

Savvy Social Security Planning:

**What Baby Boomers Need to Know
to Maximize Retirement Income**

Baby boomers want to know:

- **Will Social Security be there for me?**
- **How much can I expect to receive?**
- **When should I apply for Social Security?**
- **How can I maximize my benefits?**
- **Will Social Security be enough to live on in retirement?**

Understanding the value of Social Security



Social Security offers income you can't outlive

If your monthly benefit is \$2,000 today and you live:

10 more years	you'll receive a total of	\$302,689	in lifetime benefits
20 more years		\$666,456	
30 more years		\$1,141,276	

Assumes 2.7% annual cost-of-living adjustments

Social Security offers annual inflation adjustments

If your monthly benefit is \$2,000 today and annual cost-of-living adjustments are 2.7% :

In 10 years	Your monthly benefit will be	\$2,611
In 20 years		\$3,408
In 30 years		\$4,448

Assumes 2.7% annual cost-of-living adjustments

Baby Boomer Social Security Question #1

Will Social Security be there for me?



OASDI Trust Fund still growing

Trust fund balance on 12/31/12: \$2.732 trillion

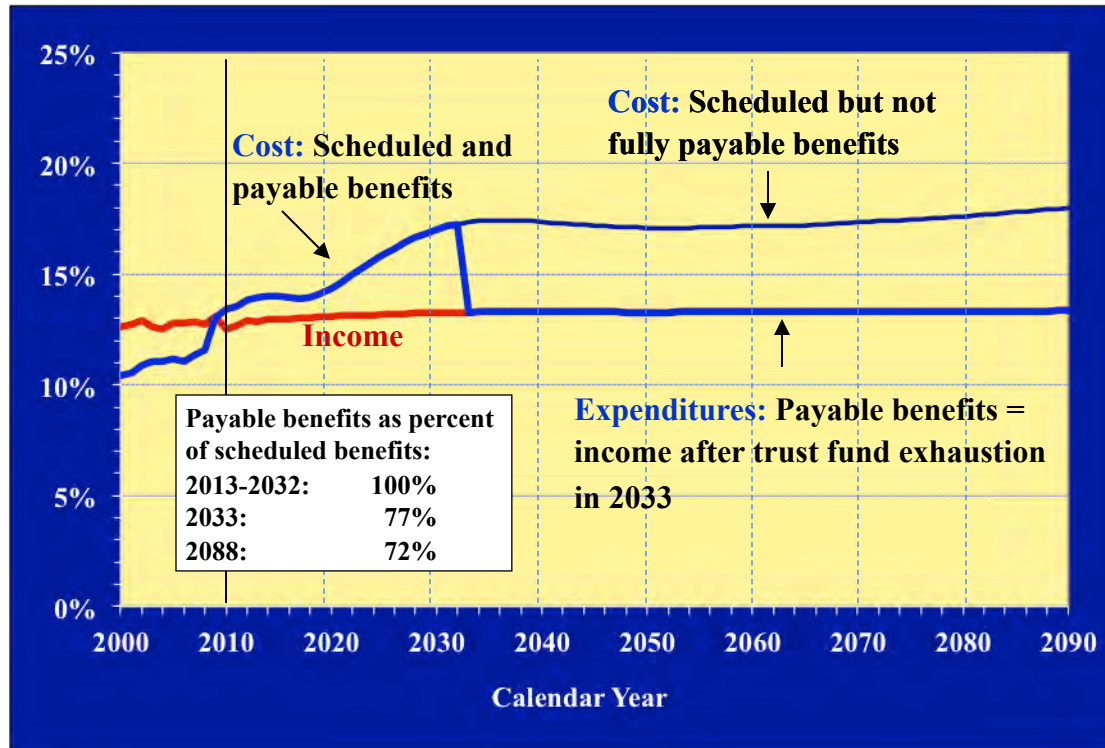
2013 results

- Total income: \$855 billion**
- Total expenditures: \$823 billion**
- Net increase in assets: \$ 32 billion**

Trust fund balance on 12/31/13: \$2.764 trillion

Long-term projections: without reform, benefits fall to 77% in 2033

OASDI Income, Cost and Expenditures as Percentages of Taxable Payroll
[Under Intermediate Assumptions]



Source: 2014 OASDI Trustees Report

What would it take to restore solvency to the system?

