



Maximizing S.S. As Part of A Retirement Income Plan

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Our Discussion

1. Social Security Basics and History
 - Social Security Trust Report
 - Future hurdles for Social Security
2. 2016 Social Security Changes
 - Changes to aggressive claiming strategies
 - File and Suspend
 - Deemed Filing
 - Voluntary suspension strategies remain
3. What Remains the Same With Social Security?
 - Strategies for maximizing benefits after the rule changes
4. Expected Future Changes to Social Security?
 - Things everyone can agree upon
 - Different solutions based on President/Political Parties



Specializing in Retirement Income Planning



What is Retirement Income Planning?

“Hitting a moving target in the wind”



WHY PROCESS IS IMPORTANT

- Michael Phelps
 - 23 Gold Medals
 - 39 world records
- It was about the process!





Retirement Income Process

Preparation

1. Create engagement and evaluate the client's current situation
2. Identify/prioritize retirement goals/expectations
3. Estimate the costs of retirement
4. Evaluate available resources (pension, savings, Social Security, life insurance)
5. Make a preliminary calculation of the client's preparedness for retirement
6. Modify plan if a shortfall

Building the Plan

7. Determine the theoretical approach
8. Consider key retirement decisions and strategies
9. Address risks faced in retirement
10. Test alternatives and measure outcomes
11. Present alternatives to client and decide on a plan
12. Implement the plan
13. Review and revise the plan




Determine Approach For Meeting Client's Goals

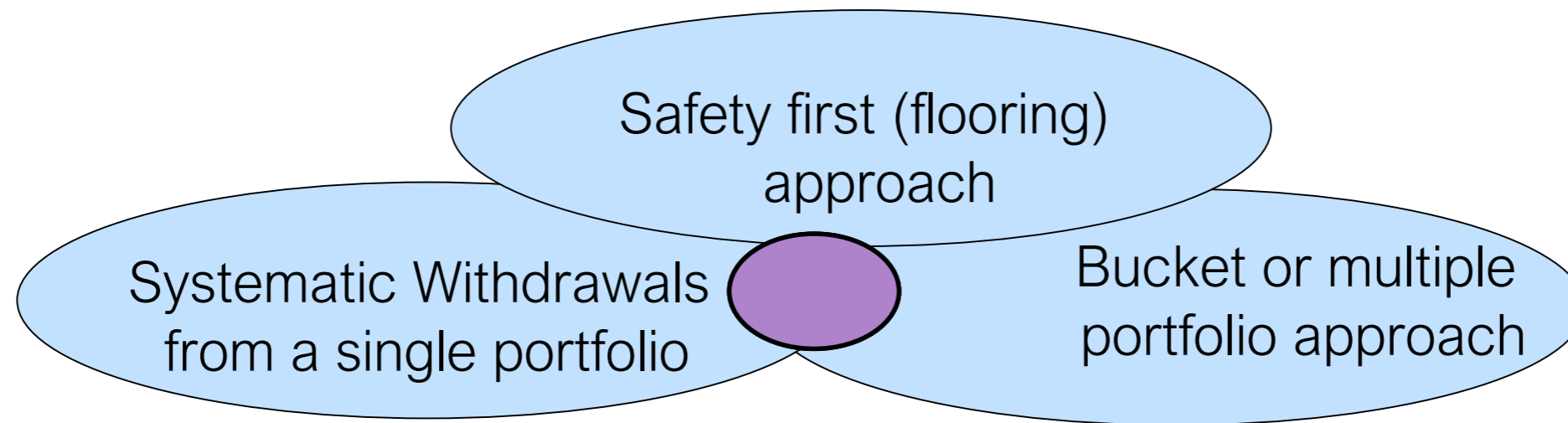
Safety first (flooring)
approach

Systematic Withdrawals
from a single portfolio

Bucket or multiple
portfolio approach




Determine Approach For Meeting Client's Goals



- Consider advisor's preferences
- Consider client's preferences (safety of income, potential for upside, legacy)
- Consider client's funding status



What We Learn from Each Approach

- From the safety first approach we learn that we need to prioritize client's goals and determine which are most important
 - From the systematic withdrawal approach we learn that we need to carefully consider how much can be withdrawn from resources and still have them last a lifetime
 - From the bucket approach we learn that a plan has to tell a story so that the client understands how the plan works when things happen
- 



Setting the Social Security Stage





Military Spending is the
TOP federal government
expenditure





WRONG!

