Maximizing Social Security Retirement Benefits For You and Your Clients
—
Inside the Black Box

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National Organization of Social Security Claimants Representatives

A TALE OF TWO COUPLES

Bob & Carol

Ted & Alice

All reach age 62 in November 2016
Each person had high average lifetime earnings ($76,299)
All in good health with kids grown
Each couple has net worth between $500,000 and $5M

When should each couple claim retirement benefits?

A TALE OF TWO COUPLES

Under Bipartisan Budget Act of 2015

	BOB	CAROL
DOB:	Nov 10, 1954	Nov 15, 1954
	(age 62 in 2016)	
Average Lifetime Earnings:	$76,299	$76,299
PIA (age 62):	$2,302	$2,302
Benefit:		
(RIB)	$1,736	$1,736 (2016 $)
(widow's - at age 85)		$3,426 (2039 $)
Life Expectancy at age 62:	SSA: 81.97 ALS: 85	SSA: 84.78 ALS: 90
Total cumulative benefit (present value):		
RIB:	$407,934	$407,934
Widow's	—	$ 80,269
TOTAL:	**$896,137**	

	TED	ALICE
DOB:	Nov 20, 1954	Nov 25, 1954
	(age 62 in 2016)	
Average Lifetime Earnings:	$76,299	$76,299
PIA (age 62):	$2,302	$2,302
Benefit:		
(RIB)	$3,114 (age 66)	$3,730 (age 70)
(widow's – at age 85)		$5,481 (2039 $)
Life Expectancy at age 62:	SSA: 81.97 ALS: 85	SSA: 84.78 ALS: 90
Total cumulative benefit (present value):		
RIB:	$446,373	$441,922
Widow's	—	$128,434
TOTAL:	**$1,016,729**	

A TALE OF TWO COUPLES

(Under Bipartisan Budget Act of 2015)

BOB AND CAROL

- **Each files at age 62 and 1 month; receives benefit of $1,736**

TED

- File a standard application for benefits at age **68**. The approximate benefit on his own earnings record would be **$3,114**.

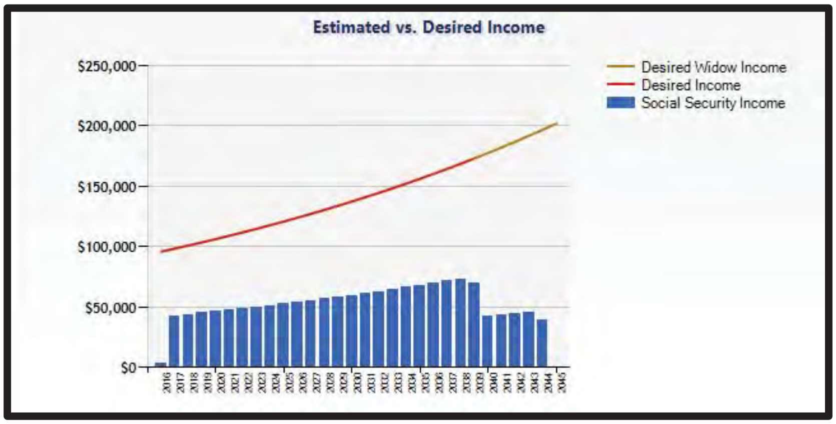
ALICE

- At age 70 file a petition to resume payment of benefits on her own record. The approximate benefit will be $**3,770**

Bob and Carol

(earliest)

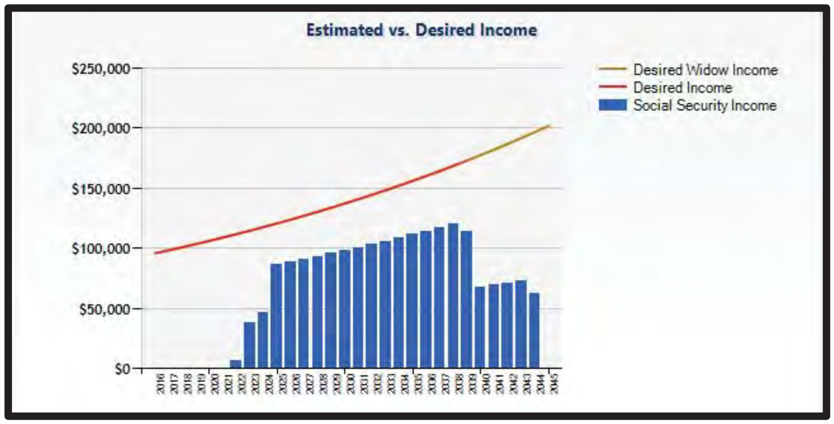
Total: $ 896,137



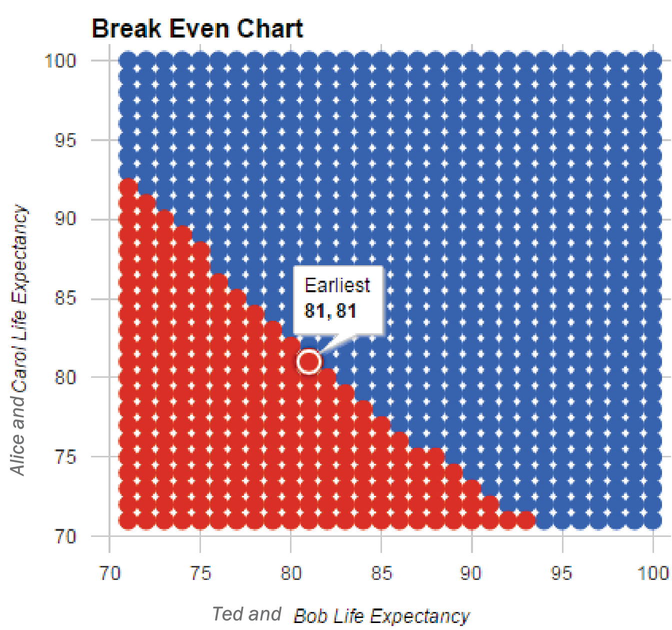
Ted and Alice

(optimal)

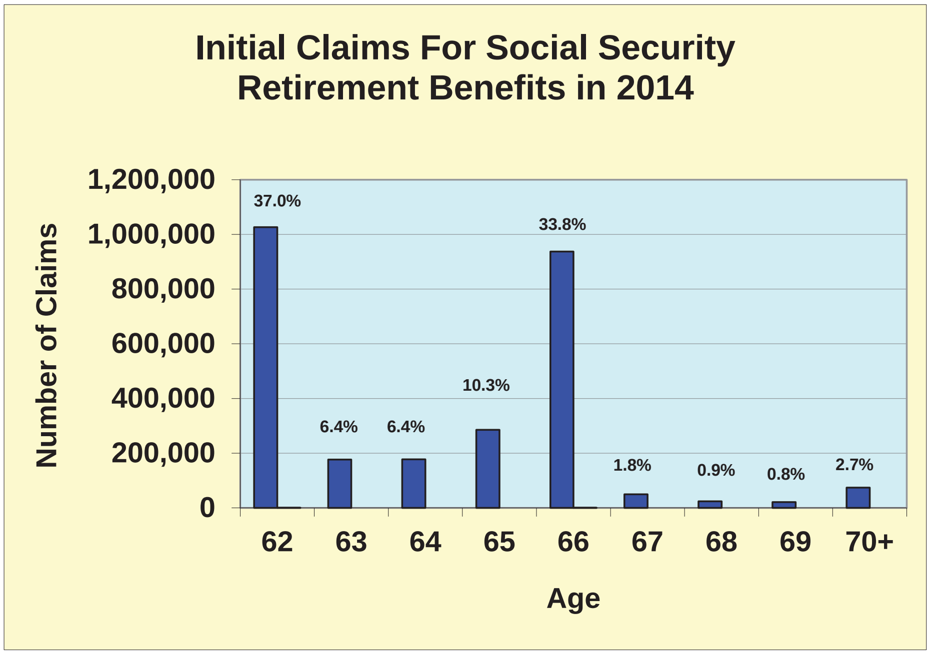
Total: $1,016,729



A TALE OF TWO COUPLES



CLAIMING BEHAVIOR



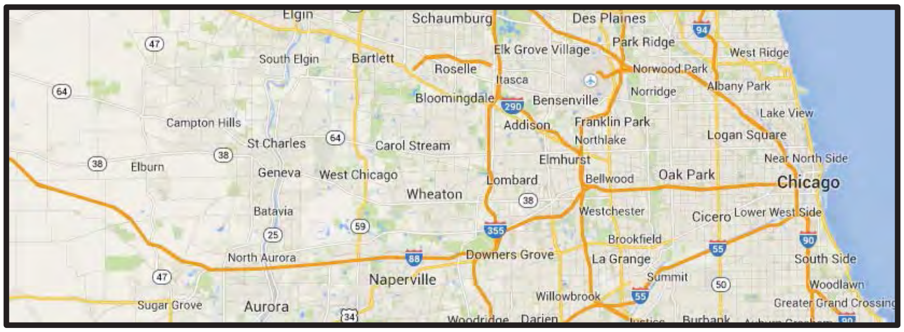
62	37.0%
63-65	23.1%
66	33.8%
Over 66	6.1%

SOURCE: SSA, Annual Statistical Supplement to the Social Security Bulletin, 2015, table 6.A4/

GOALS

- Determine what Social Security benefits are available to a retiree and his/her family
- Understand the four factors to consider when determining if one should retire early, at full retirement age, or later
- Understand impact on benefits if working after retirement
- Understand impact of 2015 amendments to Soc Sec Act
- Understand how to best maximize household benefits
  - Dual income households
  - Individuals with pensions based on non-covered employment
  - Widows
  - Divorcees
  - Household with Disabled Adult Child

Roadmap for Today's Presentation:

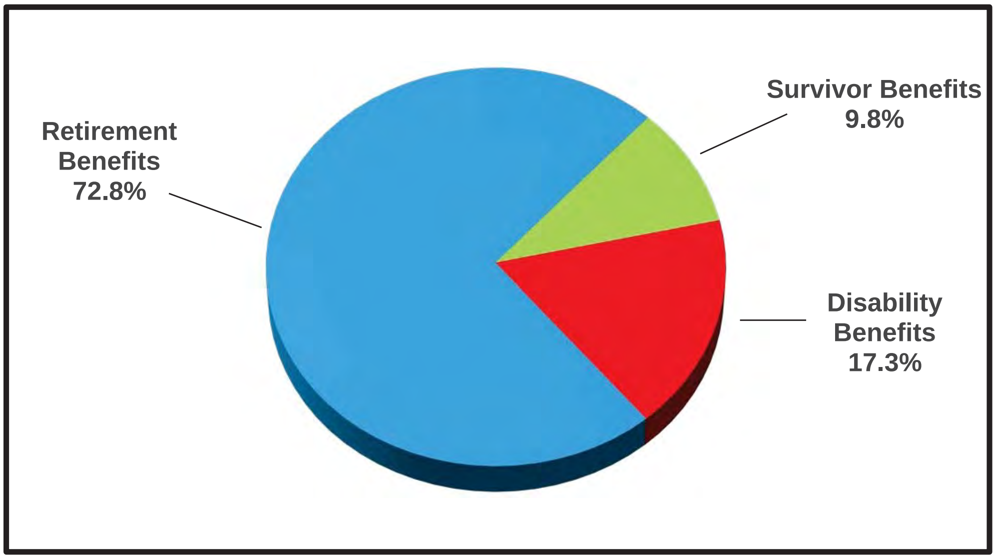


- Introduction
- What is Required to Claim a Retirement Benefit?
- When is Retirement?
- Early Retirement vs Late Retirement
- Factors That Increase or Reduce Benefits

Roadmap for Today's Presentation:

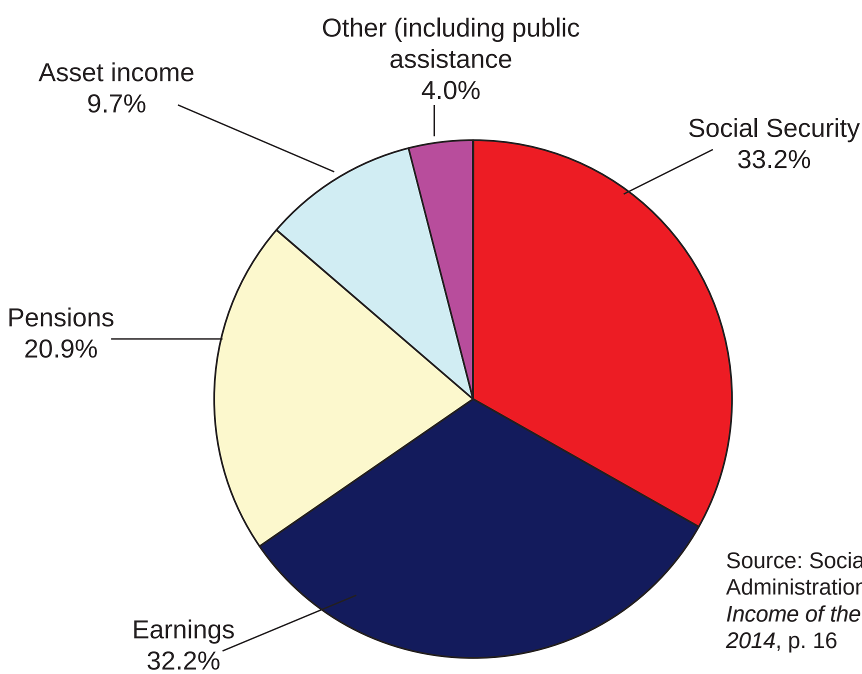
- Types of Benefits
- Impact of Benefit Taxation
- Benefit Claiming Strategies to Maximize Benefits
  – Impact of Bi-partisan Budget Act of 2015
- Future of Social Security
- Abbreviations and Glossary

Social Security Benefit Distribution February 2017



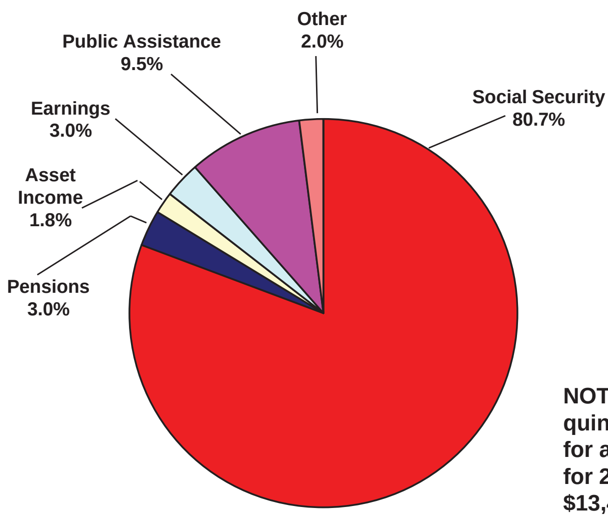
SOURCE: Monthly Statistical Snapshot, Feb 2017, Soc. Sec. Admn, Master Beneficiary Record and Supplemental Security Record, www.ssa.gov/policy/docs/quickfacts/stat_snapshot/2017-02.html

Sources of Income for Individuals Age 65 and Over



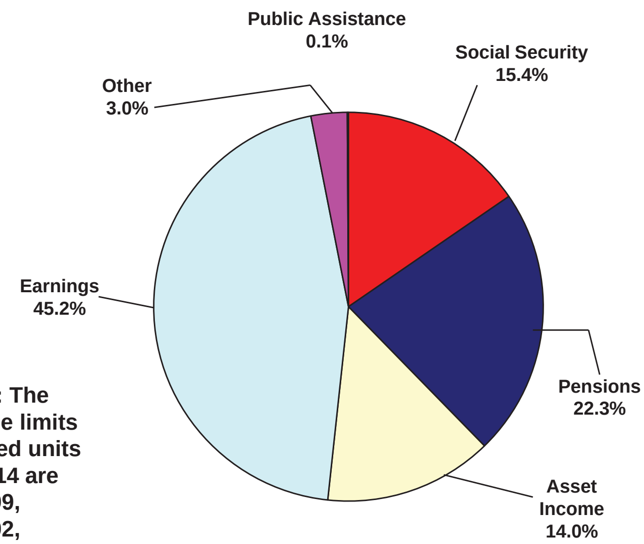
Source: Social Security Administration, Office of Policy, *Income of the Aged Chartbook, 2014*, p. 16

Sources of Income for Individuals Age 65 and Over



Lowest Quintile

NOTE: The quintile limits for aged units for 2014 are $13,499, $23,592, $39,298, and $72,129.



