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# Advanced Strategies to Increase Social Security Income

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This guide presents a general overview of certain rules related to Social Security and the ideas presented are not individualized for your particular situation. This information is based on current law which can be changed at any time.

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## Agenda

- Health and Future of Social Security
- Social Security Maximization Strategies
- Social Security Cash Flow

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## Funding The System

### Benefits are wage driven

- Employee and employer each pay
  - 6.2% for Social Security (OASDI)
    - \$113,700 cap on taxable earnings for Social Security (2013 limit)
    - 2011/2012 Reduced Employee Social Security Taxes
  - 1.45% for Medicare Hospital Insurance (HI)
    - Affordable Care Act increase

Source: <http://www.ssa.gov/cala/Oct 2012>

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## Funding and Calculation of Benefits

### Becoming eligible

- 40 quarters (10 years) of wages that were subject to Social Security payroll taxes
- Quarters do not need to be consecutive
  - Quarters do not expire and will remain on Social Security record

### Benefits calculated based on average of the 35 highest years of earnings

- \$0 used in all years less than 35
- Will result in a lower benefit

Source: SSA Publication No. 05-10003, ICN 451385, February 2012

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## Health of the System

### Facts & Figures

- \$2.7 Trillion Trust Fund
- \$736 Billion In Benefits Paid In 2011
- \$805 Billion Added to Trust Fund In 2011
- By 2033 Trust Fund will be Depleted
  - 75% of benefits to be paid at that point

Source: www.ssa.gov as of October 2012

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## Potential Future Changes?

### Increase Social Security Payroll Taxes by a total of 1%

- Increase to 6.7% for employees / 6.7% for employers
- Extends life of Social Security Trust Fund to 2056

### Increase Social Security Payroll Taxes by a total of 2%

- Increase to 7.2% for employees / 7.2% for employers
- Extends life of Social Security Trust Fund to 2083

Source: Congress of the United States Congressional Budget Office: Social Security Policy Options, July 2010

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## Potential Future Changes?

### Uncap Earnings Limits on Social Security Payroll Taxes

- Apply to both employer and employee
- Extends life of Social Security Trust Fund to 2083

### Raise Full Retirement Age

- Increase to 68 for those born after 1966
  - Does not extend life of Social Security Trust Fund significantly
- Increase to 70 for those born after 1978
  - Does not extend life of Social Security Trust Fund significantly

Source: Congress of the United States Congressional Budget Office: Social Security Policy Options, July 2010

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## Social Security Maximization Strategies

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## Social Security Maximization Strategy

- In 2011, 74% of Social Security beneficiaries received reduced payments
- Why Do Clients File Early?
  - "Bird in hand"
  - Don't trust the government
  - Anticipate shorter lifespan
  - Take and invest

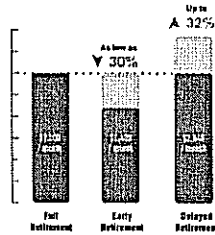
Source: www.ssa.gov as of October 2012

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## When To Commence Benefits?

- Full Retirement Age (FRA)
- Early Retirement
- Delayed Retirement Credits (DRC)



Source: www.ssa.gov as of October 2012

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## Taking Benefits and Working

### Retirement Earnings Test

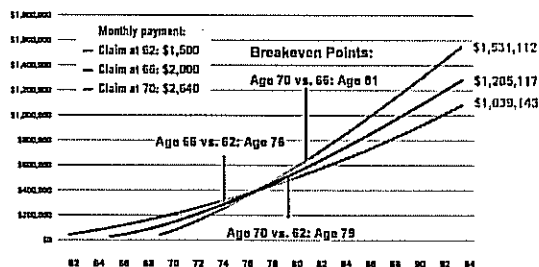
Under Full Retirement Age (FRA)	Give up \$1 in benefits for every \$2 earned above a \$16,125 limit
In the Year Full Retirement Age (FRA) is reached	Give up \$1 in benefits for every \$3 earned above a \$40,080 limit
Full Retirement Age (FRA) or beyond	Indefinitely

Source: www.ssa.gov as of October 2012

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## Social Security Maximization Strategy



This is a hypothetical example for illustrative purposes only. This assumes a full retirement age benefit of \$24,000 a year, an annual cost of living adjustment of 3%, and the client living to age 95.