Reform proposals being studied

- **Increase maximum earnings subject to Social Security tax**
(currently \$118,500 in 2015)
- **Raise the normal retirement age**
(currently 66 for individuals born between 1943 and 1954;
67 for those born in 1960 or later)
- **Lower benefits for future retirees**
(escalate benefits based on increases in consumer prices
rather than wages)
- **Reduce cost-of-living adjustments (COLAs) for all retirees**

The bottom line for baby boomers

**Your benefits are not likely to be affected by
Social Security reform**



Baby Boomer Social Security question #2

How much can I expect to receive?



Your benefit will depend on:

- **How much you earned over your working career**
- **The age at which you apply for benefits**

How Social Security benefits are calculated

- **At age 62, each year's earnings are tallied up and indexed for inflation**
- **Highest 35 years of earnings are averaged (AIME)**
- **AIME is divided by three "bend points" to determine your primary insurance amount (PIA). This is the amount you'll receive at full retirement age.**
- **Benefit is increased each year by cost-of-living adjustments (COLAs)**

Example of benefit formula

- Baby Boomer born in 1952
- Maximum Social Security earnings every year since age 22
- AIME = \$8,890
- PIA formula:
 - $\$816 \times .90 = \734.40
 - $\$4,101 \times .32 = \$1,312.32$ ($\$4,917 - \$816 = \$4,101$)
 - $\$3,973 \times .15 = \underline{\$595.95}$ ($\$8,890 - \$4,917 = \$3,973$)
 - Total = $\$2,642.67$

PIA = \$2,642.60

Amount worker will receive at full retirement age

Full Retirement Age (FRA)

Year of Birth	Full Retirement Age
• 1943-54	66
• 1955	66 and 2 months
• 1956	66 and 4 months
• 1957	66 and 6 months
• 1958	66 and 8 months
• 1959	66 and 10 months
• 1960 and later	67

What if you apply for early benefits?

You will receive a percentage of your PIA

Apply at age	If FRA = 66	If FRA = 67
62	75.0%	70%
63	80.0%	75%
64	86.7%	80%
65	93.3%	86.7%
66	100%	93.3%
67		100%

What if you apply after FRA?

**You will earn 8% annual
delayed credits**

Apply at age	Benefit will be % of PIA if FRA = 66	Benefit will be % of PIA if FRA = 67
66	100%	93.3%
67	108%	100%
68	116%	108%
69	124%	116%
70	132%	124%

How to estimate your Social Security benefits

- Obtain your annual Social Security statement at www.socialsecurity.gov/myaccount
OR
- Go to www.socialsecurity.gov, click on "Estimate Your Retirement Benefits"
OR
- Use one of the calculators on the SSA website: www.ssa.gov/planners/benefitcalculators.htm

Spousal benefits

Spousal benefit = 1/2 the primary worker's PIA if started at full retirement age

Example:

- **John's PIA is \$2,000**
- **Jane's PIA is \$800**
- **If Jane applies at FRA, her benefit will be \$1,000 (50% of John's PIA)**

Rules for spousal benefits

- **Primary worker must have filed for benefits (but can suspend to build delayed credits if over FRA)**
- **Spouse must be at least 62 for reduced benefit or 66 for full benefit**
- **No delayed credits on spousal benefits after 66**

Divorced-spouse benefits

Same as spousal benefits if:

- **Marriage lasted 10 years or more**
- **Person receiving divorced-spouse benefit is currently unmarried**
- **The ex-spouse is at least age 62**
- **If divorce was more than two years ago ex-spouse does not need to have filed for benefits**