Highest Quintile

Source: Social Security Administration, Office of Policy, *Income of the Aged Chartbook, 2014*, p. 17

RETIREMENT BENEFITS

Eligibility Requirements

- **Attainment of age 62** – for Social Security purposes, an individual attains a given age on the first moment of the day *before* the anniversary of his or her birth [20 CFR §404.2(c)(4)]
- **Fully insured** (40 quarters insures for life ["permanently insured"])
  - Must be earned through "covered" employment
    - Excluded: work for which FICA/SECA not paid
      state/local government employment (some)
      school districts (some)
  - If individual dies or become disabled prior to age 62:
    - Count number of years after age 21 and stop with the year before death or disability (exclude years for which any part was included in a period of disability for disability benefit purposes)
    - Need one quarter for each year
    - A minimum of six quarters is required

RETIREMENT BENEFITS

Eligibility Requirements

- **Special rule for Disability Insured Status**
  - (20 quarters of coverage during 40-quarter period ending with quarter the disability began)
  - If under age 31: earned quarters for half the period from 21 through quarter in which disability begins (6 quarter minimum)
  - Provision not applicable where disability due to blindness

SSA §§216(l), 216(i)(3); 223(c)(1); 20 CFR §§404.110; 404.130

RETIREMENT BENEFITS

Eligibility Requirements

- **Retirement Benefits**
  - **Eligibility Requirements**
  - Early vs. full retirement
  - Amount payable
- Benefit Computation
- Replacement Rates
- Benefit Reduction
  - Actuarial reduction
  - Maximum Family Benefits
  - Windfall Elimination Provision (WEP)
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Submission of application

- Online [https://secure.ssa.gov/iCLM/rib]
- Paper (Form SSA-1-F6)
- Application not required if worker is entitled to disability insurance benefits for the month before the month in which he or she reaches full retirement age [SSA §202(a)(3)]

RETIREMENT BENEFITS
Eligibility Requirements

QUESTION FOR REVIEW:

What is "covered" employment?

How many quarters of coverage needed to be insured for life?

If disabled or dead before age 62, how many quarters are needed to be insured?

RETIREMENT BENEFITS
"Early" retirement vs "full" retirement

- Retirement age is increasing! (65 ➔ 67)
  - 1983 amendments specified 22 yr period for increase
  - 2 mo. increments to age 66, then 11 years at age 66, then 2 mo. increments to age 67 by 2022 [SSA §216(l)]
- Impact? "Actuarial reduction" [SSA §202(q)(1)]
  - ($^5/_9$ of 1% x no. months prior to age 66 up to 36 mos.) + ($^5/_{12}$ of 1% x no. of additional months)

  If retirement benefit starts at age 62, PIA is reduced:
  - Age 62 prior to 2000: 20%
  - Age 62 2005–2016: 25%
  - Age 62 2022 and beyond: 30%

RETIREMENT BENEFITS
"Early" retirement vs "full" retirement

If birth date is...	Then full retirement age is...
1/2/38-1/1/39 (age 62 in 2000)	65 years and 2 months
1/2/39-1/1/40 (age 62 in 2001)	65 years and 4 months
1/2/40-1/1/41 (age 62 in 2002)	65 years and 6 months
1/2/41-1/1/42 (age 62 in 2003)	65 years and 8 months
1/2/42-1/1/43 (age 62 in 2004)	65 years and 10 months
1/2/43-1/1/55 (age 62 in 2005-2016)	66 years
1/2/55-1/1/56 (age 62 in 2017)	66 years and 2 months
1/2/56-1/1/57 (age 62 in 2018)	66 years and 4 months
1/2/57-1/1/58 (age 62 in 2019)	66 years and 6 months
1/2/58-1/1/59 (age 62 in 2020)	66 years and 8 months
1/2/59-1/1/60 (age 62 in 2021)	66 years and 10 months
1/2/60 and later (age 62 in 2022 and beyond)	67 years

See: SSA §216(l) and 20 CFR §404.409

CLIENT: "When should I retire?"
"Early" retirement vs "full" retirement

Factors to consider:

- Benefit amount
  - Age at retirement
    - Actuarial reduction
    - Delayed Retirement Credit
  - Working after retirement
    - Retirement Test
    - Recomputations
  - Windfall Elimination Provision (WEP) and Government Pension Offset (GPO)
- Relative Health → Life Expectancy
- Desire to achieve goals outside of work

CLIENT: "When should I retire?"

"Early" retirement vs "full" retirement

- **Retirement Benefits**
  - Eligibility Requirements
  - **Early vs. full retirement**
  - Amount payable
- Benefit Computation
- Replacement Rates
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Factors to consider (cont.):

- Income Needs – Replacement of Pre-Retirement Income
  - How much is needed to maintain standard of living?
    - No longer pay Social Security Taxes
    - Lower income taxes
    - No longer need to save for retirement
    - Mortgages likely to be paid off
    - Work related expenses no longer necessary
    - People need 65%–75% of pre-retirement earnings to maintain lifestyle (see "replacement rates")

RETIREMENT BENEFITS

"Early" retirement vs "full" retirement

- **Retirement Benefits**
  - Eligibility Requirements
  - **Early vs. full retirement**
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QUESTION FOR REVIEW:

What are the four primary factors to consider when advising a client on when to retire:

- Benefit Amount
- Life Expectancy (health)
- Goals Beyond Work
- Income Needs

What is the Retirement Benefit Amount?

- Based on lifetime earnings
- Include only 35 years of highest earnings
- Earnings indexed to reflect increases in national average wages during career
- Progressive formula allows workers with lower lifetime earnings relative to national averages to have greater share of pre-retirement earnings replaced
- Earnings above contribution and benefit base excluded from calculation
- ($118,500 in 2015; $118,500 in 2016; $127,200 in 2017)

BENEFIT COMPUTATION

Three Steps:

1. Index each year's earnings to reflect value of money close to retirement
2. Add the 35 highest earning years of indexed wages and divide by the total number of months (420) = AIME

   (Average Indexed Monthly Earnings)

   (20 CFR §404.211)
3. Convert AIME to PIA (Primary Insurance Amount) (20 CFR §404.212)

See, in general: 20 CFR §§404.201— 404.213

BENEFIT COMPUTATION

Step 1: Index earnings

$$\text{Actual earnings for given year} \times \frac{\text{Average of total wages in 2nd year prior to year worker reaches age 62}}{\text{National average earnings for given year}}$$

Example:

Age 62 in 2016
Earnings of $15,000 in 1980
Indexing year = 2014
Average wages in 2014 = $46,481.52
Indexed earnings for 1980 =

$$\$15{,}000 \times \frac{\$46{,}481.52 \text{ (average annual wages in 2014)}}{\$12{,}513.46 \text{ (average annual wages in 1980)}} = \$55{,}717.83$$

This is done for each year of worker's earnings.

National Average Wage Table: http://www.ssa.gov/OACT/COLA/AWI.html

BENEFIT COMPUTATION

Step 2: Calculate AIME

$$\frac{\sum \text{35 highest earning years}}{\text{total number of months (420)}}$$

= AIME (Average Indexed Monthly Earnings)

Step 3: Convert AIME to PIA

PIA = Primary Insurance Amount

Converts a higher proportion of lower portions of AIME to a benefit

Enables workers with lower lifetime earnings to have a benefit that replaces a higher proportion of pre-retirement earnings

The PIA is the sum of 3 separate percentages of portions of average indexed monthly earnings

BENEFIT COMPUTATION

Convert AIME to PIA (cont.)

Multiplier for each point:

First – 90%

Second – 32%

Third – 15%

Weighted formula:

PIA = 90% of first $ "X" of AIME, plus

32% of any AIME above "X" to $"Y", plus

15% of any AIME above $"Y"

BENEFIT COMPUTATION

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
- **Benefit Computation**
- Replacement Rates
- Benefit Reduction
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PIA Formula for (2016) 2017

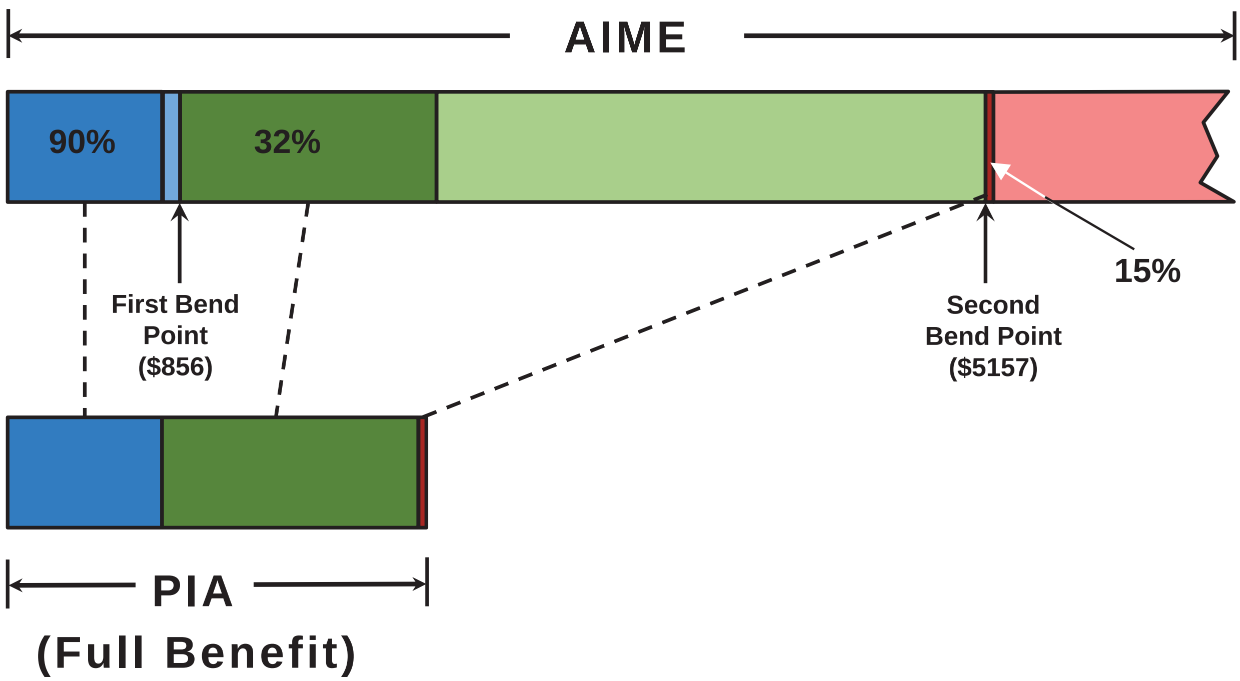
a) 90% of the first ($856) $885 of his/her average indexed monthly earnings, plus

b) 32% of his or her average indexed monthly earnings over ($856) $885 and through ($5,157) $5,336, plus

c) 15% of his or her average indexed monthly earnings over ($5,157) $5,336

- "X" and "Y" (bend points) increase each year **based on rise in national average wages**

BENEFIT COMPUTATION



REPLACEMENT RATES

Impact of Weighted Formula

- Individuals with lower lifetime earnings receive a higher proportion of their pre-retirement earnings as a benefit → "replacement rates"

Career Average Indexed Earnings (62 in 2016)	**$11,922**	**$21,459**	**$47,687**	**$76,299**	**$116,123**
Replacement Rate	**81%**	**59%**	**44%**	**36%**	**29%**
2016 Primary Insurance Amount (PIA)	**$806.20**	**$1,053.90**	**$1,735.50**	**$2,302.40**	**$2,787.80**

SOURCE: Personal correspondence: "Projection of PIA Amounts for Scaled Workers," Office of the Chief Actuary. Values based on 2016 Trustees Report alternative 2 assumptions.

BENEFIT COMPUTATION and REPLACEMENT RATES

QUESTIONS FOR REVIEW:

What are the three steps for benefit computation?

- Index annual earnings
- Calculate AIME (sum highest 35 years and divide by 420)
- Convert AIME to PIA via benefit formula

How does the benefit formula benefit workers with lower lifetime wages?

BENEFIT REDUCTION

Actuarial Reduction — 20 CFR §404.410

- **"OLD AGE" BENEFIT** (RIB) for insured worker
  - ($^5/_9$ of 1% x no. months prior to age 66 up to 36 mos.) + ($^5/_{12}$ of 1% x no. of additional months)

If retirement benefit starts at age 62, PIA is reduced:

- Age 62 attained prior to 2000: 20%
- Age 62 attained 2005 – 2016: 25%
- Age 62 attained 2022 and beyond: 30%

BENEFIT REDUCTION

Actuarial Reduction — 20 CFR §404.410

- **"OLD AGE" BENEFIT** (RIB) for insured worker (cont.)
- "Break even" point
  - Total number of months required to reach point at which cumulative full benefit equals cumulative reduced benefit
  - Reached in about 17 - 19 years (62 vs. FRA)

BENEFIT REDUCTION

Actuarial Reduction — 20 CFR §404.410

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
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- **SPOUSAL BENEFIT** (incl. divorced spouses)
  - 50% of worker's unreduced PIA
  - ($^{25}/_{36}$ of 1% × no. months prior to age 66 up to 36 mos.) + ($^{5}/_{12}$ of 1% × no. of additional months)

If retirement benefit starts at age 62, PIA is reduced (unless minor or DAC is "in care"):

– Age 62 attained prior to 2000:	25%
– Age 62 attained 2005 – 2016:	30%
– Age 62 attained 2022 and beyond:	35%

BENEFIT REDUCTION

Actuarial Reduction — 20 CFR §404.410

- **WIDOW'S BENEFIT** (incl. divorced widows) See POMS §RS 00615.301
  - 100% of the largest of:
    - Death PIA
    - "Windexed" PIA
    - Deemed Life PIA (death of insured after FRA, prior to filing claim for benefits) (includes DRCs and any RR recomputations [RS 00615.702; 00620.071])

BENEFIT REDUCTION

Actuarial Reduction — 20 CFR §404.410

- **WIDOW'S BENEFIT** (incl. divorced widows) (cont.) See POMS §RS 00615.301
  - **Windexing:** Widow's Indexing Original Benefit [POMS §RS 00615.302]
    - Worker dies prior to age 62, AND
    - Widow(er)'s first eligibility (age 50 or higher if disabled; age 60 if not disabled) is AFTER death of worker
    - Benefit = the higher of either

      (1) PIA of Deceased at time of death , OR

      (if deceased died prior to age 62):

      (2) PIA based on earlier of year widow reaches age 60 or year deceased would have attained age 62

BENEFIT REDUCTION

Actuarial Reduction — 20 CFR §404.410

- **WIDOW'S BENEFIT** (incl. divorced widows) (cont.)

