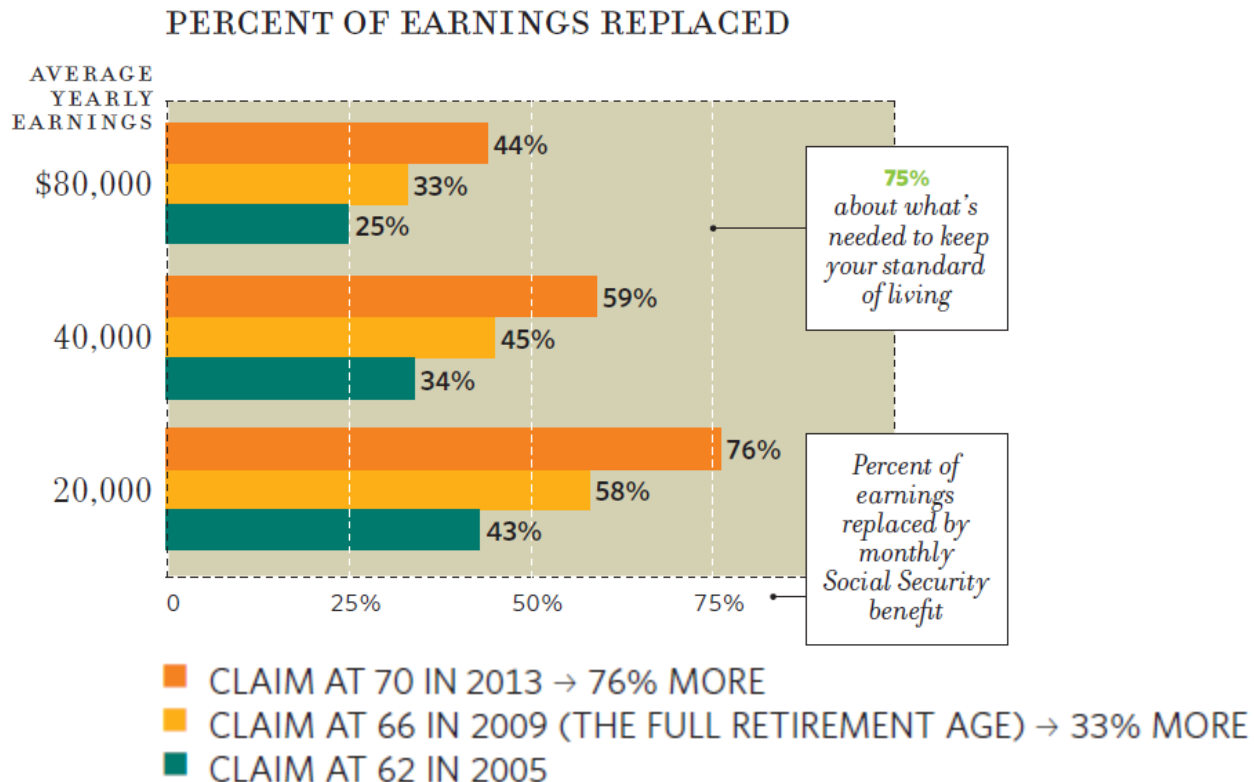
- ☐ Be patient
- ☐ Mike files for own max benefit at 70
- ☐ Mary files for her spousal benefits at 66 while own benefits builds DRCs
- ☐ Mary files for her max benefit

When Mary is age :	Scenario 1	Scenario 2
70	\$375,592	\$290,993
80	\$917,363	\$1,075,337
90	\$1,442,380	\$1,776,390



# How much can you get?

The monthly benefit earned is generally based on when you start to collect and the average of the highest 35 years of earnings on which you've paid Social Security payroll tax.





## Optimal strategy for divorced working women

- ☐ Claim divorced-spouse benefit at 66 while own benefit builds DRCs
- ☐ Switch to own maximum benefit at 70
- ☐ DRCs maximize total lifetime benefits and provide maximum income in old age
- ☐ Must not apply before FRA unless ex-spouse is deceased and she is applying for divorced-spouse survivor benefit