Savvy Social Security Planning: What Baby Boomers Need To Know To Maximize Retirement Income

Presented by:
Diane M. Pearson, CFP®, PPC™, CDFA™
Diane M. Pearson, CFP®, PPC™, CDFA™ is a Wealth Advisor and Shareholder with Legend Financial Advisors, Inc. and EmergingWealth Investment Management, Inc.

Diane has been selected three times by Worth magazine as one of “The Top 250 Wealth Advisors” in the country.

Diane has been selected five consecutive times by Medical Economics magazine as one of “The 150 Best Financial Advisors for Doctors in America.”

She has also been selected three times by Dental Practice Report as one of “The Best Financial Advisors for Dentists in America.”

Diane has also been previously selected by Pittsburgh Magazine three times as one of the Pittsburgh area’s FIVE STAR Wealth Managers, a list that represents the most elite financial advisors in Pittsburgh.

With over 25 years of experience, Diane assists all types of clients with their financial planning and investment needs. Diane specialized expertise includes working with widowed, divorced and retirement-focused individuals.

She is also a managing member of the Smart Divorce Institute, LLC which provides professional, expert guidance, through educational workshops for men and women contemplating, experiencing, and/or emerging from divorce.

Diane has been awarded the Certified Divorce Financial Analyst™ (CDFA™) professional designation. As a CDFA™, she is qualified to serve as a financial expert on divorce cases, present data to support an argument, and educate clients on the short- and long-term financial implications of different divorce settlement proposals.

Diane is one of the first financial advisors in the country to earn the Professional Plan Consultants™ (PPC™) designation, recognizing her commitment to education and service excellence in the qualified retirement planning industry.

Ms. Pearson is also a member of the second Pittsburgh chapter of the Women’s Presidents Organization (WPO).

Diane has also previously been selected as one of “Pennsylvania’s Best 50 Women in Business” by The Pennsylvania Department of Community and Economic Development.
Savvy Social Security Planning: What Baby Boomers Need to Know to Maximize Retirement Income
Baby boomers want to know:

- Will Social Security be there for me?
- How much can I expect to receive?
- When should I apply for Social Security?
- How can I maximize my benefits?
- Will Social Security be enough to live on in retirement?
Understanding the value of Social Security
Social Security offers income you can't outlive

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

<table>
<thead>
<tr>
<th>Years to Live</th>
<th>Benefits to Be Received</th>
<th>Total Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 more years</td>
<td>$302,689</td>
<td>$302,689</td>
</tr>
<tr>
<td>20 more years</td>
<td>$666,456</td>
<td>$666,456</td>
</tr>
<tr>
<td>30 more years</td>
<td>$1,141,276</td>
<td>$1,141,276</td>
</tr>
</tbody>
</table>

Assumes 2.7% annual cost-of-living adjustments
Social Security offers annual inflation adjustments

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

<table>
<thead>
<tr>
<th></th>
<th>Your monthly benefit will be</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>In 10 years</td>
<td></td>
<td>$2,611</td>
</tr>
<tr>
<td>In 20 years</td>
<td></td>
<td>$3,408</td>
</tr>
<tr>
<td>In 30 years</td>
<td></td>
<td>$4,448</td>
</tr>
</tbody>
</table>

Assumes 2.7% annual cost-of-living adjustments
Baby Boomer Social Security Question #1

Will Social Security be there for me?
OASDI Trust Fund still growing

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

2013 results
• Total income: $855 billion
• Total expenditures: $823 billion
• Net increase in assets: $32 billion

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

Source: Social Security Administration, Office of the Chief Actuary
Long-term projections: without reform, benefits fall to 77% in 2033

Source: 2014 OASDI Trustees Report
What would it take to restore solvency to the system?