  Actuarial reduction formula for widows:

  – no. of months prior to FRA for widow × .285 divided by no. of months from age 60 to FRA

  – thus, 28.5% reduction at age 60; 18.99% at 62

BENEFIT REDUCTION

Actuarial Reduction — 20 CFR §404.410

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- **WIDOW'S BENEFIT** (incl. divorced widows) (cont.)
  - "RIB LIM" (RS 00615.320)
    - Applies if deceased worker was entitled to reduced RIB or DIB
    - Widow(er)'s benefit is limited to larger of:
      - 82.5% of worker's death PIA or
      - the reduced RIB or DIB to which the worker would have been entitled had the worker lived. (I.e., reduction can't be greater than 17.5% on account of deceased spouse's early claiming)
    - Limit applies when WIB, after adjustment for fam max and actuarial reduction is more than BOTH 82.5% of worker's death PIA or DIB if s/he were alive

BENEFIT REDUCTION

Actuarial Reduction — 20 CFR §404.410

REVIEW:

Full Retirement Age (FRA) – currently 66, increasing to 67

Benefits reduced if claimed prior to FRA

Maximum reduction at 62:

25% for one's own benefit

30% for a spousal benefit

19% for a widow's benefit (28.5% at age 60)

this benefit can also be reduced if the deceased claimed prior to his/her FRA, but by no more than 17.5%

BENEFIT REDUCTION

Maximum Family Benefits

- Limits total of monthly benefits payable to all individuals on the earnings account of an insured beneficiary
- Statutory formula based on PIA:
  - As with PIA formula, uses "bend points" to multiply different portions of PIA by various percentage factors:

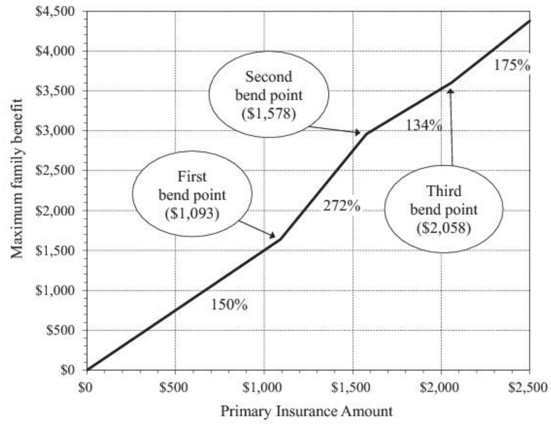
    Assume bend points a, b, c

    $$\text{MFB} = 150\% * a + 272\% * (b - a) + 134\% * (c - b) + 175\% * (\text{PIA} - c)$$

  - Bend points in 2017: $1,131; $1,633; $2,130
    in 2016: $1,093; $1,578; $2,058

BENEFIT REDUCTION

Maximum Family Benefits



2016 Bend Point Graph

SOURCE: Fig. V.C2, 2016 Trustees Report

- Not applicable to benefits of divorced spouse or of surviving divorced spouse [20 CFR §404.403(a)(3)]
- See, generally, 20 CFR §404.403–404.404.

BENEFIT REDUCTION

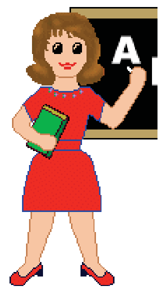
WEP & GPO

- WEP = Windfall Elimination Provision
- GPO = Government Pension Offset
- Reduces Social Security benefit when beneficiary receives pension based on "non-covered employment"
- WEP reduces the benefit worker receives based on worker's earnings record
- GPO reduces benefit worker receives on spouse's earnings record
- Does not reduce benefit if benefit based on spouse's earnings record and it is *that* spouse who is receiving the pension based on non-covered employment

BENEFIT REDUCTION

WEP & GPO

Two incomes:
Public schools (pension)
(non-covered employment)
Tutoring & Consulting
(“covered”
employment;
FICA paid)



Paid tax under FICA or SECA for all earnings
(no gov’ment pension)

WEP **applies** to worker’s RIB
GPO **applies** to any spousal benefit received by this worker

Will **not** have benefits reduced by WEP or GPO; spousal benefit IS reduced as it is based on WEP PIA

BENEFIT REDUCTION

Windfall Elimination Provision (WEP)

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- Applies if worker has less than 30 years of “covered” earnings
- If less than 22 years of covered earnings, reduces benefit by lesser of ½ of pension amount or ½ of the first “bend point” in PIA formula
- Example:
  - Current (2017) bend point is $885
  - Assume pension = $2500/mo
  - Reduction is $443

BENEFIT REDUCTION

Windfall Elimination Provision (WEP)

- Applies to workers who first became eligible after 1985 for a monthly pension based on NONCOVERED employment and who attained age 62 after 1985 (includes FECA payments, i.e., Federal WC, in lieu of Civil Service annuity; excludes Federal Thrift Savings Plan payments).
- Multiplier in PIA formula changes from 90% to 40% if less than 21 years of covered employment with "substantial" earnings
- Eliminates "windfall" accruing to those with little Social Security coverage and longer careers in noncovered employment

BENEFIT REDUCTION

Windfall Elimination Provision (WEP)

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
- Benefit Computation
- Replacement Rates
- Benefit Reduction
  - Actuarial reduction
  - Maximum Family Benefits
  - **Windfall Elimination Provision (WEP)**
  - Government Pension Offset
- Benefit Increase
- Working after Retirement
- Dependent's and Survivor's Benefits
  - Spousal
  - Widow(er)'s
  - Children's
  - Parents'
- Disability Benefits
- Taxation of Benefits
- Benefit Claiming Strategies
- Future of Social Security

- Resulting reduction cannot be > ½ amount of non-covered pension up to a maximum of the difference between the first PIA bend point multiplied by the regular factor of 90% and the first PIA bend point as multiplied by the reduced factor of 40%
- *Example:* In 2017, first PIA bend point is $885. Therefore, the maximum reduction is (90% x $885) – (40% x $885) = .5 x $885 = $442.50 ➞ $443
- Exception: 30 years of "covered" employment; reduced reduction if 21–29 years of covered employment

SSA §215(a)(7), (d)(5); 20 CFR §404.213.
POMS §RS 00605.360, et seq.

BENEFIT REDUCTION

Government Pension Offset (GPO)

- SSA §202(k)(5); 20 CFR 404.408a
- POMS §GN 02608.000, et seq.

- Applies to spouse, divorced spouse, surviving spouse or surviving divorced spouse who receives any public pension based on his or her own noncovered employment with a governmental agency

  ∴ Does not apply to foreign pension!

- Reduction = 2/3 of the government pension

BENEFIT REDUCTION

Government Pension Offset (GPO)

- Ensures that recipients of a government pension based on their own noncovered earnings receive no more in combined pension/Social Security benefits than spouses receiving SS benefits both on their own and their spouse's records

- Does not apply if an employee worked exclusively in employment that is covered under Social Security for at least the last five years of their employment

BENEFIT REDUCTION

WEP and GPO

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
- Benefit Computation
- Replacement Rates
- Benefit Reduction
  - Actuarial reduction
  - Maximum Family Benefits
  - **Windfall Elimination Provision (WEP)**
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- Future of Social Security

QUESTIONS FOR REVIEW:

What types of pensions are based on non-covered employment?

- State and local government
- Some school districts
- Foreign employers

What is the WEP and to whom does it apply?

What is the GPO and to whom does it apply?

BENEFIT INCREASE

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
- Benefit Computation
- Replacement Rates
- Benefit Reduction
  - Actuarial reduction
  - Maximum Family Benefits
  - Windfall Elimination Provision (WEP)
  - Government Pension Offset
- **Benefit Increase**
- Working after Retirement
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- Delayed Retirement Credit
  - ⅔ × 1% /mo. from FRA to age 70
  - 20 CFR §404.313
- Automatic Cost-of-Living Increases
  - Annually announced in October, prior to year
  - Effective with December benefit, payable in January
  - 20 CFR §404.270 et seq.
- Recomputation – annually if retiree continues to work
  - 20 CFR §§404.280 – 404.288

BENEFIT INCREASE

Year of birth	Normal Retirement Age (NRA)	Credit for each year of delayed retirement after NRA (percent)	Benefit, as a percentage of PIA, beginning at age--						
			62	63	64	65	66	67	70
1924	65	3	80	86 2⁄3	93 1⁄3	100	103	106	115
1925-26	65	3 ½	80	86 2⁄3	93 1⁄3	100	103 ½	107	117 ½
1927-28	65	4	80	86 2⁄3	93 1⁄3	100	104	108	120
1929-30	65	4 ½	80	86 2⁄3	93 1⁄3	100	104 ½	109	122 ½
1931-32	65	5	80	86 2⁄3	93 1⁄3	100	105	110	125
1933-34	65	5 ½	80	86 2⁄3	93 1⁄3	100	105 ½	111	127 ½
1935-36	65	6	80	86 2⁄3	93 1⁄3	100	106	112	130
1937	65	6 ½	80	86 2⁄3	93 1⁄3	100	106 ½	113	132 ½
1938	65, 2 mo.	6 ½	79 1⁄6	85 5⁄9	92 2⁄9	98 8⁄9	105 5⁄12	111 11⁄12	131 5⁄12
1939	65, 4 mo.	7	78 1⁄3	84 4⁄9	91 1⁄9	97 7⁄9	104 2⁄3	111 2⁄3	132 2⁄3

Note: Persons born on January 1 of any year should refer to the previous year of birth.

Source: 20 CFR §404.313; http://www.socialsecurity.gov/OACT/ProgData/ar_drc.html

BENEFIT INCREASE

Year of birth	Normal Retirement Age (NRA)	Credit for each year of delayed retirement after NRA (percent)	Benefit, as a percentage of PIA, beginning at age--						
			62	63	64	65	66	67	70
1940	65, 6 mo.	7	77 ½	83 1⁄3	90	96 2⁄3	103 ½	110 ½	131 ½
1941	65, 8 mo.	7 ½	76 2⁄3	82 2⁄9	88 8⁄9	95 5⁄9	102 ½	110	132 ½
1942	65, 10 mo.	7 ½	75 5⁄6	81 1⁄9	87 7⁄9	94 4⁄9	101 ¼	108 ¾	131 ¼
1943-54	66	8	75	80	86 2⁄3	93 1⁄3	100	108	132
1955	66, 2 mo.	8	74 1⁄6	79 1⁄6	85 5⁄9	92 2⁄9	98 8⁄9	106 2⁄3	130 2⁄3
1956	66, 4 mo.	8	73 1⁄3	78 1⁄3	84 4⁄9	91 1⁄9	97 7⁄9	105 1⁄3	129 1⁄3
1957	66, 6 mo.	8	72 ½	77 ½	83 1⁄3	90	96 2⁄3	104	128
1958	66, 8 mo.	8	71 2⁄3	76 2⁄3	82 2⁄9	88 8⁄9	95 5⁄9	102 2⁄3	126 2⁄3
1959	66, 10 mo.	8	70 5⁄6	75 5⁄6	81 1⁄9	87 7⁄9	94 4⁄9	101 1⁄3	125 1⁄3
1960 and later	67	8	70	75	80	86 2⁄3	93 1⁄3	100	124

Note: Persons born on January 1 of any year should refer to the previous year of birth.

Source: 20 CFR §404.313; http://www.socialsecurity.gov/OACT/ProgData/ar_drc.html

WORKING AFTER RETIREMENT

Benefits Reduced for Beneficiaries who work and are < FRA

Two Tests:

1. Annual Earnings Test

   Reductions if income exceed certain thresholds

2. Foreign Work Test

   Reductions (no benefits) if work outside the US exceeds 45 hours/month

WORKING AFTER RETIREMENT

Annual Earnings Test

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
- Benefit Computation
- Replacement Rates
- Benefit Reduction
  - Actuarial reduction
  - Maximum Family Benefits
  - Windfall Elimination Provision (WEP)
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- Benefit Increase
- **Working after Retirement**
- Dependent's and Survivor's Benefits
  - Spousal
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- Future of Social Security

- Retirement test
  - Reduces benefit payable to:
    - a working beneficiary who is under full retirement age
    - auxiliaries (but not divorced spouse)
  - Dependents' benefits also subject to reductions based on their own earnings
  - Test no longer applies at full retirement age
  - Caution: Annual reporting requirement
    - Income tax returns; W-2s accepted as "report"
    - 20 CFR §404.452
  - See 20 CFR §404.415

WORKING AFTER RETIREMENT
Annual Earnings Test

- Two tests — two thresholds:
  - A. Prior to year in which full retirement age is attained: Excess earnings = ½ earnings over a lower threshold
  - B. During year full retirement age is attained:
    1. if employed: prior to month FRA is attained
    2. if self employed, monthly pro rata share of annual earnings prior to month FRA is attained

    Excess earnings = 1/3 of earnings over a higher threshold

Thresholds:	2017	2016
Prior to yr FRA is attained:	**$16,920 ($1,410/mo.)**	**$15,720 ($1,310/mo.)**
Yr. in which FRA is attained:	**$44,880 ($3,740/mo.)**	**$41,880 ($3,490/mo.)**

WORKING AFTER RETIREMENT
Foreign Work Test

- Applies to:
  - Any beneficiary who engages in non-covered work > 45 hours
  - Dependent benefits based on earnings record of anyone who engages in non-covered work for > 45 hours
  - Remuneration for any month prior to month NH reaches full retirement age (FRA)
- Exceptions:
  - Divorced spouse for at least two years.
  - Auxiliary benefits when a deported NH works
- Results in loss of benefits for month

WORKING AFTER RETIREMENT

Foreign Work Test or Annual Earnings Test?

	Employment		Self Employment
	US Employer	Foreign Employer	
U.S Citizen/ Res. Alien	AET	FWT	AET
Non-resident Alien outside the U.S.	FWT*	FWT	FWT

*unless on US vessel or aircraft and employment contract entered into in U.S., or service in Armed Forces

POMS §§RS 02605.001, 02605.020

WORKING AFTER RETIREMENT

Annual Earnings Test

- Table of annual thresholds:
  - 1975–1999: http://www.ssa.gov/OACT/COLA/rteahistory.html
  - 2000–2016

    http://www.ssa.gov/OACT/COLA/rtea.html
- Law sources
  - SSA: §203(b), (f) [42 USC §403(b), (f)]
  - Codified regulations: 20 CFR §§404.415; 404.428—404.447
  - POMS §RS 02505.240B

BENEFIT REDUCTION and INCREASE

QUESTIONS FOR REVIEW:

What is the difference between a PIA amount and a benefit amount?

A PIA is the unreduced benefit determined at age 62 (or upon disability or death), increased only by COLAs and recomputations due to earnings after age 62.

The benefit *may* be the PIA. However, the benefit may also be less than or greater than the PIA due to various factors that can reduce or increase the benefit amounts.