Social Security & Medicare
are the largest expenditures
of Federal Government
(42%)





Government – Including Social Security Is Inefficient







WRONG!

2017 – Social Security
Overhead expenses were
.7% of money paid out






Social Security is likely to
go away!





WRONG!

Roughly 2/3rds of retirees receive the majority (over 50%) of their retirement income from Social Security and this reliance is not expected to change





History of Social Security

- Signed into Law by President Franklin D. Roosevelt Aug. 14, 1935
 - Min monthly benefit was \$10 and maximum was \$85
 - Earliest you could start benefits was 62 and full benefits 65
 - Life expectancy was 61! (excluding infant mortality 65 and 8 months)
- Paying into system v. taking benefits
 - 1945 – 41.9 workers v. 1 Recipient
 - 1960 - 5 workers v. 1 recipient
 - 2000 – 3.4 workers v. 1 recipient
 - 2018 – 2.4 workers v 1 recipient




S.S. – A reason to live?

- First person to ever receive a S.S. number died at 61, too early to collect but wife did collect!
- First recipient in 1940 – received about \$22 dollars a month – lived to 100! (over \$22,000 collected)

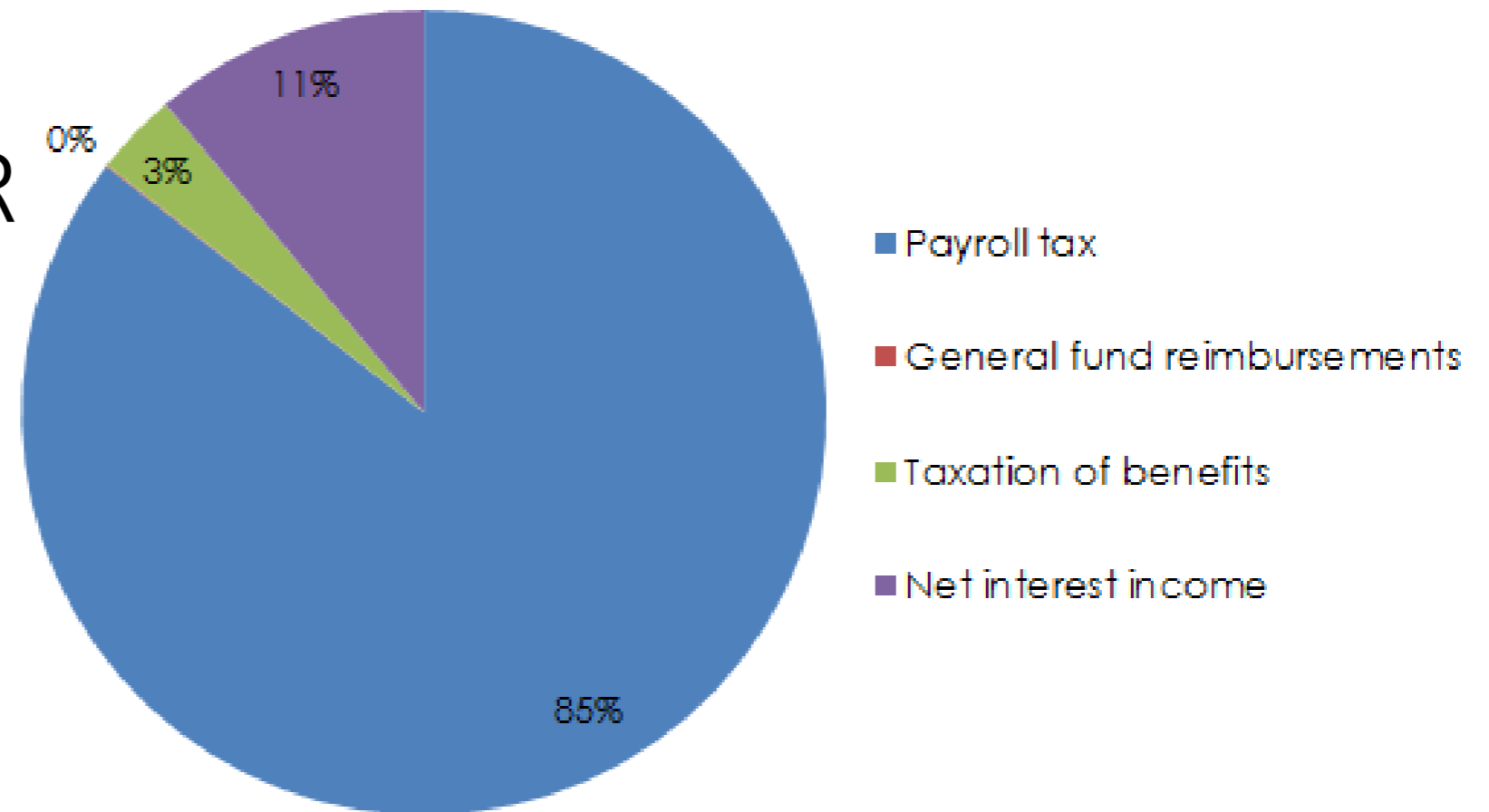


Most Popular SS

- More than 40,000 people have claimed 078-05-1120 as their number
 - Hilda Schrader
Whitcher – Secretary at a Wallet Manufacturing Company
 - 001-01-0001
 - This was actually a real S.S. number also
- 

How is S.S. Funded?

How Social Security was Funded in 2014



- Payroll Taxes:

- 6.2% FICA – EE/ER

- Self-Employed
12.4%

- 2018 TWB
\$128,400

Source: Social Security Administration



Social Security Status

- Provided benefits to 60 million in 2015, 43 million were retired benefits – 11 million were disabled – 6 million survivors