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## Social Security Maximization Strategy

### EXPECTED LIFE SPAN OF INDIVIDUALS AND COUPLES AGE 65\*

50% are expected to live to age:



25% are expected to live to age:



Source: U.S. Annuity 2000 Mortality table, Society of Actuaries

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## Spousal Benefits

### Married individuals can claim Social Security benefits based on

- Personal earnings record, or
- Spouse's earnings record

### If electing based on spouse's earnings record

- Spousal benefit is up to 50% of their spouse's Social Security benefit
- Cannot claim spousal benefit until the spouse files for benefits

Source: [www.ssa.gov](http://www.ssa.gov) as of October 2012

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## Survivor Benefits

### Surviving spouse can receive or step up to the benefit of the deceased spouse

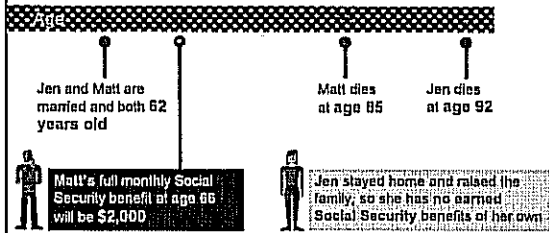
- If survivor is full retirement age, 100% of spouse's benefit
- Survivor benefits generally begin at age 60
  - Survivor benefits reduced if received before full retirement age – up to 28.5%
  - Exceptions for widowers with children who are under 19
- Survivor can switch to his or her own benefits
  - Advantageous if greater when full retirement age reached

Source: [www.ssa.gov](http://www.ssa.gov) as of October 2012

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## Social Security Maximization Strategy



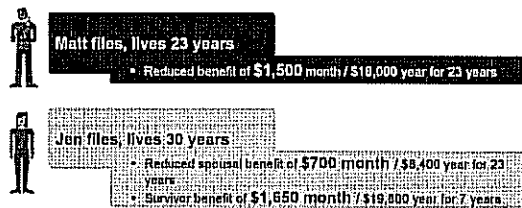
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## Social Security Maximization Strategies

### Option 1: File Early At Age 62



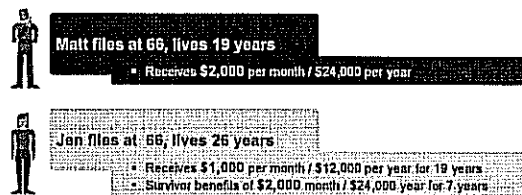
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## Social Security Maximization Strategies

### Option 2: File At Full Retirement Age



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## Social Security Maximization Strategies

### Option 3: Matt Files & Suspends



Matt files at 66, lives 19 years,  
suspends benefits until age 70

- At age 70, receives \$2,640 per month / \$31,680 per year



Jen files at 66, lives 25 years

- Receives \$1,000 per month / \$12,000 per year for 19 years
- Survivor benefits of \$2,640 monthly / \$31,680 year for 7 years

This is a hypothetical example for illustrative purposes only.

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## Social Security Maximization Strategies

### Matt and Jen Claim at 62

- \$414,000 of his benefits
- \$193,200 of spousal benefits
- \$128,600 of survivor benefits

Total Payout: \$745,800

### Matt and Jen Claim at 66

- \$456,000 of his benefits
- \$228,000 of spousal benefits
- \$160,000 of survivor benefits

Total Payout: \$852,000

### Matt Files & Suspends at 66

- \$475,200 of his benefits
- \$228,000 of spousal benefits
- \$221,700 of survivor benefits