DEPENDENT'S AND SURVIVORS BENEFITS

Type of Benefits	***Percentage of Wage Earner's PIA Payable as a Benefit***
Husband's or Wife's Benefits	50%
Divorced Spouse	50%
Child's Insurance Benefits (living wage earner)	50%
Child's Insurance Benefits (deceased wage earner)	75%
Widow(er)'s Benefits	100%
Widow(er)'s Benefits for Surviving Divorced Spouse	100%
Widow(er)'s Benefits for Disabled Surviving Spouse and Disabled Surviving Divorced Spouse	71.5% (if at age 50–60)
Mother's or Father's Benefits	75%
Mother's or Father's Benefits for a Surviving Divorced Spouse	75%
Parent's Benefits	82.5%
Parent's Benefits (where more than one parent is entitled to a benefit)	75%

DEPENDENT'S AND SURVIVORS BENEFITS

- **Husband's or Wife's Benefits**
  [SSA §202(b), (c); 20 CFR §§404.330, 404.332]
  - Spouse or divorced spouse of individual "entitled" to retirement or disability benefits

    "Entitled" means individual is eligible for a benefit AND has applied for it.
  - Age 62 *or* child of number holder (NH) (under 16, unless child is disabled) in care [20 CFR §§404.348, 404.349; POMS §RS 0130.001-.050]
- **NOTE: If child is "in care" there is**
  - **No actuarial reduction, and**
  - **Benefits available prior to age 62**

DEPENDENT'S AND SURVIVORS BENEFITS

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
- Benefit Computation
- Replacement Rates
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  - Actuarial reduction
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- Future of Social Security

- **Husband's or Wife's Benefits (cont.)**
  [SSA §202(b), (c); 20 CFR §§404.330, 404.332]
  - Not entitled on own account or is entitled but PIA is less than ½ of PIA of insured spouse
  - Who is a spouse [SSA §216(b), (f)]
    - Parent of the insured's child, or
    - Married to insured for at least one year prior to application, or
    - Entitled to benefit, as follows, in month prior to marriage: spousal, widow(er)'s, parents, or child's benefit

DEPENDENT'S AND SURVIVORS BENEFITS

- **Husband's or Wife's Benefits (cont.)**
  [SSA §202(b), (c); 20 CFR §§404.330, 404.332]
  - Divorced spouse [20 CFR §§404.331, 404.340]
    - Married for at least 10 years prior to finalization of divorce;
    - "Ex" must be "entitled" (filed for benefits); if not, then "ex" must be at least 62, and divorced at least for two years
    - Not married, unless remarried to another person who is entitled to widow(er)'s, mother's, father's, CDB, divorced spouse's or parent's benefits, or to number holder [POMS RS §00202.045]
    - At least 62 (Benefits are NOT payable to a divorced spouse under age 62 based on having an entitled child of NH in care – POMS §RS 00202.010A.1)

DEPENDENT'S AND SURVIVORS BENEFITS

- **Husband's or Wife's Benefits (cont.)**
  [SSA §202(b), (c); 20 CFR §§404.330, 404.332]
  - Divorced spouse (cont.)
    - Not entitled to benefit on own account that is larger
    - Payment does not reduce benefits of others receiving benefits on same account
  - Deemed spouse [20 CFR §404.346]
    - Good faith
    - Marriage valid but for legal impediment

DEPENDENT'S AND SURVIVORS BENEFITS

- **Mother's or Father's Benefits**
  [SSA §202(g); 20 CFR §§404.339, 404.340]
  - Surviving spouse or surviving divorced spouse
  - Each of the following must be met:
    - Has **in care**, at time of filing, child of insured entitled to child's insurance benefits (CIB), under age 16 or disabled
    - Is not married
    - Is not entitled to widow's or widower's benefits or RIB > full mother's or father's benefit

DEPENDENT'S AND SURVIVORS BENEFITS

- **Mother's or Father's Benefits (cont.)**
  [SSA §202(g); 20 CFR §§404.339, 404.340]
  - Applicant need not be age 60 or older
  - Also payable to surviving divorced spouse
  - Benefit terminates when
    - Child attains age 16, **<u>unless disabled</u>**
    - Beneficiary dies, becomes entitled to widow's or widower's benefits, becomes entitled to old-age benefit $\geq$ ¾ of PIA of deceased person's PIA; or
    - There is no child entitled to child's benefits
    - Beneficiary remarries, unless remarriage is to another person already receiving benefits

DEPENDENT'S AND SURVIVORS BENEFITS

- **Widow's/Widower's Benefits**

  [SSA §§202(e), (f); 20 CFR §404.335]
  - One of the following must be met [SSA §216(c); (g)]:
    - Mother or father of insured's child
    - Legally adopted the insured's child while married to insured and child was under 18
    - Was married to insured at time both of them legally adopted a child under 18
    - **Married to the insured for at least 9 months** prior to day of insured's death unless death was accidental or in line of duty or insured and spouse were previously married and requirement would have been met had worker died on date of divorce, or worker and spouse would have been married but for fact that worker was unable to divorce a prior spouse who was in mental institution

DEPENDENT'S AND SURVIVORS BENEFITS

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
- Benefit Computation
- Replacement Rates
- Benefit Reduction
  - Actuarial reduction
  - Maximum Family Benefits
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  - **Spousal**
  - **Widow(er)'s**
  - **Children's**
  - **Parents'**
- Disability Benefits
- Taxation of Benefits
- Benefit Claiming Strategies
- Future of Social Security

- **Widow's/Widower's Benefits** (cont.)
  - Must be at least age 60 (age 50 if disabled) and single, unless remarried **after reaching age 60** or after age 50 if disabled [20 CFR §404.335(e)]
  - **No benefit if remarriage before age 60!!!**
  - Available to surviving divorced spouse

    [20 CFR §404.336]
    - Married to insured for at least 10 years prior to divorce
  - Mother's/Father's benefit paid if larger [20 CFR §§404.339, 404.410]

DEPENDENT'S AND SURVIVORS BENEFITS

- **Child's Benefits**
  [SSA §202(d)(1); 20 CFR §404.350; POMS §RS 00203.000, et seq.]
  - Child of individual entitled to retirement or disability benefits, or deceased individual fully or currently insured
  - Unmarried
  - Under age 18, or
    - Under 19 and full-time student
    - 18 or older and has disability that began prior to age 22 (Disabled Adult Child — "DAC")

DEPENDENT'S AND SURVIVORS BENEFITS

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
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  - Actuarial reduction
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- **Child's Benefits (cont.)**
  [SSA §202(d)(1); 20 CFR §404.350; POMS §RS 00203.000, et seq.]
  - Dependency requirement

    [20 CFR §§404.360–404.365]
    - At time of application, at time of death, at time insured became disabled, at time insured became entitled to benefits
    - Dependency is deemed except as follows, in which case insured must be living with or contributing ½ support:
      - Legally adopted child by someone other than insured; adoption cannot have cut off inheritance rights;
      - Stepchild [POMS §GN 306.230]
      - Grandchild / stepgrandchild [POMS §GN 00306.235]

DEPENDENT'S AND SURVIVORS BENEFITS

- **Parent's Benefits**

  [Sec §202(h); 20 CFR §§404.370-404.374]
  - Dependent parent of worker who dies fully insured
  - Parent age 62 or greater
  - Parent receives at least ½ support from worker
  - Parent did not marry after worker's death
  - Benefit = 82.5% of PIA (one parent)

    = 75% of PIA (two parents, per parent)
  - Includes step- and adoptive parents if parent status attained prior to worker attaining age 16

DEPENDENT'S AND SURVIVORS BENEFITS

QUESTIONS FOR REVIEW:

In relationship to a PIA, how much is a spousal benefit?

What is the earliest age at which a spousal benefit may be claimed?

What is the difference between a Mother's or Father's benefit and widow(er)'s benefit?

Who can receive a children's benefit?

True or False:

A spousal benefit can be claimed even if the other spouse has not yet claimed a Social Security benefit.

A widow(er)'s benefit may be first claimed at age 60.

If a widow(er) is disabled, the benefit may be first paid at age 55.

DISABILITY BENEFITS (DIB AND RIB)

1. DIB followed by reduced RIB

[POMS §DI 52101.001]

- Prior DIB does not affect RIB reduction
- Disability Freeze applies

2. Simultaneous RIB and DIB

(DIB then simultaneous reduced RIB)

Background re DIB and WC/PDB:

[POMS DI 52101.001]

- DIB may be reduced for WC/PDB
- applies when total SSA benefits + WC/PDB paid to worker + auxiliaries >
  - a. 80% of worker's average current earnings, or
  - b. total family benefits payable to the worker and any auxiliaries in the first possible month of entitlement

DISABILITY BENEFITS (DIB AND RIB)

- Retirement Benefits
  - Eligibility Requirements
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2. Simultaneous RIB and DIB

(DIB then simultaneous reduced RIB) (cont.)

[POMS RS 00615.110]

- At 61 yr, 9 mos, DIB compared to RIB
- PIAs may be different
  - increased indexing factor, bend points at 62 vs disability onset date
  - automatically receives higher benefit
- If auxiliaries entitled, total family benefit may be higher due to "table" maximum vs disability maximum
  - Disability maximum = smaller of:
    - 85% of worker's AIME (or 100% of PIA, if larger), or
    - 150% of PIA

    [SSA §203(a)(6)]
  - Table maximum = MFB formula at slide 36

    MFB = (150%*a) + (272%*[b-a]) + (134% (c-b)) + (175% (PIA-c))

DISABILITY BENEFITS (DIB AND RIB)

2. Simultaneous RIB and DIB

(DIB then simultaneous reduced RIB) (cont.)

[POMS RS 00615.110]

- WC/PDB offset ends at age 65
- Special rules re PDB at POMS §DI 52135.001
- Illinois PDB at POMS §DI 521325.080
- Need to determine if the PDB is a pension, in which case, WEP may apply

DISABILITY BENEFITS (DIB AND RIB)

3. Simultaneous RIB and DIB

(Reduced RIB then simultaneous DIB)

[POMS RS 00615.110]

- DIB will not cause RIB entitlement to terminate
- DIB reduced by no. months of reduced RIB
- If DIB terminates, then RIB resumes w/o considering intervening DIB (reduction factor adjustment to eliminate months of DIB entitlement occurs at FRA)
- Months of DIB entitlement excluded from RIB reduction factor at FRA
- Beneficiary may switch several times between DIB and RIB prior to FRA. Each time there is a switch the original reduction factors apply.

DISABILITY BENEFITS (DIB AND RIB)

3. Simultaneous RIB and DIB

(Reduced RIB then simultaneous DIB)

[POMS RS 00615.110]

Example: A beneficiary elects reduced RIB at age 62. His FRA is 66 so his RIB reduction factor (RF) is 48. After 6 months he becomes entitled to DIB. His DIB is reduced for 6 RF because RIB was paid for 6 months. After 6 months he becomes entitled to a workers' compensation benefit that will offset his DIB, so he elects to receive reduced RIB again. Even though he is now age 63, the RIB will still be reduced by the original 48 RF. After 6 more months the worker's compensation ends so he elects DIB again. The DIB this time will still be reduced for 6 RF because a total of 6 months of reduced RIB were paid prior to the first DIB month of entitlement.

TAXATION OF BENEFITS

- IRC §86
- Two-tier system. Depending upon income, benefits are either:
  - Tax free
  - 50% includible in gross income
  - 85% includible in gross income
- Must determine if "provisional income" exceeds certain thresholds
- "Provisional income" = Modified AGI (adjusted gross income + tax-exempt interest + foreign earned income exclusion + adoption benefits + U.S. possessions source income) + 50% of SS benefits

TAXATION OF BENEFITS

- 50% includible if:
  - Provisional income exceeds
    - $32,000 for married filing jointly
    - $25,000 for singles
    - 0 for married filing separately, unless couple lived apart for the entire year
- 85% includible if:
  - Provisional income exceeds:
    - $44,000 for married filing jointly
    - $34,000 for singles
    - 0 for married filing separately unless the couple lives apart for the entire year

TAXATION OF BENEFITS

- Retirement Benefits
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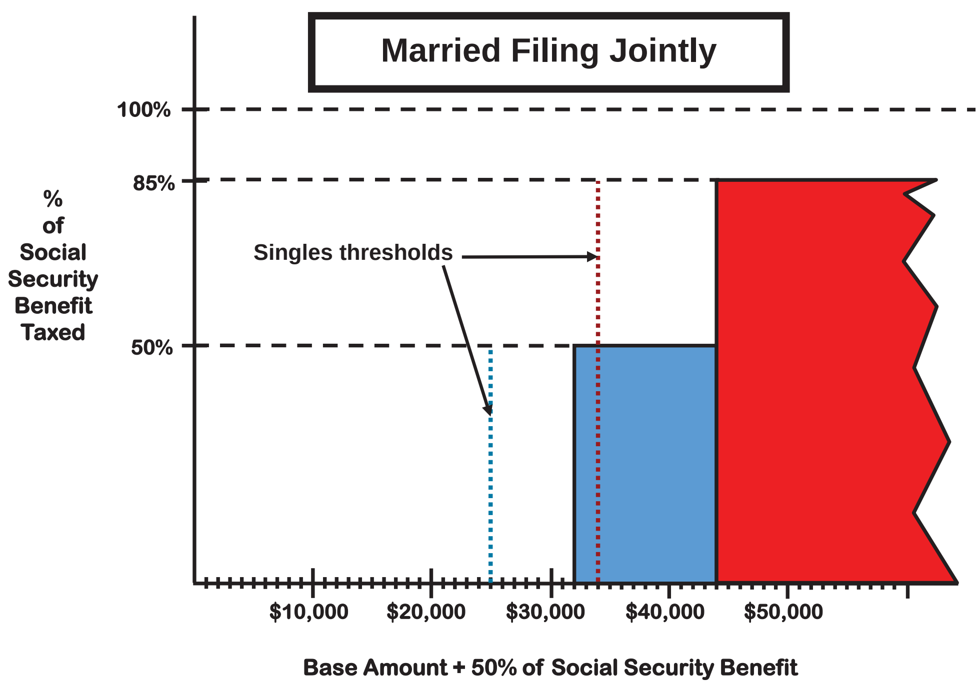

TAXATION OF BENEFITS

CASE STUDY OF TAX IMPACT

- Early claiming results in a lower proportion of monthly income needs provided by Social Security
- Social Security is not fully taxable, only half is included in "provisional income"
- If higher proportion of monthly income is from Social Security, provisional income declines.
- Thus, over time, tax liability is increased if higher proportion of monthly income derives from non Social Security income

TAXATION OF BENEFITS

CASE STUDY OF TAX IMPACT

Assume: $6,000/mo income need

PIA = $3,500

Case 1 – claim at 66

Annual income = $72,000

Soc. Sec income = 12 * $3,500 = $42,000

IRA income = 12 * $2,500 = $30,000

Provisional income = $21,000 + $30,000 = $51,000

$51,000 > upper threshold of $44,000, thus

Amt subj to tax = lesser of (1) 85% * $42,000 or (2) 85% of excess over higher threshold + lesser of (a) ½ of SS benefits rcvd or ½ difference between the two applicable thresholds

TAXATION OF BENEFITS

CASE STUDY OF TAX IMPACT

Case 1 – claim at 66 (cont.)

Amt subj to tax = lesser of (1) 85% * $42,000 or (2) 85% of excess over higher threshold + lesser of (a) ½ of SS benefits rcvd or ½ difference between the two applicable thresholds

(1) .85 * $42,000 = $37,500

(2) .85 (Prov.inc – upper threshold) + lesser of

(a) ½ of SS benefits (½ * $42,000 = $21,000) or

(b) ½ ($44,000 - $32,000 = $6,000)

.85 * ($51,000 - $44,000) + lesser of a or b =

$5,950 + $6,000 = $11,950

(2) < (1) therefore $11,950 is taxable benefit amount (~ 28%)

TAXATION OF BENEFITS

CASE STUDY OF TAX IMPACT

Assume: $6,000/mo income need

PIA = $3,500

Case 2 – claim at 62

Annual income = $72,000

Soc. Sec income = 12 * (.75 * $3,500) = 12 * $2,625 = $31,500

IRA income = $72,000 - $31,500 = $40,500

Provisional income = $15,750 + $40,500 = $56,250

$56,250 > upper threshold of $44,000, thus

Amt subj to tax = lesser of (1) 85% * $31,500 or (2) 85% of excess over higher threshold + lesser of (a) ½ of SS benefits rcvd or ½ difference between the two applicable thresholds

TAXATION OF BENEFITS

Case Study of Tax Impact

Case 2 – claim at 62 (cont.)

Amt subj to tax = lesser of (1) 85% * $31,500 or (2) 85% of excess over higher threshold + lesser of (a) ½ of SS benefits rcvd or ½ difference between the two applicable thresholds

(1) .85 * $31,500 = $26,775

(2) .85 (Prov.inc – upper threshold) + lesser of

(a) ½ of SS benefits (½ * $31,500 = $15,750) or

(b) ½ ($44,000 - $32,000 = $6,000)

.85 * ($56,250 - $44,000) + lesser of a or b =

$10,412.50 + $6,000 = $16,412.50

(2) < (1) therefore $16,412 is taxable benefit amount (~52%)

TAXATION OF BENEFITS

Case Study of Tax Impact

So, what is taxable amount for $72,000/yr income?