- Social Security and Medicare together accounted for 42 percent of Federal program expenditures in fiscal year 2014.
- In 2015, Social Security's cost continued to exceed the combined program's tax income, projected to persist throughout 2016-19.
- Surplus will peak in 2019 and then begin to go down (2018 first tapping into the "trust funds")
- The anticipated depletion date for the theoretical combined asset reserves is 2034.



Depletion of S.S.


- Social Security costs will be more than 25 percent higher than income by 2034.
- After the depletion of reserves, continuing tax income would be sufficient to pay 79 percent of scheduled benefits in 2034 and 73 percent in 2089.
- But it was projected as 77 percent before and could change again in this year's report.
- Per worker share it would be 16.7 percent in 2038

What would it take to fix

LONG-RANGE ACTUARIAL DEFICIT OF THE OASI, DI, And Combined OASDI TRUST FUNDS			
	OASI	DI	OASDI
Actuarial Deficit (As a percentage of taxable payroll)	2.39	0.26	2.66



Other Proposed Options

- Increase FRA
 - Increase age 62
 - Decrease benefits
 - Means Testing
 - CPI-Chained (basically behavioral CPI)
 - Increased taxes
- 




Social Security Benefits






How Are Benefits Calculated

- 40 Quarters of Coverage (\$1,320 (2018))
 - 35 Years of Wage History (indexed to 60)
 - AIME – goes into PIA formula
 - Covers more for lower income than higher income
- 



Claiming Benefits

- Claim workers benefits as early as age 62
 - Spousal benefits require spouse to have claimed
 - Widow as early as age 60
 - Divorced – 62 (spouse needs to be of age to collect 62+)
 - No automatic benefits – need to collect!! People over 70 still haven't collected!
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Deferral of Benefits