Rules for divorced-spouse benefits

- **More than one ex-spouse can receive benefits on the same worker's record**
- **Benefits paid to one ex-spouse do not affect those paid to the worker, the current spouse, or other ex-spouses**
- **The worker will not be notified that the ex-spouse has applied for benefits**
- **Divorced-spouse benefits stop upon remarriage of spouse collecting benefits (not upon remarriage of primary worker spouse)**

Survivor benefits

- **Survivor benefit will depend on:**
 - **The age at which the deceased spouse originally claimed his benefit (the “original benefit”)**
 - If he claimed before FRA, survivor benefit will be limited to the higher of the deceased spouse’s benefit or 82.5% of his PIA
 - If he claimed after FRA, the survivor benefit will include delayed credits
 - **The age at which the widow claims the survivor benefit (the “actual benefit”)**
 - If she claims before her FRA, her survivor benefit will be a fraction of the original benefit (e.g., 71.5% if claimed at 60)
 - If she claims at her FRA or later, her survivor benefit will equal 100% of the original benefit

Survivor benefits

- **If spouse dies while both are receiving benefits, widow(er) may switch to the higher benefit**

Example:

- **Joe and Julie are married. Both are over full retirement age.**
- **Joe's benefit is \$2,000, Julie's benefit is \$1,200.**
- **Joe dies.**
- **Julie notifies Social Security and her \$1,200 benefit is replaced by her \$2,000 survivor benefit.**

Survivor benefits

Example of early claiming

- Joe and Julie are married.
- Joe's PIA is \$2,000.
- Joe files for Social Security at 62; his benefit is 75% of \$2,000, or \$1,500.
- Joe dies.
- Julie's survivor benefit will depend on when she claims it.
 - If Julie claims her survivor benefit at 66 or later, her benefit will be 82.5% of Joe's \$2,000 PIA, or \$1,650 (special floor for survivor benefits).
 - If Julie claims her survivor benefit at age 60, her benefit will be 71.5% of \$2,000, or \$1,430.

Survivor benefits

Example of delayed claiming

- **Joe and Julie are married.**
- **Joe's PIA is \$2,000.**
- **Joe files for Social Security at 70; his benefit is 132% of \$2,000, or \$2,640.**
- **Joe dies.**
- **Julie's survivor benefit will be equal to Joe's benefit of \$2,640.**
 - **If Julie claims her survivor benefit at age 60, her benefit will be 71.5% of \$2,640, or \$1,887.**
 - **If Julie claims her survivor benefit at 66 or later, her benefit will be 100% of \$2,640, or \$2,640.**

Rules for survivor benefits

- **Couple must have been married at least 9 months at date of death (except in case of accident).**
- **Survivor must be at least 60 for reduced benefit (50 if disabled), or FRA for full benefit.**
- **Survivor benefit not available if widow(er) remarries before age 60 (or 50 for disabled survivor), unless that marriage ends.**
- **Divorced-spouse survivor benefit available if the marriage lasted at least 10 years.**

Baby Boomer Social Security Question #3

When should I apply for benefits?



Factors to consider when deciding when to apply

- **Health status**
- **Life expectancy**
- **Need for income**
- **Whether or not you plan to work**
- **Survivor needs**

Why delay benefits?

Bigger checks to start

Age at which benefits are claimed	% of PIA if FRA = 66	Benefit without COLAs (\$)	Benefit with COLAs (\$)
62	75	1,982	1,982
63	80	2,114	2,171
64	87	2,290	2,415
65	93	2,466	2,671
66	100	2,642	2,939
67	108	2,853	3,260
68	116	3,065	3,596
69	124	3,276	3,948
70	132	3,487	4,316

Assumes PIA = \$2,642 and 2.7% annual COLAs

Why delay benefits?

More income later on

Benefit at age	If claim at 62	If claim at 70
70	\$2,452	\$4,316
75	\$2,802	\$4,931
80	\$3,201	\$5,633
85	\$3,657	\$6,436
90	\$4,178	\$7,353
95	\$4,773	\$8,401
100	\$5,453	\$9,598

Assumes PIA at 66 = \$2,642 and 2.7% annual COLAs

When to apply for Social Security

Key points to remember

- **If you apply early, your benefit starts lower and stays lower for life.**
- **COLAs magnify the impact of early or delayed claiming. The longer you live, the more beneficial it is to delay benefits.**
- **Decision impacts survivor benefits as well: delaying benefits may give surviving spouse more income.**

Baby Boomer Social Security Question #4

How can I maximize my benefits?