Reform proposals being studied

- Increase maximum earnings subject to Social Security tax (currently $118,500 in 2015)
- Raise the normal retirement age (currently 66 for individuals born between 1943 and 1954; 67 for those born in 1960 or later)
- Lower benefits for future retirees (escalate benefits based on increases in consumer prices rather than wages)
- Reduce cost-of-living adjustments (COLAs) for all retirees
The bottom line for baby boomers
Your benefits are not likely to be affected by Social Security reform
Baby Boomer Social Security
question #2
Your benefit will depend on:

• How much you earned over your working career

• The age at which you apply for benefits
How Social Security benefits are calculated

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

• Baby Boomer born in 1953
• Maximum Social Security earnings every year since age 22
• AIME = $9,066
• PIA formula:
  – $826 x .90 = $743.40
  – $4,154 x .32 = $1,329.28 ($4,980 - $826 = $4,154)
  – $4,086 x .15 = $612.90 ($9,066 - $4,980 = $4,086)
  – Total = $2,685.58

    PIA = $2,685.50

Amount worker will receive at full retirement age
## Full Retirement Age (FRA)

<table>
<thead>
<tr>
<th>Year of Birth</th>
<th>Full Retirement Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1943-54</td>
<td>66</td>
</tr>
<tr>
<td>1955</td>
<td>66 and 2 months</td>
</tr>
<tr>
<td>1956</td>
<td>66 and 4 months</td>
</tr>
<tr>
<td>1957</td>
<td>66 and 6 months</td>
</tr>
<tr>
<td>1958</td>
<td>66 and 8 months</td>
</tr>
<tr>
<td>1959</td>
<td>66 and 10 months</td>
</tr>
<tr>
<td>1960 and later</td>
<td>67</td>
</tr>
</tbody>
</table>
What if you apply for early benefits?

You will receive a percentage of your PIA

<table>
<thead>
<tr>
<th>Apply at age</th>
<th>If FRA = 66</th>
<th>If FRA = 67</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>75.0%</td>
<td>70%</td>
</tr>
<tr>
<td>63</td>
<td>80.0%</td>
<td>75%</td>
</tr>
<tr>
<td>64</td>
<td>86.7%</td>
<td>80%</td>
</tr>
<tr>
<td>65</td>
<td>93.3%</td>
<td>86.7%</td>
</tr>
<tr>
<td>66</td>
<td>100%</td>
<td>93.3%</td>
</tr>
<tr>
<td>67</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>
What if you apply after FRA?

You will earn 8% annual delayed credits

<table>
<thead>
<tr>
<th>Apply at age</th>
<th>Benefit will be % of PIA if FRA = 66</th>
<th>Benefit will be % of PIA if FRA = 67</th>
</tr>
</thead>
<tbody>
<tr>
<td>66</td>
<td>100%</td>
<td>93.3%</td>
</tr>
<tr>
<td>67</td>
<td>108%</td>
<td>100%</td>
</tr>
<tr>
<td>68</td>
<td>116%</td>
<td>108%</td>
</tr>
<tr>
<td>69</td>
<td>124%</td>
<td>116%</td>
</tr>
<tr>
<td>70</td>
<td>132%</td>
<td>124%</td>
</tr>
</tbody>
</table>
How to estimate your Social Security benefits

• Obtain your annual Social Security statement at [www.socialsecurity.gov/mystatement](http://www.socialsecurity.gov/mystatement)

OR

• Go to [www.socialsecurity.gov](http://www.socialsecurity.gov), click on "Estimate Your Retirement Benefits"

OR

• Use one of the calculators on the SSA website: [www.ssa.gov/planners/benefitcalculators.htm](http://www.ssa.gov/planners/benefitcalculators.htm)
Spousal benefits

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

Example:

• John's PIA is $2,000
• Jane's PIA is $800
• If Jane applies at FRA, her benefit will be $1,000 (50% of John’s PIA)
Rules for spousal benefits

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

Same as spousal benefits if:

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

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

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

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

Example:
• Joe and Julie are married. Both are over full retirement age.
• Joe's benefit is $2,000, Julie's benefit is $1,200.
• Joe dies.
• Julie notifies Social Security and her $1,200 benefit is replaced by her $2,000 survivor benefit.
Survivor benefits

Example of early claiming

– Joe and Julie are married.
– Joe’s PIA is $2,000.
– Joe files for Social Security at 62; his benefit is 75% of $2,000, or $1,500.
– Joe dies.
– Julie’s survivor benefit will depend on when she claims it.