Case 1:	Soc. Sec	$11,950
	IRA	$30,000
	$44,950 taxable income	
Case 2:	Soc. Sec.	$16,412.50
	IRA	$40,500
	$56,912.50 taxable income	

Over 20 years, an additional $239,250 is taxable

TAXATION OF BENEFITS

CASE STUDY OF TAX IMPACT – TYPICAL CASE

- Clients 62 and 60
- His age 62 Benefit: $1,875/month
- Her age 62 Benefit: $1,125/month
- Starting Retirement With $850,000 in IRA Assets
- 6% annual return and 3% inflation
- Needing $70,000 per year in inflation adjusted after-tax income
- Living to 85 and 90

TAXATION OF BENEFITS

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
- Benefit Computation
- Replacement Rates
- Benefit Reduction
  - Actuarial reduction
  - Maximum Family Benefits
  - Windfall Elimination Provision (WEP)
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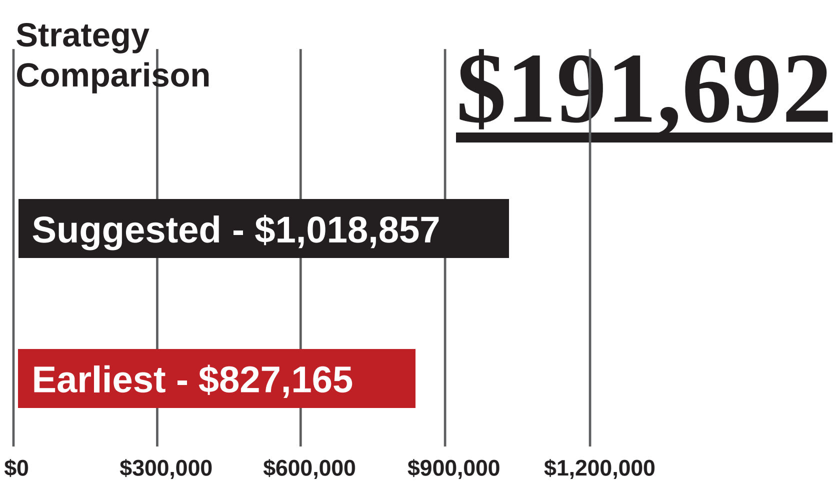
CASE STUDY OF TAX IMPACT – WHAT'S AT STAKE



TAXATION OF BENEFITS

CASE STUDY OF TAX IMPACT – CASHFLOW FOR EARLY RETIREMENT

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
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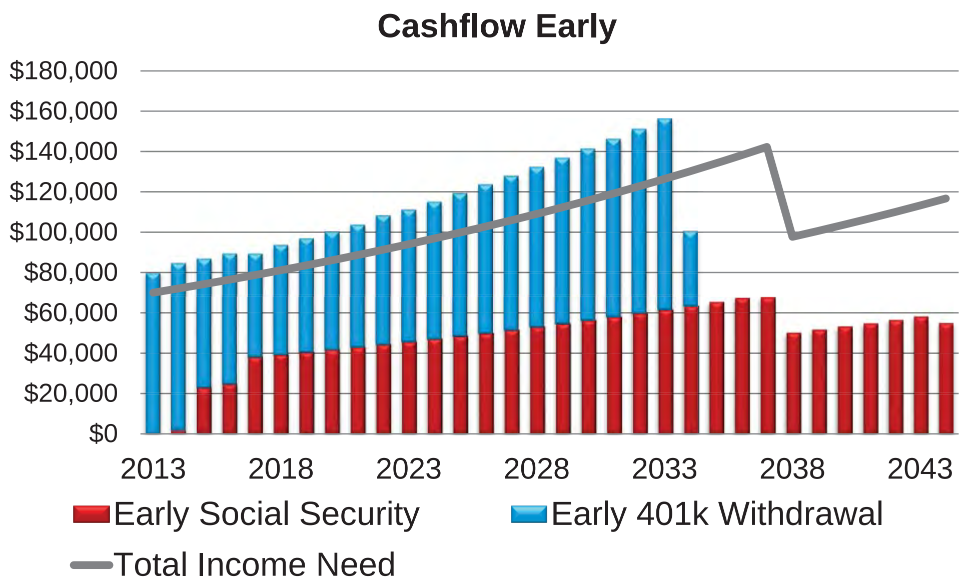

TAXATION OF BENEFITS

CASE STUDY OF TAX IMPACT – CASHFLOW FOR OPTIMIZED STRATEGY

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
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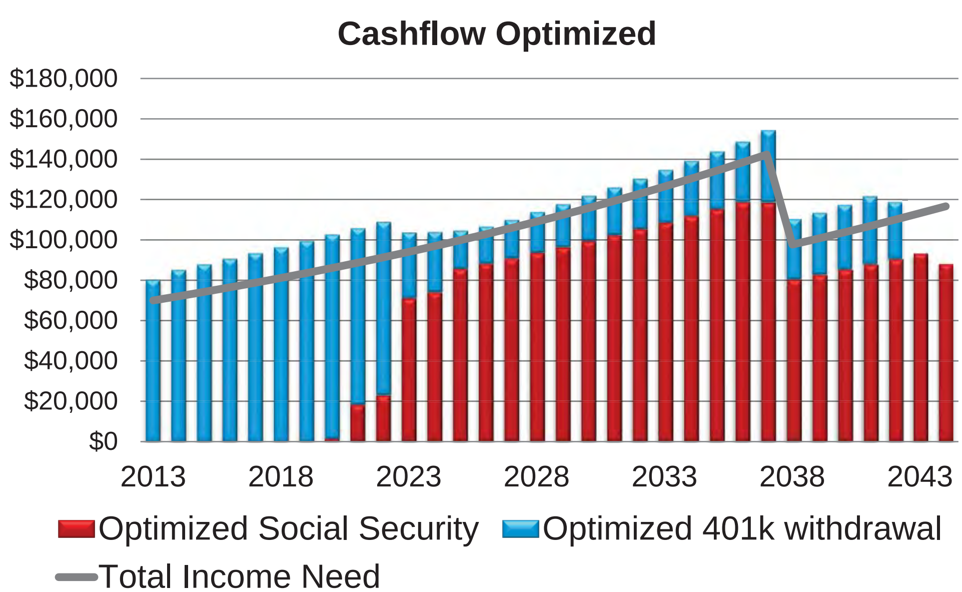

TAXATION OF BENEFITS

Comparing IRA Balances

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
- Benefit Computation
- Replacement Rates
- Benefit Reduction
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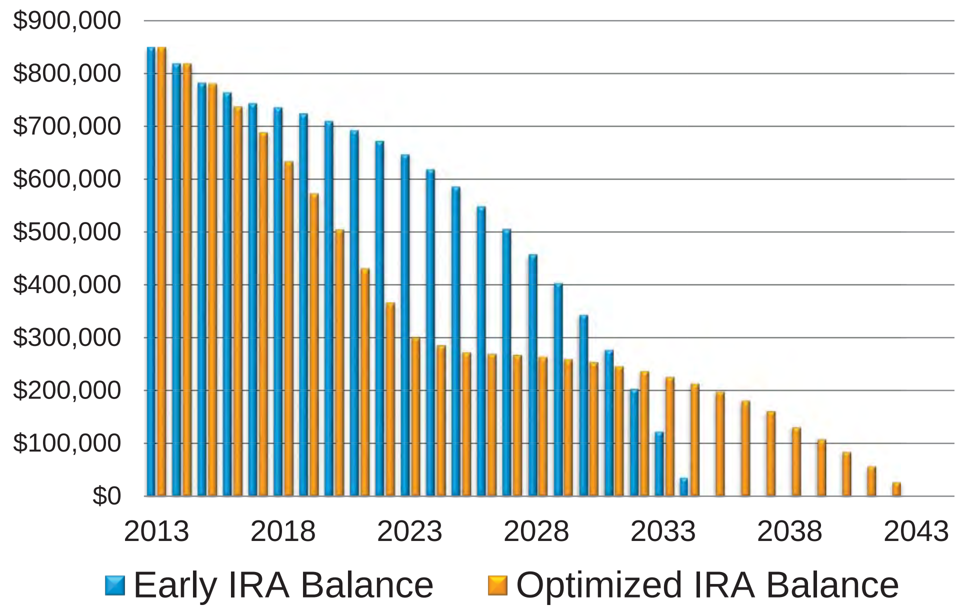

TAXATION OF BENEFITS

Federal Tax Comparison

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
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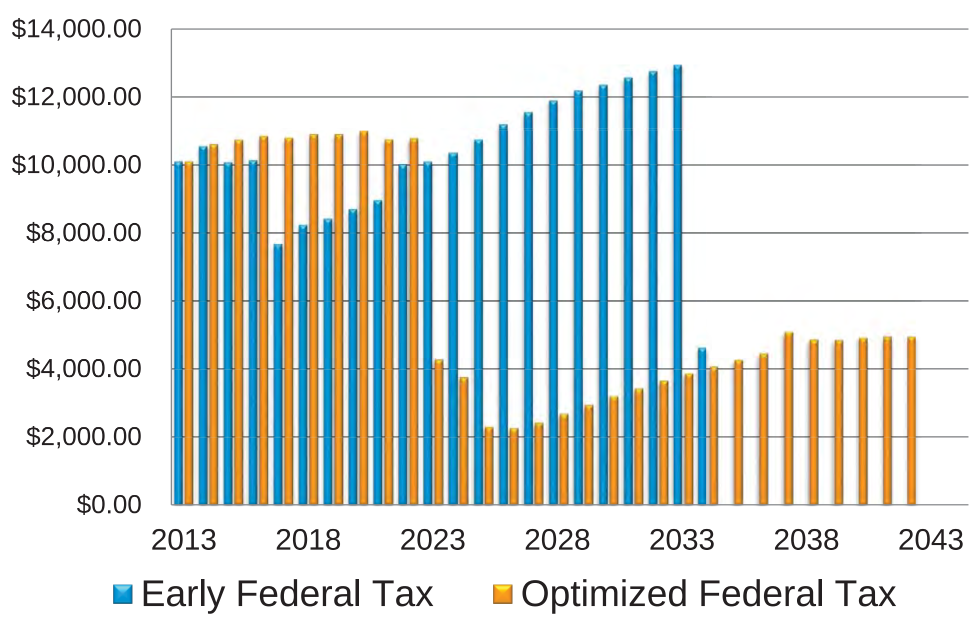

TAXATION OF BENEFITS

CASE STUDY OF TAX IMPACT – CONCLUSIONS

- $191,000 of additional Social Security Value
- 8 years of Additional Portfolio Longevity
- Roughly $40,000 less in taxes - even with additional years of Portfolio Longevity

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Need to Determine Anticipated Benefits

Verify Earnings Record for accuracy

Annually mailed Social Security Statements

Create account at www.ssa.gov/myaccount

- estimates retirement, disability, survivor's benefits
- shows lifetime earnings record in covered work
- shows Soc. Sec. and Medicare taxes paid
- need e-mail AND U.S. mailing addresses
- must be 18

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Need to Determine Anticipated Benefits (cont.)

Use intake questionnaire to identify factors impacting benefit amounts

- Eligibility for pensions based on non-covered employment *and* eligibility for exceptions to GPO and WEP rules
- Children eligible for children's benefits
- Eligibility for benefits on record of prior spouse
- Prior receipt of benefits
- Applicability of disability freeze
- Retirement goals (monthly income need; desired benefit start date; employment after retirement)
- Factors that may reduce life expectancy

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

The "combo plate" of benefits

Worker's benefit

Spousal benefit (50% of worker's benefit at 66)

Widow's benefit (100% of worker's benefit at 66)

Maximizing the plate of benefits involves strategizing the optimal time at which to claim these benefits

Life expectancy at 62: 82 (m)   84 8 mos (f)

SSA life expectancy table, http://www.ssa.gov/oact/STATS/table4c6.html

Why Maximize? Currently, 37% of fully insured claim at age 62, an additional 23% claim between age 62 and full retirement age. Although 34% claim at FRA, only 6% claim after FRA, and only half in that group wait until 70. —SSA, Annual Statistical Supplement to the Social Security Bulletin, 2015, table 6.A4/

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Review of Key Rules:

1. Early Retirement (retirement prior to FRA) will reduce
   a. the worker's benefit [SSA §202(q)(1); Reg. §404.410(a)]
   b. the spousal benefit [SSA §202(q)(1); Reg. §404.410(b)]
   c. the widow's benefit [SSA §202(q)(1); Reg. §404.410(c)]
2. The spousal benefit reaches its maximum at FRA (DRC's – delayed retirement benefits do NOT increase the spousal benefit) [Reg. §404.313(e)(2)]
3. Spousal benefit is not reduced for early retirement of insured worker, however, widow's benefit is reduced (but by no more than 17½%). [Reg. §404.333; §404.338(c)]

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

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Review of Key Rules (cont.):

4. DRC's WILL increase benefits of widow(er) and surviving divorced spouse [Reg. §404.313(e)(1); §404.338(b)]
5. Deeming rule:

   Treats benefit claim as claim for all benefits to which one is entitled.

   Applicability changed by Balanced Budget Act of 2015 (BBA 2015), §831(a)

   OLD RULE — applies to anyone born on or before 1/1/54, *i.e*, age 62 by 12/31/2015)

   NEW RULE — applies to anyone born **after** 1/1/54

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Review of Key Rules (cont.):

5. Deeming rule (cont.):

   When claiming a benefit **prior to FRA (at any age under new rule)**, a claimant BORN AFTER 1/1/1954 is deemed to have filed for all the benefits to which one is entitled. Thus, a claim for a spousal benefit is ALSO a claim for a worker's benefit on one's own account.

   – DOES NOT APPLY TO WIDOW(ER)'S BENEFITS [20 CFR §404.623(b)(1)]

   – Does not apply if applicant also entitled to disability benefits in the first month of entitlement to husband's or wife's benefits, but rule will apply when
     - Disability ends, if prior to FRA (old rule)
     - Disability ends or at FRA, whichever is first (new rule)

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

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Key Rules (cont.):

5. Deeming rule (cont):

   – Does not apply if spousal benefit claimed on account of having "child in care," such as child under 16 or disabled adult child, since, per SSA §202(q)(5)(A)(ii) and 20 CFR §404.410), there is no reduction of a spousal benefit on account of early claiming where there is a "child in care." [POMS GN 002024.020F.2.a.; BBA 2015 §831(a)]

6. Dually entitled person only receives excess of spousal benefit over old-age benefit [SSA §202(k)(3)(A)]
7. Excess earnings of worker will reduce benefits of worker and of auxiliaries, but not of divorced spouse [20 CFR §404.415]

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Review of Key Rules (cont.):

8. At FRA: no more earnings test
   deeming rule (no. 4) no longer applicable,
   BUT ONLY IF born prior to 1/2/1954

9. A worker must be eligible for benefits for an entire month in order to be paid for that month. Thus, most workers attaining age 62 will not receive a benefit for the month in which they reach age 62. [SSA §202(a)(3)(B).]

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

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Review of Key Rules (cont.):

10. An individual attains a given age on the day before the applicable birthday. Thus only individuals born on the 2nd day of a month will be at age 62 throughout the entire month. Thus, all others who claim at age 62 will have a slightly smaller reduction period, 47, rather than 48 months. For them the reduction will be slightly smaller than 25%. [20 CFR §404.2(c)(4).]