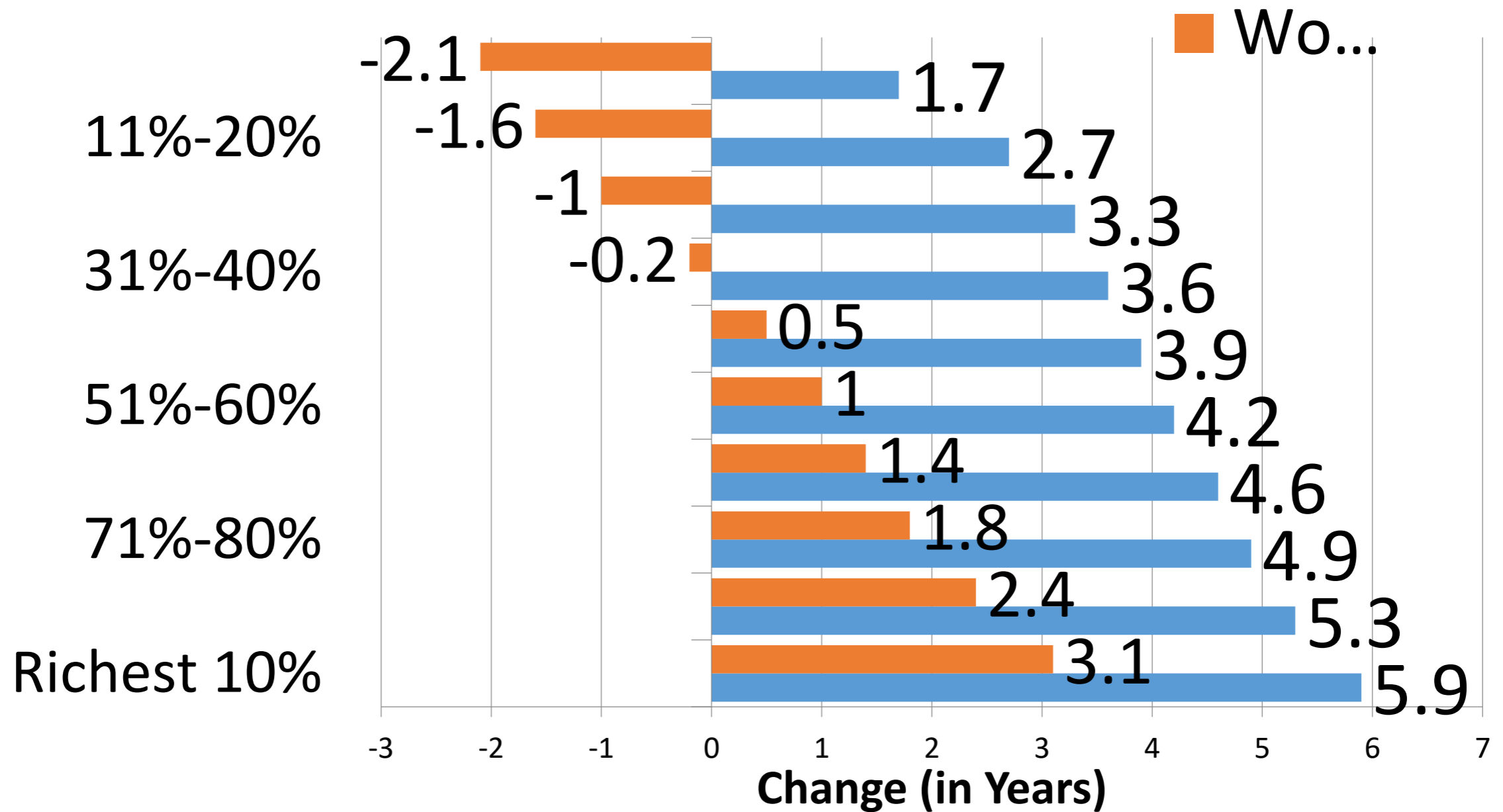
- Claiming before FRA results in reduced benefits
- $5/9\text{ths} \times 1\% \times 36 \text{ months}$, $5/12\text{ths} \times 1\% \times 24 \text{ months}$
- Defer past FRA – 8% per year
- Example: 67 FRA – claim at 62 (5 years) or 30%
 - \$2,000 benefit – not is \$1,400/month



Power of Deferral

- Generally speaking – deferral is powerful planning tool
 - 8% increase in benefits a year, adjusted for inflation
 - Pays for the joint lives of both spouses larger benefit
 - Most research shows this is good deal (break even is around 80 – today most people live past break even)
- 

Why longevity protection is so important: Wealthier People Tend to Live Longer



Source: Barry Bosworth, Brookings Institution



S.S. v. Annuity

Social Security is the first annuity you should “buy”

Looking at age 62-70 deferral 8 years of benefit at \$22,500 or roughly \$180,000

If you were to invest \$180,000 into a DIA could you beat the deferral?