  • If Julie claims her survivor benefit at 66 or later, her benefit will be 82.5% of Joe’s $2,000 PIA, or $1,650 (special floor for survivor benefits).
  • If Julie claims her survivor benefit at age 60, her benefit will be 71.5% of $2,000, or $1,430.
Survivor benefits
Example of delayed claiming

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

• Couple must have been married at least 9 months at date of death (except in case of accident).

• Survivor must be at least 60 for reduced benefit (50 if disabled), or FRA for full benefit.

• Survivor benefit not available if widow(er) remarries before age 60 (or 50 for disabled survivor), unless that marriage ends.

• Divorced-spouse survivor benefit available if
Baby Boomer Social Security
Question #3
When should I apply for benefits?
Factors to consider when deciding when to apply

- Health status
- Life expectancy
- Need for income
- Whether or not you plan to work
- Survivor needs
Why delay benefits?

Bigger checks to start

<table>
<thead>
<tr>
<th>Age at which benefits are claimed</th>
<th>% of PIA if FRA = 66</th>
<th>Benefit without COLAs ($)</th>
<th>Benefit with COLAs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>75</td>
<td>2,014</td>
<td>2,014</td>
</tr>
<tr>
<td>63</td>
<td>80</td>
<td>2,148</td>
<td>2,206</td>
</tr>
<tr>
<td>64</td>
<td>87</td>
<td>2,327</td>
<td>2,454</td>
</tr>
<tr>
<td>65</td>
<td>93</td>
<td>2,506</td>
<td>2,714</td>
</tr>
<tr>
<td>66</td>
<td>100</td>
<td>2,685</td>
<td>2,987</td>
</tr>
<tr>
<td>67</td>
<td>108</td>
<td>2,900</td>
<td>3,313</td>
</tr>
<tr>
<td>68</td>
<td>116</td>
<td>3,115</td>
<td>3,654</td>
</tr>
<tr>
<td>69</td>
<td>124</td>
<td>3,329</td>
<td>4,012</td>
</tr>
<tr>
<td>70</td>
<td>132</td>
<td>3,544</td>
<td>4,386</td>
</tr>
</tbody>
</table>

Assumes PIA = $2,685 and 2.7% annual COLAs
Why delay benefits?
More income later on

<table>
<thead>
<tr>
<th>Benefit at age</th>
<th>If claim at 62</th>
<th>If claim at 70</th>
</tr>
</thead>
<tbody>
<tr>
<td>70</td>
<td>$2,492</td>
<td>$4,386</td>
</tr>
<tr>
<td>75</td>
<td>$2,847</td>
<td>$5,011</td>
</tr>
<tr>
<td>80</td>
<td>$3,253</td>
<td>$5,725</td>
</tr>
<tr>
<td>85</td>
<td>$3,716</td>
<td>$6,541</td>
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<tr>
<td>90</td>
<td>$4,246</td>
<td>$7,473</td>
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<tr>
<td>95</td>
<td>$4,851</td>
<td>$8,538</td>
</tr>
<tr>
<td>100</td>
<td>$5,542</td>
<td>$9,754</td>
</tr>
</tbody>
</table>

Assumes PIA at 66 = $2,685 and 2.7% annual COLAs
When to apply for Social Security Key
points to remember

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

Question #4

How can I maximize my benefits?
Strategy #1 for maximizing your benefits

**Improve your earnings record**

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

– Is it accurate?
– Any missing years?
– Can you improve it by working longer?
Strategy #2 for maximizing your benefits