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Operation of Deeming Rule:

- Application for RIB is application for spousal benefits and vice versa, but only if the other spouse has already filed application for benefits will application for RIB be deemed to include application for spousal benefits.
- Case 1: Spousal benefit > RIB

  Assume PIA of H is 2000. PIA of W = 800

  W applies at 62 for RIB. H has already applied

  ½ of PIA_H ($1,000) > PIA_W ($800)

  Benefit received = PIA_W + (½ of PIA_H − PIA_W)

  Each component is reduced according to type of benefit

  Actuarial reduction: At age 62, RIB = 25%; spousal = 30%

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Operation of Deeming Rule:

- Case 1 (cont.): Spousal benefit > RIB

  Rule: (SSA §202(k)(3); POMS RS 00615.250)

  1. Subtract raw old age benefit from raw spousal benefit to determine "spousal excess."

     In this case: $1000 − $800 = $200

  2. Then reduce each benefit, separately, and add together for total amount of benefit.

     Reduction of Old-Age benefit: $800 − (25% * $800) = $600

     Spousal excess reduction: $200 − (30% * $200) = $140

  3. Benefit payable = $600 + $140 = $740

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

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Operation of Deeming Rule:

- Case 2: RIB > Spousal Benefit

  Assume PIA of W is 1000. PIA of H = \$1600

  W applies at 62 for RIB. H has already applied

  ½ of PIA_H (\$800) < PIA_W (\$1000)

  Benefit received = PIA_W

  Actuarial reduction: At age 62, RIB = PIA − 25%PIA = \$750

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

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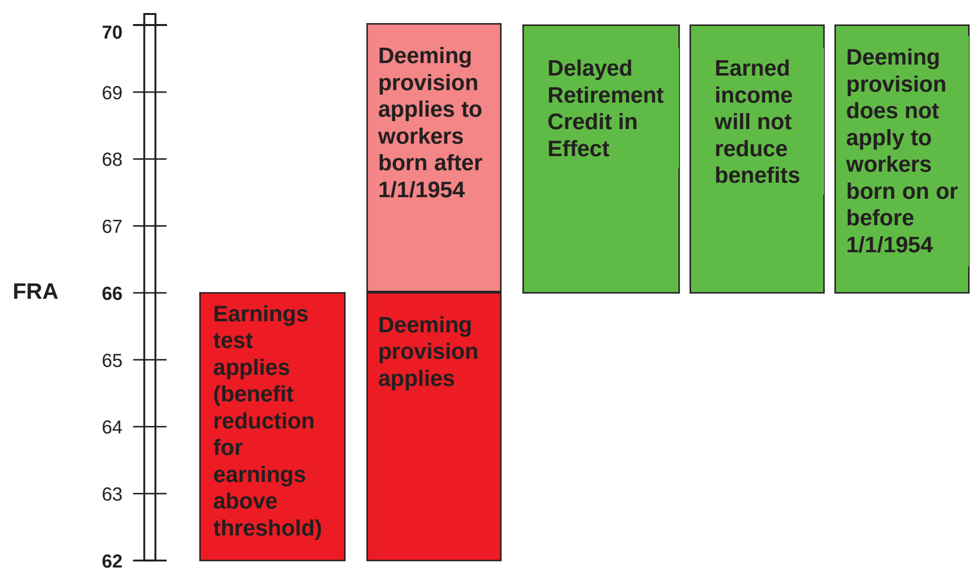

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Five Strategies (and one obsolete strategy):

1. Claim and Suspend — now obsolete
(eliminated by BBA 2015 as of 4/30/2016)

Worker claims his/her benefit at FRA

Worker immediately suspends his/her benefit to collect DRCs

Spouse may now collect on his/her benefit (spousal benefit not available if worker has not filed benefit claim)

Even if benefit claimed prior to FRA, may still suspend at FRA and collect DRCs (20 CFR §404.313) However, if dual benefit was paid, only the retirement benefit can be suspended. See POMS GN 02409.110

Usually higher wage earner claims and suspends, allowing lower wage earner to collect DRC's and then later claim higher benefit on own work record

BENEFIT CLAIMING STRATEGIES

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Six Strategies:

1. Claim and Suspend (cont.) — now obsolete

BBA 2015 eliminated "claim and suspend"
When is elimination effective?
To whom does elimination apply?

BBA 2015 effective April 30, 2016 – 180th day following Nov. 2, 2015 enactment

Thus, all requests for suspension had to have been submitted prior to 4/30/16

Only benefits at full retirement age may be suspended (20 CFR §404.313)

Therefore, one might say worker must be at FRA in April 2016

but….

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Six Strategies:

1. Claim and Suspend (cont.) — now obsolete

Claims may be submitted up to 4 mos in advance (POMS §GN 00204.007C) (age 66 by Aug 2016 = born on or before Sept. 1, 1950)

POMS says one must be at FRA to request suspension (§GN 02409.110); but not regs or statute

2. Claim Now, Claim more later

Married worker at FRA claims spousal benefit (= ½ of spouse's PIA) (only if born on or before 1/1/1954)

This worker will claim higher personal benefit, with DRCs, later

BENEFIT CLAIMING STRATEGIES

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Six Strategies (cont.):

3. Do Over

Change claiming decision / withdrawal of application

Can only be done within 12 months of initial entitlement

Must repay all benefits

Tax paid on benefits may be reclaimed

20 CFR §404.640

4. Stop N Go

Individual who started benefits, may stop

Permits accumulation of DRCs after FRA, but on reduced amount

20 CFR §404.313

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

5. Widow or widower strategy

Start with reduced benefit on one record; switch later to full benefit on other record (no deemed filing here!)

6. Triple Dip

Start with RIB on own record

When spouse retires, get 50% spousal benefit (born on or before 1/1/1954), if spousal benefit is higher

When spouse dies, get widow's benefit

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

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Impact of Bipartisan Budget Act of 2015 — Review

(https://www.congress.gov/bill/114th-congress/house-bill/1314/text)

PubL 114-74, Nov. 2, 2015

Affects: deeming; file and suspend; lump sum payout

1. Deeming – old rule applied only to FRA

old rule applies if 62 by end of 2015

new rule applies at any age

2. File and Suspend – If benefit suspended, no payment of benefits to auxiliaries (spousal; child)

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Impact of Bipartisan Budget Act of 2015 (cont.)

2. File and suspend (cont.)

Effective 4/30/2016 – needed to have filed and suspended by 4/29/2016 for old rule to apply

Age 66 by April 2016 or, perhaps August 2016

Thus, born on or before May 1, 1950, or perhaps on or before Sept. 1, 1950

3. Lump sums

Prior to BBA 2015 could reinstate suspended claim as of any month and thus get suspended benefits paid as lump sum and forego DRAs.

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Impact of Bipartisan Budget Act of 2015 (cont.)

3. Lump sums (cont.)

New law bars payment of retroactive benefits "for any month during the period in which the suspension is in effect"

Defines "retroactive payments" per SSA §202(j)(4)(B(iii):

> **" 'retroactive benefits' means benefits to which an individual becomes entitled for a month prior to the month in which application for such benefits is filed"**

> **Bars retroactive payment of suspended benefits as lump sum — see EM -16007, Feb 18, 2016**

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Impact of Bipartisan Budget Act of 2015 (cont.)

REVIEW

- **File and suspend is now dead. Had to have been exercised by April 29, 2016 – impacts DACs as well as spouses**
- **Individuals born on or before January 1, 1954 (age 62 before 2016) can still file restricted application for spousal benefits only**
- **Individuals reaching age 62 in 2016 and beyond cannot restrict application to spousal benefits only**

BENEFIT CLAIMING STRATEGIES

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Caution:

Claiming retirement benefits prior to FRA will result in reduced benefit.

Once a benefit is actuarially reduced, it is reduced forever.

For those born on or before 1/1/1954: Cannot claim spousal benefit prior to FRA with expectation of switch to own benefit later on. For this group, deeming provision bars this strategy only if benefit claimed prior to FRA.

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Helpful POMS Provisions:

In general: SSA POMS §RS 00615.000, et seq.

RS 00615.010 Chart on Reduced Benefits -- summarizes the method of reduction for different kinds of entitlement

RS 00615.020 Dual Entitlement Overview

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

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Assumed factors for strategy comparisons:

Life Expectancy at 62:

Need to show cumulative benefit through life expectancy

Men: 19.97 yrs (82 yrs)

85 (H in good health w/ access to good health care)

Women: 22.78 yrs (84 yrs, 8 mos)

90 (W in good health w/ access to good health care)

Source: http://www.ssa.gov/OACT/STATS/table4c6.html

COLAs: 2.60%

(2016 Annual Report of the Trustees, Federal OASDI Trust Funds, Table V.C.1)

RRR – Real Rate of Return: currently TIPS rate is 0.4%

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Assumed factors for strategy comparisons (cont.):

Real Rate of Return:

RRR = Amount one expects to earn over inflation from an investment of similar quality to Social Security.

Good indicator: long-term TIPS rate as reported daily by the Treasury department

TIPS = Treasury inflation-protected securities; face value increases are guaranteed according to inflation rate (changes in Consumer Price Index); the only securities that provide a guaranteed real rate of return by the U.S. federal government; less risky than corporate bonds; adjusts in the same manner as annual adjustments to Social Security benefits.

If long-term TIPS rate is 1.0%, RRR is 1%. The sum of the TIPS rate + inflation rate (annual COLA) is a conservative estimate of the nominal return one would expect to achieve in an investment of similar quality to Social Security.

Note: The higher the real rate, the sooner the calculations slant to early claiming, because one could theoretically invest the payments at a higher rate than that which would be obtained by delaying benefits.

Source for TIPS rate: http://www.federalreserve.gov/releases/h15/update/

BENEFIT CLAIMING STRATEGIES

for Dual Income Families

Assumed factors for strategy comparisons (cont.):

Economist Larry Kotlikoff recommends using a RRR that is 1% higher than the TIPS rate, in order to account for the lost opportunity for heirs to invest present value of future benefits should beneficiary die early.

Thus, currently use 2.0%

BENEFIT CLAIMING STRATEGIES
Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
- Benefit Computation
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- Benefit Reduction
  - Actuarial reduction
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  - Windfall Elimination Provision (WEP)
  - Government Pension Offset
- Benefit Increase
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  - Children's
  - Parents'
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- **Benefit Claiming Strategies**
- Future of Social Security

A. **Single Individual**

B. **Couple – Single Income**

C. **Couple – Dual Income**

1. **Older worker w/ higher earnings**
2. **Younger worker w/ higher earnings**
3. **"Bob & Carol & Ted & Alice"**

D. **Couple with disabled child**

BENEFIT CLAIMING STRATEGIES
Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
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Examples how claiming decisions make a difference:

Assumptions for all cases: life expectancy for H = 85; for W = 90

COLA: 2.60%   Real Rate of Return: 1.4%   Desired mo. inc: $5,000

Note: In 2016 for age 62: average PIA ≅ $1,735 (average benefit = $1,308)

max PIA = $2,687 (max benefit = $2,102)

(Amounts shown reflect cumulative benefit through life expectancy)

A. **Single Individual**

Obvious gain or loss apparent from actuarial reduction formula:

RIB = PIA – (PIA * [5/9 of 1% x no. months prior to age 66 up to 36 mos.] + [5/12 of 1% x no. of additional months])

Result yields percentage of PIA

62: 75%   64: $86^{2}/_{3}$%   66: 100%   68: 116%   70: 132%

BENEFIT CLAIMING STRATEGIES
Case Studies

B. Couple with single income

		MAX	MINNIE
DOB:		Nov. 4, 1954	March 5, 1955
Average Lifetime Earnings:			
	(Maximum for Max)	$138,080 (in 2016$)	0
PIA	(at 66)	$ 2,755 (in 2016$)	0

Both in good health, no minor children.

Minnie never worked. She has no covered earnings and no pension from uncovered earnings.

Max will continue to work until age 66

When should Max claim a Social Security benefit?

BENEFIT CLAIMING STRATEGIES
Case Studies

B. Couple: Single income — Mo. budget need: $5,000 (cont.)

	MAX	MINNIE
Earliest retirement (both):	**$2,077 (62.1)**	**$ 983 (spousal at 62.1)** **$4100 (widow's at 84, 8)**
Total Cumulative Benefit:	**$811,842**	**(Break even at age 78, 78)**
FRA (66; 66y 2m) retirement (both):	**$3,052**	**$1,566 (spousal)** **$4,970 (widow's at 84, 8)**
Total Cumulative Benefit:	**$899,182**	**(Break even: 78, 78 / 84, 84)**
Age 70 retirement (both):	**$4,465**	**$1,735 (spousal at 70)** **$6,660 (widow's at 84, 8)**
Total Cumulative Benefit:	**$887,901**	**(Break even: 94, 94)**

NOTE:
Cumulative benefit amounts are present value amounts.
Individual benefit amounts are stated in "current" or nominal dollars.

BENEFIT CLAIMING STRATEGIES

Case Studies

B. Couple: Single income — Mo. budget need: $5,000 (cont.)

MAX MINNIE

Optimal claiming:	**$3,382 (at 67)**	**$1,566 (spousal at 66y 8m)**
		$5,367 (widow's at 84y, 8m)

Total Cumulative Benefit: $909,691 (Break even 86, 86)

Optimal →

Both at FRA (66; 66y 2m) →

Both at 70 →

H at 62.1; W at 62.1 →

BENEFIT CLAIMING STRATEGIES

Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
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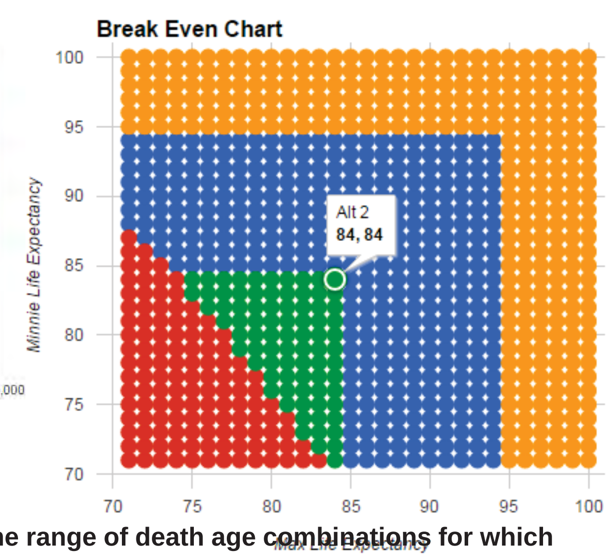
B. Couple: Single income — Mo. budget need: $5,000 (cont.)



The break-even chart shows the range of death age combinations for which a given strategy is advantageous, as well as the point (i.e., the break-even point) at which one stategy becomes advantageous over another strategy.

BENEFIT CLAIMING STRATEGIES
Case Studies

- Retirement Benefits
  - Eligibility Requirements
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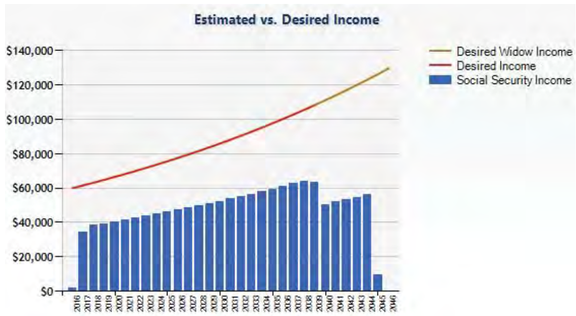
B. Couple: Single income — Mo. budget need: $5,000 (cont.)



EARLIEST CLAIMING

(single income)

(H claim at 62.1

W claim at 62.1)

CLAIM AT FRA

(single income)

(H claim at 66;

W claim at 66.2)

BENEFIT CLAIMING STRATEGIES
Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
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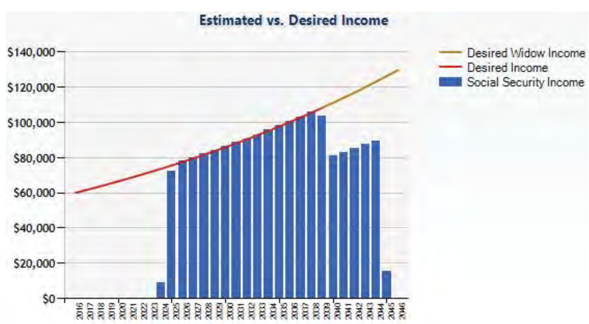
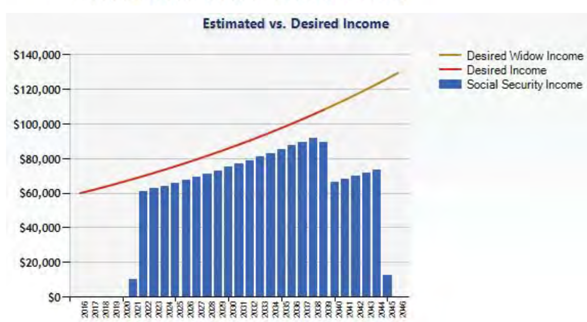
B. Couple: Single income — Mo. budget need: $5,000 (cont.)