Strategy #1 for maximizing your benefits

Improve your earnings record

Examine your earnings record from your latest Social Security statement, available online at www.socialsecurity.gov/mystatement

- **Is it accurate?**
- **Any missing years?**
- **Can you improve it by working longer?**

Strategy #2 for maximizing your benefits

Apply for Social Security at the optimal time

Consider:

- **Your income needs, both now and in the future**
- **Your life expectancy**
- **Your spouse's life expectancy**

Annual earnings test

- **If you apply for Social Security before full retirement age and you work:**
- **\$1 in benefits will be withheld for every \$2 you earn over \$15,720 in 2015**
- **Benefit will be adjusted at full retirement age**
- **Don't let annual earnings test discourage you from working**
- **To avoid the earnings test, wait until full retirement age or later to apply for benefits**

Strategy #3 for Maximizing your benefits

Coordinate spousal benefits



“File and suspend”

At FRA, higher-earning spouse applies for his benefit and asks that it be suspended

Lower-earning spouse files for spousal benefit

Higher-earning spouse claims benefit at 70

Example:

- **Bob and Barbara are 66**
- **Bob’s PIA is \$2,000; Barbara’s PIA is \$800**
- **Bob wants to delay his benefit to age 70. Barbara wants to file for her spousal benefit now**
- **Bob “files and suspends” at 66. This entitles Barbara to her spousal benefit while Bob’s benefit continues to earn delayed credits**

Caution: “File and suspend” may not be done before FRA

“Claim now, claim more later”

At FRA, higher-earning spouse restricts his application to his spousal benefit (lower-earning spouse must have filed for benefits on her record)

At 70, higher-earning spouse switches to his own maximum benefit

Example:

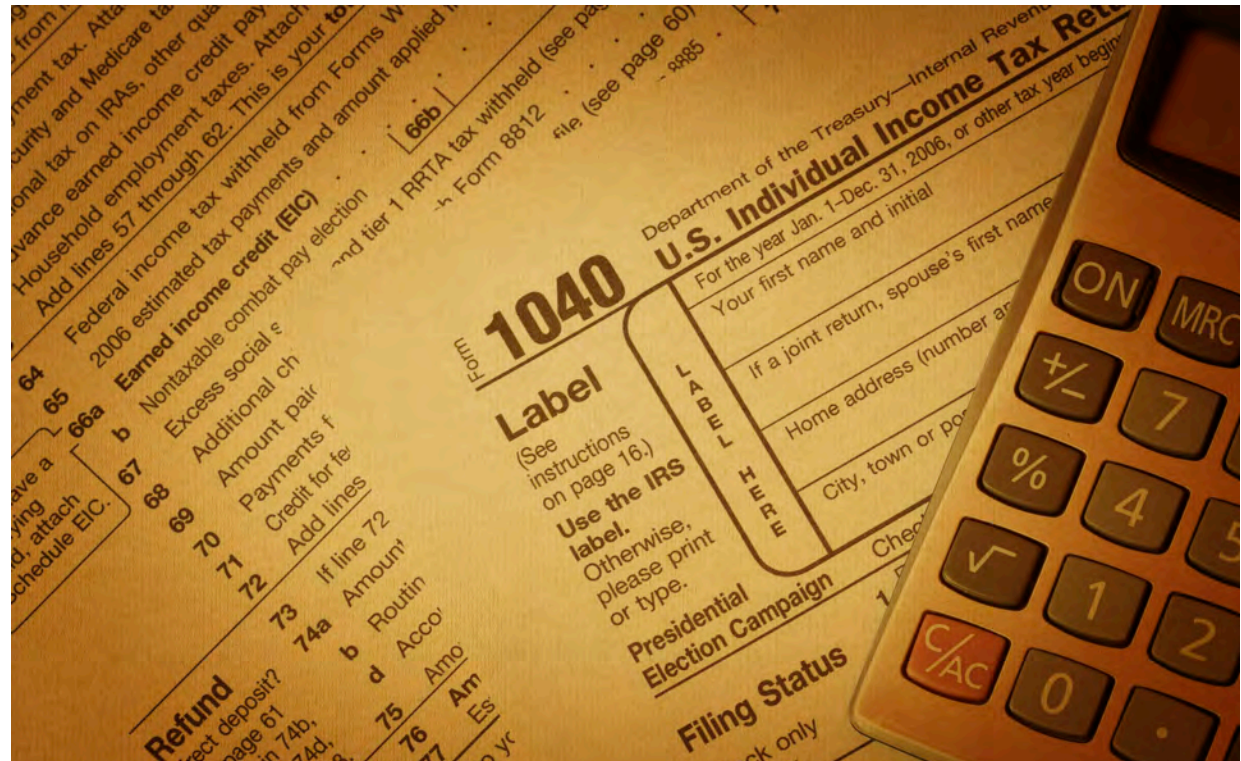
- Mike and Mary are 66
- Mike’s PIA is \$2,000; Mary’s PIA is \$800
- Mary files for her benefit at 66
- Mike files for his spousal benefit at the same time and begins collecting \$400 (half of Mary’s PIA)
- When Mike turns 70, he switches to his maximum benefit of \$2,640. Mary adds on her \$200 spousal benefit (total \$1,000)