Apply for Social Security at the optimal time

Consider:

• Your income needs, both now and in the future
• Your life expectancy
• Your spouse’s life expectancy
Annual earnings test

• If you apply for Social Security before full retirement age and you work:
  • $1 in benefits will be withheld for every $2 you earn over $15,720 in 2015
  • Benefit will be adjusted at full retirement age
  • Don’t let annual earnings test discourage you from working
  • To avoid the earnings test, wait until full retirement age or later to apply for benefits
Strategy #3 for Maximizing your benefits

Coordinate spousal benefits
“File and suspend”

At FRA, higher-earning spouse applies for his benefit and asks that it be suspended
Lower-earning spouse files for spousal benefit
Higher-earning spouse claims benefit at 70
Example:

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

Caution: “File and suspend” may not be done before FRA
“Claim now, claim more later”

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

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

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

Caution: Higher-earning spouse may not do this before FRA
- Only one spouse may do this (both spouses can’t receive spousal benefits on each other’s record at the same time)
- Spousal planning analysis can determine which of the various spousal strategies will work best for your situation
Strategy #4 for maximizing your benefits

Minimize taxation of benefits
# Taxation of Social Security benefits

<table>
<thead>
<tr>
<th>Filing status</th>
<th>Provisional income*</th>
<th>Amount of SS subject to tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married filing jointly</td>
<td>Under $32,000</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>$32,000 - $44,000</td>
<td>Up to 50%</td>
</tr>
<tr>
<td></td>
<td>Over $44,000</td>
<td>Up to 85%</td>
</tr>
<tr>
<td>Single, head of household, qualifying widow(er), married filing separately &amp;</td>
<td>Under $25,000</td>
<td>0</td>
</tr>
<tr>
<td>living apart from spouse</td>
<td>$25,000 - $34,000</td>
<td>Up to 50%</td>
</tr>
<tr>
<td></td>
<td>Over $34,000</td>
<td>Up to 85%</td>
</tr>
<tr>
<td>Married filing separately and living with spouse</td>
<td>Over 0</td>
<td>85%</td>
</tr>
</tbody>
</table>

*Provisional income = AGI + one-half of SS benefit + tax-exempt interest*
Ways to minimize taxes on Social Security benefits

• Reduce other income with tax-advantaged investments (but not municipal bonds!)
• Anticipate IRA RMDs, which may put you in a higher tax bracket; consider drawing down IRAs before 70-1/2
• Convert traditional IRA to Roth
• Delay Social Security: reduces number of years benefits are subject to tax
• Reduce expenses: pay down debt, adopt simpler lifestyle
• Continue to manage taxes throughout retirement
Strategy #5 for maximizing your Social Security benefits

Coordinate Social Security with your overall retirement income plan
What Social Security personnel can and can’t do

• They CAN
  – Estimate individual benefits
  – Tell you the amount you are entitled to now

• They CAN’T
  – Project future benefits through scenario planning
  – Help with innovative strategies designed to maximize benefits
Baby Boomer Social Security Question #5

Will Social Security be enough to live on in retirement?

Answer: Probably not.
Consider Social Security in the context of:

- Pensions
- IRAs and 401(k)s
- Required minimum distributions at age 70-1/2
- Investment portfolio
- Work
You have questions.
We can help.

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

Protect your nest egg and maximize your income in retirement.
CONTACT INFORMATION

EmergingWealth Investment Management, Inc.
5700 Corporate Drive, Suite 360
Pittsburgh, PA 15237-5829
Phone: (412) 548-1386
E-mail: wealth@emergingwealth.com

Legend Financial Advisors, Inc.
5700 Corporate Drive, Suite 350
Pittsburgh, PA 15237-5829
Phone: (412) 635-9210
E-mail: legend@legend-financial.com
www.legend-financial.com