LATE CLAIMING

(single income)

(Both claim at 70)



OPTIMAL CLAIMING

(single income)

(H: Claim at 67

W: Claim at 66y 8m)

BENEFIT CLAIMING STRATEGIES

Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
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C1. Couple: Dual income (older spouse is higher wage earner) — Mo. budget need: $5,000

	MAX	SARA
DOB:	Nov. 4, 1954	March 5, 1955
Average Lifetime Earnings: (Maximum for Max)	$138,080	~$76,900
PIA (at FRA [66, 66y2m])	$ 2,755 (2016$)	$ 2,021 (2016$)

Age 62 retirement (both): $2,077 (RIB) — $1,546 (RIB); $4100 (widow's at 84, 8)
Total Cumulative Benefit: $938,638 (Break even: 79, 79)

FRA (66; 66y 2m) retirement (both): $3,052 — $2,297 (RIB); $4,970 (widow's at 84, 8)
Total Cumulative Benefit: $1,017,488 (Break even: 83, 83)

Age 70 retirement (both): $4,465 (RIB) — $3,326 (RIB); $6,560 (widow's at 84, 8)
Total Cumulative Benefit: $1,067,125

BENEFIT CLAIMING STRATEGIES

Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
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- **Benefit Claiming Strategies**
- Future of Social Security

C1. Couple: Dual income — Mo. budget need: $5,000 (cont.)

MAX — SARA

Optimal claiming: $4,465 (RIB at 70) — $2,773 (RIB at 68); $6,560 (widow's at 84, 8)
Total Cumulative Benefit: $1,071,369 (Break even 83, 83)

Optimal →
Both at FRA (66; 66y 2m) →
Both at 70 →
Both at 62 →

BENEFIT CLAIMING STRATEGIES
Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
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- **Benefit Claiming Strategies**
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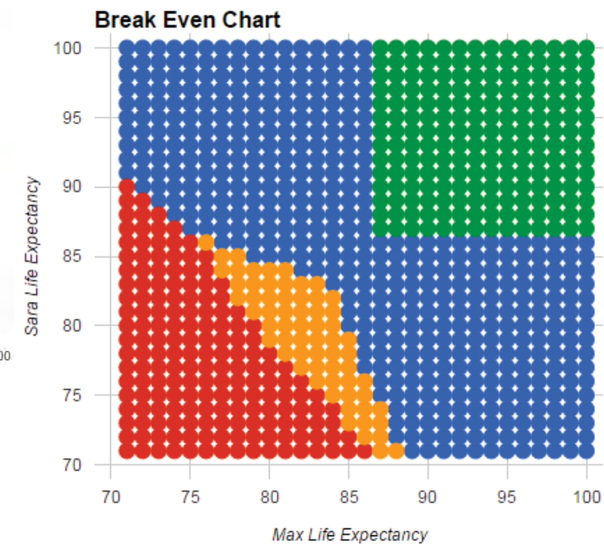
C1. Couple: Dual income — Mo. budget need: $5,000 (cont.)



BENEFIT CLAIMING STRATEGIES
Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
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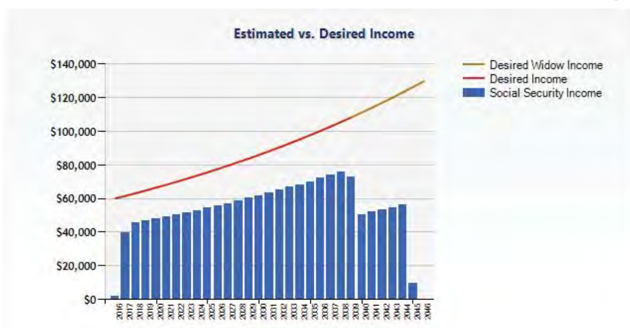
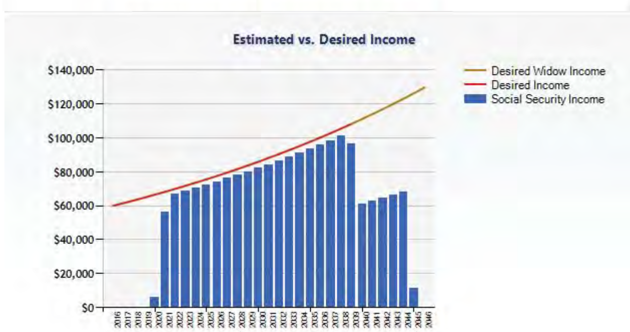
C1. Couple: Dual income — Mo. budget need: $5,000 (cont.)



EARLIEST CLAIMING

Dual income

(Both claim at 62)



CLAIM AT FRA

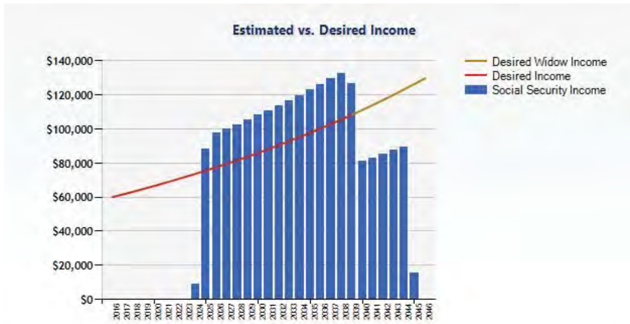
Dual income

(H at 66;

W at 66y 2m)

BENEFIT CLAIMING STRATEGIES
Case Studies

C1. Couple: Dual income — Mo. budget need: $5,000 (cont.)



LATE CLAIMING

Dual income

(Both claim at 70)

OPTIMAL CLAIMING

Dual income

(H: Claim at 70

W: Claim at 68)

BENEFIT CLAIMING STRATEGIES
Case Studies

C2. Couple: Dual income (younger spouse is higher wage earner) — Mo. budget need: $5,000

	SAUL	MAXINE
DOB:	Nov. 4, 1954	March 5, 1955
Average Lifetime Earnings: (Maximum for Maxine)	$ 73,245	$145,170
PIA (at 66)	$ 1,977 (2016$)	$ 2,817 (2016$)

Age 62 retirement (both): $1,490 (RIB) — $2,101 (RIB); $3,694 (her own benefit at H's death due to her higher PIA)

Total Cumulative Benefit: $ 915,536 (Break even: 79, 79)

FRA (66; 66y 2m) retirement (both): $2,190 — $3,121 (RIB); $4,953 (her own benefit at H's death due to her higher PIA)

Total Cumulative Benefit: $1,002,913 (Break even: 83, 83)

Age 70 retirement (both): $3,204 (RIB) — $4,519 (RIB); $6,472 (her own benefit at H's death due to her higher PIA)

Total Cumulative Benefit: $1,049,936

BENEFIT CLAIMING STRATEGIES
Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
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- **Benefit Claiming Strategies**
- Future of Social Security

C2. Couple: Dual income — Mo. budget need: $5,000 (cont.)

	SAUL	MAXINE
Optimal claiming:	$2,674 (RIB at 68)	$4,519 (RIB AT 70)
		$6,472 (her own benefit)
Total Cumulative Benefit:	$1,053,755	(Break even 83, 83)

Optimal

Both at FRA (66; 66y 2m)

Both at 70

Both at 62

BENEFIT CLAIMING STRATEGIES
Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
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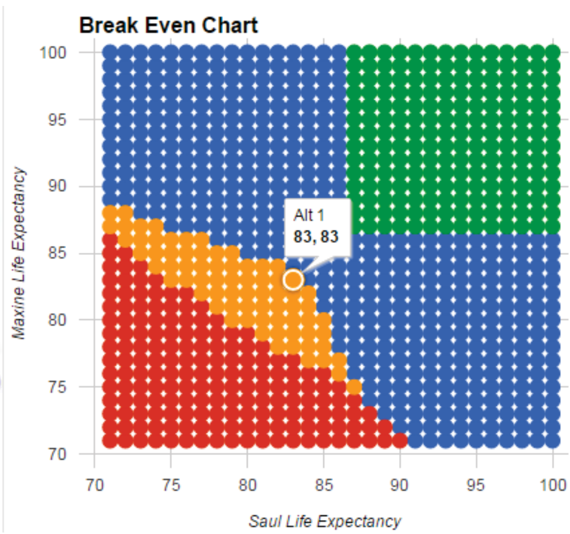
- **Benefit Claiming Strategies**
- Future of Social Security

C2. Couple: Dual income — Mo. budget need: $5,000 (cont.)



BENEFIT CLAIMING STRATEGIES
Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
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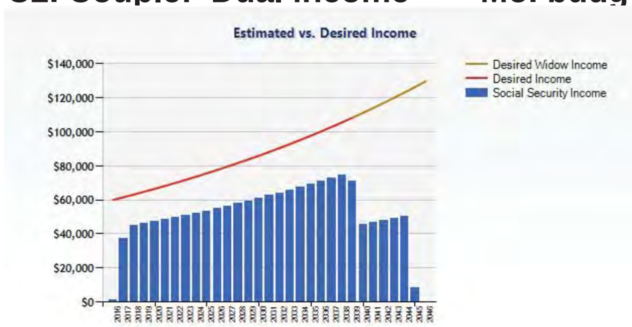
- Future of Social Security

C2. Couple: Dual income — Mo. budget need: $5,000 (cont.)



EARLIEST CLAIMING

Dual income

(Both claim at 62)

CLAIM AT FRA

Dual income

(H at 66;

W at 66y 2m)

BENEFIT CLAIMING STRATEGIES
Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
- Benefit Computation
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- **Benefit Claiming Strategies**
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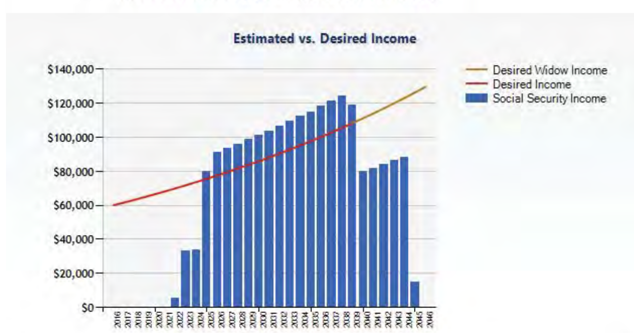
C2. Couple: Dual income — Mo. budget need: $5,000 (cont.)

LATE CLAIMING

Dual income

(Both claim at 70)



OPTIMAL CLAIMING

Dual income

(W: Claim at 70

H: Claim at 69)

BENEFIT CLAIMING STRATEGIES
Case Studies

C3. Couple: Dual income (Bob & Carol, etc. example from presentation start– both spouses w/ same high income) — Mo. budget need: $5,000

	BOB	CAROL
DOB:	Nov. 10, 1954	Nov. 15, 1954
Avr. Lifetime Earnings:	$76,299	$76,299
PIA (at 66)	$ 2,302 (2016$)	$ 2,302 (2016$)

Age 62 retirement (both): $1,736 (RIB) | $1,736 (RIB)
$3,426 (widow's at 85)
Total Cumulative Benefit: $896,137 (Break even: 79, 79)

FRA (Age 66) retirement (both): $2,550 | $2,550 (RIB)
$4,152 (widow's at 85)
Total Cumulative Benefit: $691,670 (Break even: 79,79 / 83, 83)

Age 70 retirement (both): $3,730 (RIB) | $3,730 (RIB)
$5,481 (widow's at 85)
Total Cumulative Benefit: $1,012,277 (Break even: 87, 87)

BENEFIT CLAIMING STRATEGIES
Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
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- **Benefit Claiming Strategies**
- Future of Social Security

C3. Couple: Dual income — Mo. budget need: $5,000 (cont.)

	BOB	CAROL
Optimal claiming:	$3,114 (RIB at 68)	$3,730 (RIB at 70)
		$5,478 (widow's at 85)

Total Cumulative Benefit: $1,016,729 (Break even 83, 83 / 86,86)

Optimal
Both at FRA (66)
Both at 70
Both at 62

BENEFIT CLAIMING STRATEGIES
Case Studies

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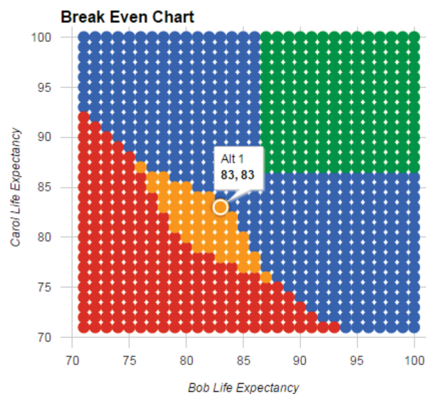
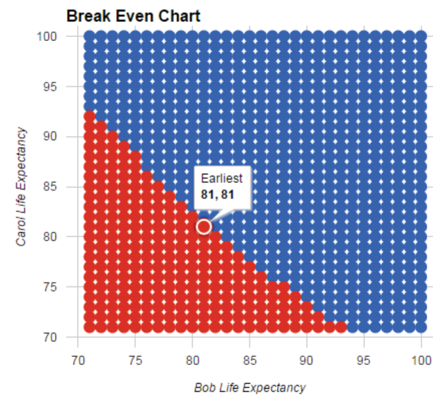
C3. Couple: Dual income — Mo. budget need: $5,000 (cont.)





Optimal →
Both at FRA (66) →
Both at 70 →
Both at 62 →

BENEFIT CLAIMING STRATEGIES
Case Studies

- Retirement Benefits
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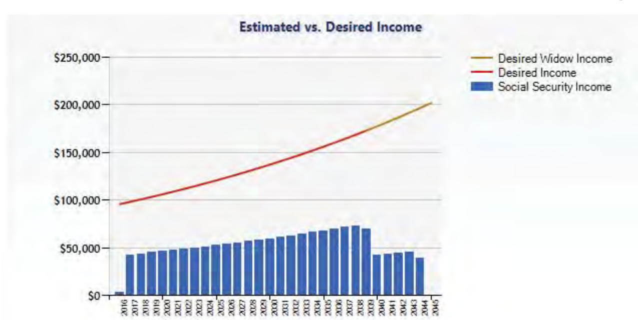
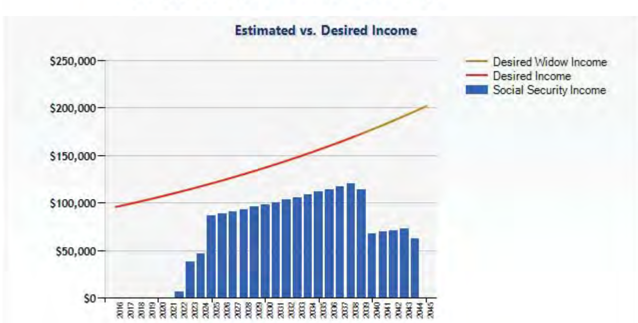
C3. Couple: Dual income — Mo. budget need: $5,000 (cont.)



EARLIEST CLAIMING

Dual income

(Both claim at 62)



OPTIMAL CLAIMING

Dual income

(H: claim RIB at 68

W: claim RIB at 70)

BENEFIT CLAIMING STRATEGIES
Case Studies

D. Couple: Dual income with Disabled Adult Child "Larry"

	FRED	WILMA
DOB:	Nov. 15, 1954	Apr. 9, 1956
Avr. Lifetime Earnings:	$118,000	~$60,000
PIA (at 66)	$ 3,739 (2016$)	$ 1,822 (2016$)

Who should claim what and when?