Caution: Higher-earning spouse may not do this before FRA

- Only one spouse may do this (both spouses can’t receive spousal benefits on each other’s record at the same time)
- Spousal planning analysis can determine which of the various spousal strategies will work best for your situation

Strategy #4 for maximizing your benefits

Minimize taxation of benefits



Taxation of Social Security benefits

Filing status	Provisional income*	Amount of SS subject to tax
Married filing jointly	Under \$32,000 \$32,000 - \$44,000 Over \$44,000	0 Up to 50% Up to 85%
Single, head of household, qualifying widow(er), married filing separately & living apart from spouse	Under \$25,000 \$25,000 - \$34,000 Over \$34,000	0 Up to 50% Up to 85%
Married filing separately and living with spouse	Over 0	85%

*Provisional income = AGI + one-half of SS benefit + tax-exempt interest

Ways to minimize taxes on Social Security benefits

- **Reduce other income with tax-advantaged investments (but not municipal bonds!)**
- **Anticipate IRA RMDs, which may put you in a higher tax bracket; consider drawing down IRAs before 70-1/2**
- **Convert traditional IRA to Roth**
- **Delay Social Security: reduces number of years benefits are subject to tax**
- **Reduce expenses: pay down debt, adopt simpler lifestyle**
- **Continue to manage taxes throughout retirement**

Strategy #5 for maximizing your Social Security benefits

Coordinate Social Security with your overall retirement income plan



What Social Security personnel can and can't do

- **They CAN**
 - Estimate individual benefits
 - Tell you the amount you are entitled to now
- **They CAN'T**
 - Project future benefits through scenario planning
 - Help with innovative strategies designed to maximize benefits

Baby Boomer Social Security Question #5

**Will Social Security be enough to
live on in retirement?**

Answer: Probably not.

Consider Social Security in the context of:

- Pensions
- IRAs and 401(k)s
- Required minimum distributions at age 70-1/2
- Investment portfolio
- Work

You have questions. We can help.

- **When should I apply for Social Security?**
- **What if I want to keep working?**
- **What if I've already applied?**
- **How much will my benefit be?**
- **How can I coordinate spousal benefits?**
- **What's the best long-term strategy for my situation?**
- **What do I do next?**

Social Security is too important for guesswork.



**Let us help you protect your nest egg and maximize
your income in retirement.**

Peter Murphy

Retirement & Estate Planning Specialist

www.RetireReadySeries.com

Social Security Planning for Baby Boomers Video

**Social Security for Decision Makers
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