Today the answer is no – S.S. would provide \$17,100 in addition inflation adjusted income (best annuities for male was around \$13,500 and women lower)



Social Security Changes





Social Security 2016 Changes

- Eliminated use of file-and-suspend as a way to
 - Trigger spousal and other dependent benefits
 - Establish a filing date (retain option of retroactive filing)
- Eliminated restricted filing
 - No longer can claim a spousal benefit and switch to workers benefit later



Benefit Suspension

- Prior to full retirement age
 - Earnings test acts as mandatory suspension
- After full retirement age
 - Voluntary suspension of benefits is allowed
 - No longer can file and suspend to trigger spousal benefits
 - Can still use voluntary suspension to increase Social Security benefits



Voluntary Suspension Example

- Joe, your new client started SS benefits at 62, FRA is 66 – PIA was \$2,000
 - Reduced by 25%
 - Received \$1,500 at 62
- At 66, can voluntarily file and suspend
- Benefit increases 8% each year of deferral
- Defers to age 70 multiply \$1,500 by 132% and receives \$1,980 (almost got all benefits back)



Utilizing Voluntary Suspension

- Strategy can improve a client's situation
 - New client who had made claiming decision on their own
 - Older worker who loses job and needs to start SS and then gets another job
- Alternative to Voluntary Suspension
 - After claiming a beneficiary within 1 year can withdraw their application and pay back all their benefits



Elimination of Restricted Filing

- Old rules applied a “deemed” filing rule up to FRA—then restricted filing allowed
- Technically the rule extended the deemed filing rule to age 70
- What does this mean?
 - You always are deemed to have filed for all retirement benefits that you are eligible for
 - It means you cannot choose between the higher of your spousal or worker’s benefit at FRA
 - You will get the higher payment of the two!



Grandfathering Provision

- Those eligible for a worker's and a spousal benefit who are 62 or older in 2015 can still claim a spousal benefit at full retirement age and switch to a workers benefit later.
- If 62nd birthday is January 1, 2016, you are considered 62 in 2015
- Must be eligible to receive the spousal benefit and not dependent upon file and suspend
- May impact more divorced individuals because they are not dependent upon spouses filing and suspending



Impact on Divorced Spouses

- Eligibility for divorced spousal benefit
 - Marriage lasted for 10 years—currently unmarried
 - Spouse has to be at least age 62
 - If the spouse has not filed, the divorce must have occurred 2 years or more ago
- Filing for divorced spousal benefits is not dependent on file and suspend



Divorced Spouse Example

- Example: Gerry age 65 in 2016 and Gina age 64 were divorced in 2012. Both work and are entitled to the maximum Social Security benefit.
- Opportunity
 - Since they are both eligible for the grand-fathering rule, and assuming they are not remarried
 - Both can do a restricted filing for spousal benefits when they attain 66
 - At 70 they can switch to a workers benefit



Widow Choices

- No change under new rules!
- Survivor benefit
 - Can begin as early as age 60 (subject to reduction factor and earnings test)
 - No increase in benefits after full retirement age
- Workers benefit
 - Can begin as early as 62 (subject to reduction factor and earnings test)
 - 8% increase for each year of deferral past FRA up to age 70
- Examples
 - Widowed at age 60—widow has the larger workers benefit. Could elect reduced survivor benefit for 10 years then switch to the worker's benefit (subject to earnings test).
 - Widowed at age 60—widow has the smaller benefit—Could elect the reduced workers at 62 and switch to survivors at FRA




Widow Case Study

- Wanda is age 59 and sadly her 64-year-old husband passed away. She is not currently working but may in the future. Her husband's PIA was \$2,500. Her PIA based on her own wages is \$2,000. She has some other resources but money is tight and she's anxious to claim SS benefits. What are her options? What do you think she should do?