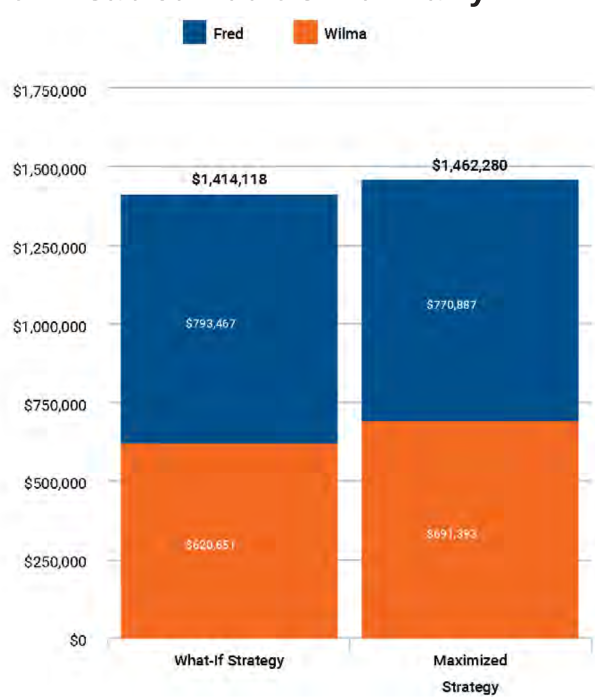
Early claim means reduced benefits
Early claim means benefits to child and unreduced spousal to other spouse
Should mom claim first, or should dad?

BENEFIT CLAIMING STRATEGIES
Case Studies

D. Couple: Dual income with Disabled Adult Child "Larry"

$48,162

Lifetime benefits increase by using the Filing Strategy for Maximized Benefits



BENEFIT CLAIMING STRATEGIES
Case Studies

D. Couple: Dual income with Disabled Adult Child "Larry"

Optimal strategy:

Dec 2020 – Wilma files for retirement at age 64 and 8 mos.

Dec 2020 – Fred files for child-in-care spouse benefits at age 66

Deeming provision does not apply!

Dec 2020 – Wilma files for CDB for Larry

Nov 2024 – Fred files for retirement at age 70

Nov 2024 – Fred files for CDB for Larry

Dec 2039 – Wilma files for WIB at age 83 and 8 mos

Dec 2039 – Wilma files for surviving child benefits for Larry

BENEFIT CLAIMING STRATEGIES
Case Studies

D. Couple: Dual income with Disabled Adult Child "Larry"

What-If Strategy:

Nov 2020 – Fred files for RIB at age 66

Nov 2020 – Fred files for CDB for Larry

Nov 2020 – Wilma files for child-in-care spouse benefits at age 64 and 7 mos

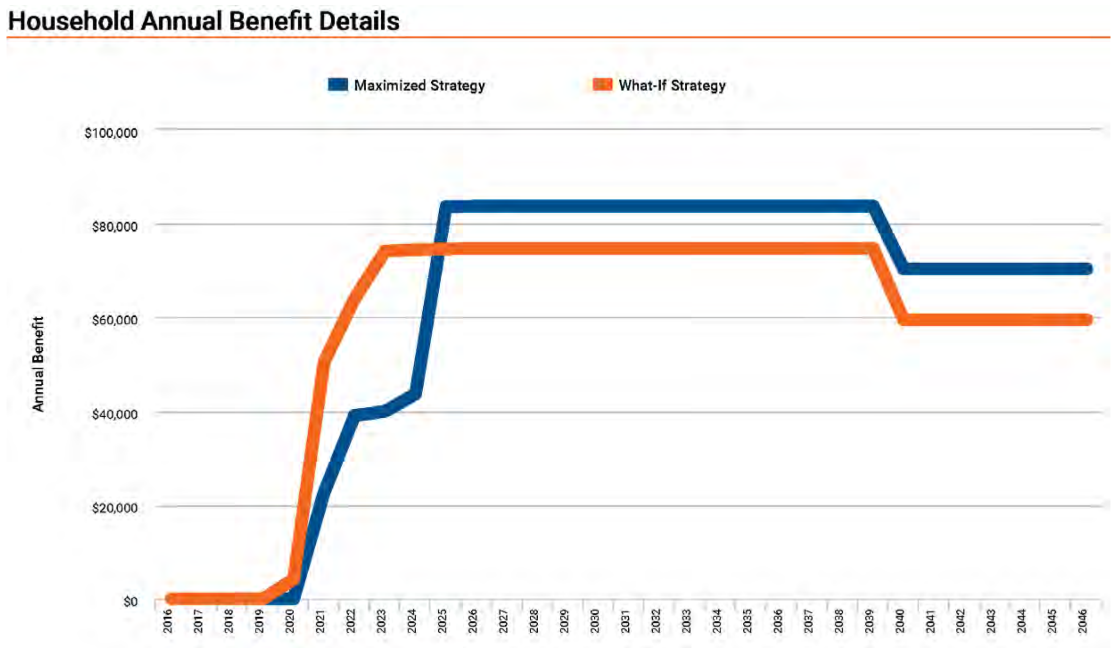
Aug 2022 – Wilma files for RIB at age 66 and 4 mos

Dec 2039 – Wilma files for widow's benefits at age 83 and 8 mos

Dec 2039 – Wilma files for surviving child benefits for Larry

BENEFIT CLAIMING STRATEGIES
Case Studies

D. Couple: Dual income with Disabled Adult Child "Larry"



BENEFIT CLAIMING STRATEGIES
Case Studies

- Retirement Benefits
  - Eligibility Requirements
  - Early vs. full retirement
  - Amount payable
- Benefit Computation
- Replacement Rates
- Benefit Reduction
  - Actuarial reduction
  - Maximum Family Benefits
  - Windfall Elimination Provision (WEP)
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C. Observations re: "simple" dual income cases:

- **Lower earning spouse files restricted application for spousal benefits at FRA if born on or before 1/1/1954**
- **If higher earning spouse is younger, these principles *may* apply**
- **Early claiming indicated if life expectancy is short**
- **It's not always certain that both should wait until age 70 to claim full benefit, as shown by Bob & Carol example**

BENEFIT CLAIMING STRATEGIES

Retirement Planning

Assessment of Funding Adequacy

Fully Funded Clients:

less concerned about income adequacy

more concerned about maximizing benefits and break-even analysis

Marginally Funded and Underfunded Clients:

Defer Social Security and continue working

Defer Social Security and deplete other assets

Pro-deferral —Each month of deferral is like buying an additional inflation-adjusted life annuity

—Snowballing effect on delaying benefits due to actuarial increases and COLA increases

—Reverse "tax torpedo" due to inclusion of smaller portion of SS benefits in provisional income subject to tax

BENEFIT CLAIMING STRATEGIES

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Retirement Planning

Assessment of Funding Adequacy (cont.)

Marginally Funded and Underfunded Clients:

Pro-deferral — less money is paid for investment expenses since assets are consumed earlier

Pro-early claiming — loss of liquidity due to consumption of retirement assets earlier

— concerned with leaving assets to heirs

Research shows that the cost of financing income during the "bridge period" with a fixed annuity is less expensive than beginning SS early and liquidating other assets to finance the income difference. – Mahaney and Carlson, 2008, "Rethinking Social Security Claiming in a 401(k) World, in *Recalibrating Retirement Spending and Saving,* Ameriks and Mitchell, Ch.7.

BENEFIT CLAIMING STRATEGIES

Retirement Planning

Assessment of Funding Adequacy (cont.)

Four mutually exclusive possibilities at age 62:

- Retire at 62 and claim benefits
- Continue working and claim benefits (need to consider retirement test)
- Retire and defer claiming at least until FRA and possibly to age 70. Live off of other assets
- Continue working and defer benefits

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Retirement Planning

Assessment of Funding Adequacy (cont.)

Factors to consider in claiming decision:

4 Primary factors:

- Income needs
- Goals outside of work
- Life expectancy (health)
- Benefit amount
- Subfactors:
  - Ability to continue working
  - Income resources outside of Social Security

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BENEFIT CLAIMING STRATEGIES

Retirement Planning

Assessment of Funding Adequacy (cont.)

Factors to consider in claiming decision:

Subfactors (cont).:

- Personal risk tolerance/degree of investment savvy
- Financial reliance on Social Security
- Availability of other SS benefits (i.e., disability, widow's)
- Ability to boost SS income by working past the age of 62
- Age disparity between spouses (if wife is much younger than husband, and likely to be widow for long time, H's claiming age more critical)

BENEFIT CLAIMING STRATEGIES

Retirement Planning

Assessment of Funding Adequacy (cont.)

Factors to consider in claiming decision:

Subfactors (cont).:

- Earnings disparity between spouses – higher earning spouse should defer collecting benefits for as long as possible; s/he can collect spousal benefit based on other spouse's earnings when that spouse reaches FRA
- Work in non-covered employment – sharply reduced SS benefits may curtail use of strategies
- Divorce – can claim on ex-spouse's earnings, even if ex hasn't filed
- Widow(er)

BENEFIT CLAIMING STRATEGIES

Retirement Planning

Assessment of Funding Adequacy (cont.)

Factors to consider in claiming decision (cont.):

Subfactors (cont).:

- Taxation of benefits:

  70% pay no tax

  15% taxed on 85% of benefits regardless of strategy;

  Remainder in the middle are subject to the "tax torpedo." Deferral of claim reduces taxes.

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What should a good benefit claiming program include?

1. Annual entry of earnings for both spouses, or if relevant, for one or more ex-spouses
2. Entry of future earnings
3. Monthly cash flow
4. Treatment of pensions based on non-covered earnings
5. Life expectancy for each spouse
6. Rates for COLA increase, national average wage increase, real rates of return (aka discount rate)
7. Alternate scenarios
8. Children's benefits for both minor children and DACs
9. RIB-LIM
10. Prior or current receipt of disability benefits

BENEFIT CLAIMING STRATEGIES

What should a good benefit claiming program include?

11. Windexing
12. Analysis for all benefit combinations (there are 4560 between 62 and 70)
13. Should handle combined family max (none do, as yet)
14. Should account for no child-in-care benefits if DAC lives independently (no program is yet set up for this)
15. Remarried widow

BENEFIT CLAIMING STRATEGIES

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Websites claiming to provide benefit analysis

BE CAREFUL!!!!

Social Security Choices
http://www.socialsecuritychoices.com/index.php
William Dowd, undergrad in Economics
Jeffrey B. Miller, PhD, UPenn, worked at Soc. Sec.
Russell F. Settle, PhD, U Wis,
Ellis H. Wilson, undergrad in comp. sci.

T Rowe Price Benefits Calculator:
http://individual.troweprice.com/public/Retail/Retirement/Social-Security-Tool?van=socialsecurity

Retirement Revised:
Mark Miller, journalist
Links to benefit calculators
http://retirementrevised.com/social-security-finding-your-best-filing-strategy/

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BENEFIT CLAIMING STRATEGIES

Websites claiming to provide benefit analysis: (cont.)

SSAnalyze from Bedrock Capital Management
http://www.bedrockcapital.com/ssanalyze/

AARP
http://www.aarp.org/work/social-security/social-security-benefits-calculator.html
critique by Larry Kotlikoff at
http://www.pbs.org/newshour/making-sense/boomers-beware-are-online-soci/

Social Security Income Planner – JASUBA LLC
https://www.ssincomeplanner.com/index.jsp

Social Security Optimizer (Quicken)
https://www.quickensso.com/Portal/

BENEFIT CLAIMING STRATEGIES

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Websites claiming to provide benefit analysis: (cont.)

Horsesmouth http://public.horsesmouth.com/Products.aspx
Elaine Floyd, CFP

Social Security Solutions:
http://socialsecuritysolutions.com/
William Meyer –financial planner
William Reichenstein, CFA, PhD

Maximize My Social Security
http://www.maximizemysocialsecurity.com/
Economic Security Planning, Inc.
ESPlannerPRO - http://www.esplanner.com/
Laurence Kotlikoff, PhD, economist

Social Security Timing
https://www.socialsecuritytiming.com/
Joe Elsasser, CFP, RHU, REBC

THE FUTURE OF SOCIAL SECURITY - Solvency

Will there be any left for me?

We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age.

This law, too, represents a cornerstone in a structure intended to lessen the force of possible future depressions. It will act as a protection to future Administrations against the necessity of going deeply into debt to furnish relief to the needy.

—President Franklin Delano Roosevelt, statement on signing the Social Security Act, August 14, 1935.

PROGRAM GOALS

Principles Identified by Robert J. Myers – Chief Actuary of the Social Security Admn. 1947 – 1970.

1. **Presumptive Need**
2. **Floor of Protection to maintain standard of living**
3. **Balance between individual equity and social adequacy (benefits paid will provide for all contributors a certain standard of living); reflected in benefit formula**
4. **Earnings related benefits**
5. **Self-supporting contributory basis (no general revenue appropriations or subsidies)**
6. **Universal coverage**

   1937 – 60% of workers covered **(Sylvester Schieber)**

   1950s – 90% **(Sylvester Schieber)**

   2013 – 94% **(SSA Fact Sheet Dec 31, 2013)**

PROGRAM GOALS

Poverty Reduction

Poverty Rate in Elderly

1939	**78%**	**2010**	**9%**
1959	**35%**	**2012**	**9.1%**
2006	**9%**		
2008	**CRS: 44% would be poor if Social Security did not exist.**		

Sources:

(Eugene Smolensky, Sheldon Danziger, Peter Gottschalk, "The Declining Significance of Age in the United States; Trends in the Well-being of Children and the Elderly Since 1939." CDE Working Paper 87-22. http://www.ssc.wisc.edu/cde/cdewp/87-22.pdf (last visited May 7, 2013).

CRS Report for Congress: Social Security Reform: Possible Effects on the Elderly Poor and Mitigation Options; Kathleen Romig, Apr 4, 2008.

Income of the Population 55 or older, 2012 Table 11.1, p. 311, Social Security Administration, April 2014, http://www.socialsecurity.gov/policy/docs/statcomps/income_pop55/

SOLVENCY RESTORATION

PROPOSALS

SSA Actuaries score proposals' impact on long-term insolvency.

See: http://www.ssa.gov/oact/solvency/index.html

CONCLUSION

ABBREVIATIONS & GLOSSARY

Actuarial reduction – Reduction to benefit amount on account of payment prior to full retirement age

AIME – Average Indexed Monthly Earnings. Highest 35 years of indexed earnings, divided by number of months in those years.

Break even point – Total number of months required to reach point at which cumulative full benefit equals cumulative reduced benefit.

COLA – cost-of-living adjustment. Percentage increase in the Consumer Price Index from the third quarter of prior year to third quarter of current year. Applied to existing benefits beginning with December payment, received in January. Announced annually in mid-October.

CDB – Child's Disability Benefits. Formerly known as "DAC" – Disabled Adult Child.

CIB – Child's Insurance Benefits

DIB – Disability Insurance Benefits

DOB – date of birth

DRC – Delayed Retirement Credit

FICA – Federal Insurance Contributions Act

FRA – Full retirement age

GPO – Government Pension Offset. Provides for reduction of a benefit received on work record of another person when beneficiary also receives pension based on beneficiary's own non-covered earnings.

H – husband

MFB – Maximum Family Benefits. Maximum amount of benefits payable to a family based on one work record.

ABBREVIATIONS & GLOSSARY

Non-covered earnings – earnings not subject to tax under FICA or SECA. Includes some state and local government employment, including some public school districts. Also includes foreign employment not subject to tax under FICA or SECA.

PDB – Public Disability Benefit

PIA – Primary Insurance Amount. Unreduced benefit amount based on one's own work record. Usually, this amount is the amount paid as a disability benefit or as a retirement benefit at full retirement age (plus cost-of-living adjustments from age 62).

POMS – Program Operations Manual System. Internal operating manual of the Social Security Administration.

Real Rate of Return (RRR) – Amount one expects to earn over inflation from an investment of similar quality to Social Security. Indicator: TIPS rate. (TIPS = Treasury Inflation-Protected Securities). TIPS rate + inflation rate = conservative estimate of nominal return one would expect to achieve in an investment of similar quality to Social Security.

RIB – Retirement Insurance Benefits. Retirement benefit paid on one's own work record. A.k.a "Old-Age Benefits."

SECA – Self Employment Contributions Act

SSA – Social Security Administration; Social Security Act

W - wife

WC – Worker's Compensation

WEP – Windfall Elimination Provision. Provides for reduction of RIB based on receipt of pension based on non-covered earnings.

WIB – widow(er)'s insurance benefits

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