Widow Solution

- Widow's benefits can begin as early as age 60—but they are subject to the earnings test and a benefit reduction
 - Wanda can choose a reduced worker's benefit at 62 (reduced) and switch to the full widow's benefit at age 66
 - She can choose a reduced survivor benefit at 60 and switch to the worker's benefit at 70
- 



Moving Forward With Social Security





Maximum Benefit 2018

- \$2,158 a month (\$25,896 a year) at 62
- \$2,589 (\$31,068 a year) at age 65
- \$3,698 (\$44,376 a year) at age 70
- Couple both earning maximum benefit
 - Age 65 \$63,136
 - Age 70 \$88,752
- In 2018, the average Social Security benefit paid to retired workers is \$1,404 per month



New Rules Don't Reduce Benefits of Deferring

- Helps meet primary goal of meeting income needs
- Builds a bigger income floor with a low-risk investment
- Benefits payable for life—addressing longevity risk
- Benefits receive COLA—addressing inflation risk
- Regular payments addressing excess withdrawal risk
- Couple deferring larger benefit—addressing loss of spouse risk
- Retirees with greater amounts of guaranteed income are more satisfied, worry less, and show fewer signs of depression



Impact on Claiming Strategies


- Singles no changes
- Married and divorced may create more practical barriers to deferring
 - Cannot rely on spousal benefits while waiting for larger worker's benefits
 - May have more couples choosing to take smaller worker's benefits earlier
 - Or rely more on continued employment or drawing down other resources

Trends in Claiming Behavior

Sex/Birth Cohort	Claim at 62	Claim at 63-64	Claim at 65+
Male 1930-34	55.3%	23.1%	21.5%
Male 1940-44	46.4%	16.4%	37.1%
Female 1930-34	57.3%	18.3%	24.9%
Female 1940-44	49%	17.2%	33.8%



Conclusion

- Keep up-to-date
 - Keep maximizing benefits for clients and pay attention to the benefits of continued employment and S.S. deferral
 - Comprehensive Planning
 - The System will change so build in flexibility into plan
- 

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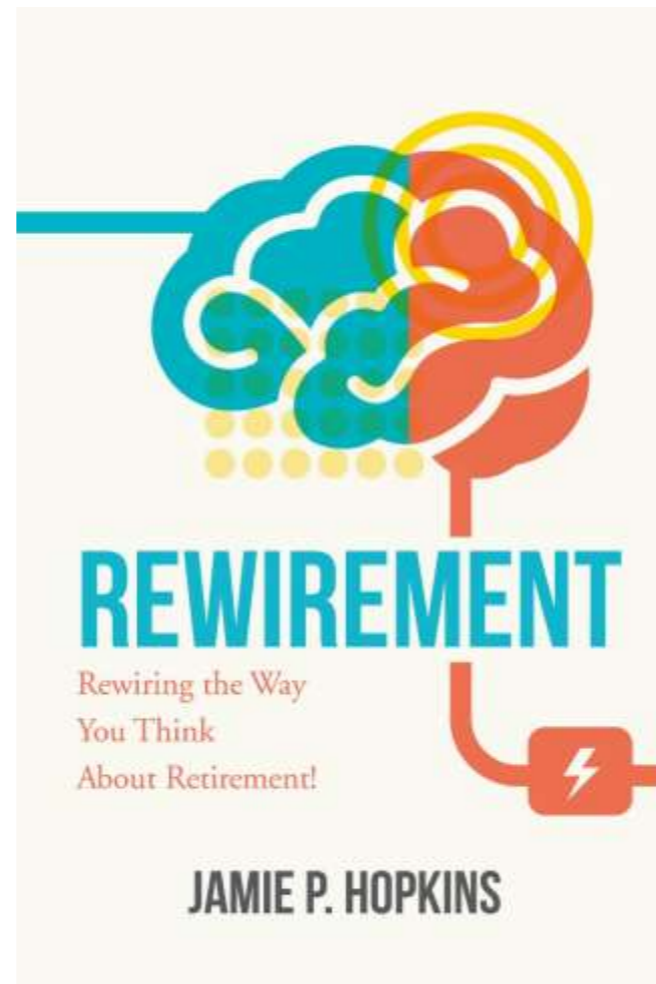
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