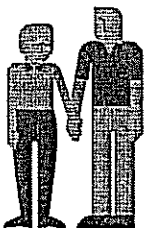
Total Payout: \$924,900

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## File and Suspend



- Increases benefits for couples who retire at different ages

### Things to remember

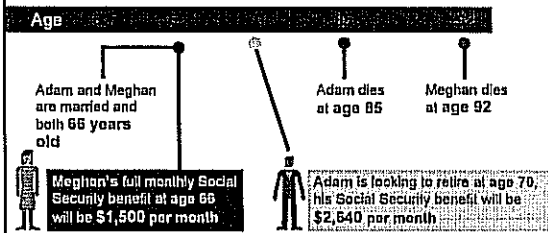
- Married couples are eligible for benefits based on their earnings history or their spouse's earnings history
- Clients cannot collect on your spouse's earnings history until your spouse files for benefits
- Clients can file for benefits and immediately suspend receiving those benefits
- Spouse who suspends the benefits continues to receive delayed retirement credits (DRC)
- "Suspending" spouse must have reached full retirement age

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## Social Security Maximization Strategy



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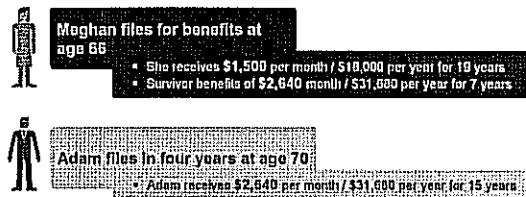
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## Social Security Maximization Strategy

### Option 1: Meghan files and Adam waits



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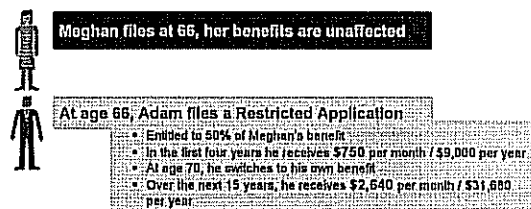
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## Social Security Maximization Strategy

### Option 2: Adam files a Restricted Application



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## Social Security Maximization Strategies

Meghan Files At 66 /  
Adam Files At 70

- \$475,200 of his benefits
- \$342,000 of her benefits
- \$221,760 of survivor benefits

**\$1,074,960**

Adam Uses  
Restricted Application

- \$36,000 of spousal benefits
- \$475,200 of his benefits
- \$342,000 of her benefits
- \$221,760 of survivor benefits

**Total Payout: \$1,074,960**

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## Restricted Application

- Increases benefits for couples with their own earnings history who may be retiring at different ages
- Things to remember:
  - Individuals can collect spousal benefits and allow their personal earnings history benefits to receive delayed retirement credits
  - Individuals cannot collect benefits on their spouse's earnings history until their spouse files for benefits
  - Individuals cannot file a restricted application until they have reached full retirement age

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## Social Security Cash Flow

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## Calculating Social Security Cash Flow

- What is Net Cash Flow?
  - Social Security Cash Flow Reductions
    - Taxes
    - Medicare Premiums

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## Taxation of Social Security Benefits

Benefits may be taxable depending on the amount of client's provisional income

### Provisional Income includes:

- 1/2 Social Security benefits
- Income from municipal bonds
- Wages
- Business income
- Interest
- Capital gains
- Dividends
- Traditional IRA distributions
- Rental income
- And more...

Provisional income does not include:  
• Tax-deferred annuities  
• IRAs and annuities  
• Income from term life insurance  
• Life insurance proceeds from life insurance

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## Taxation of Social Security Benefits

Benefits only taxable if provisional income exceeds:

### Single or Head of Household

- \$25,000 = 50% not taxable
- \$25,000 - \$34,000 = up to 50% taxable
- Above \$34,000 = up to 85% taxable

### Married Filing Jointly

- \$32,000 = 50% not taxable
- \$32,000 - \$44,000 = up to 50% taxable
- Above \$44,000 = up to 85% taxable

Source: [www.ssa.gov](http://www.ssa.gov) as of October 2012.  
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## Calculating Social Security Cash Flow

### Medicare Part B Premiums

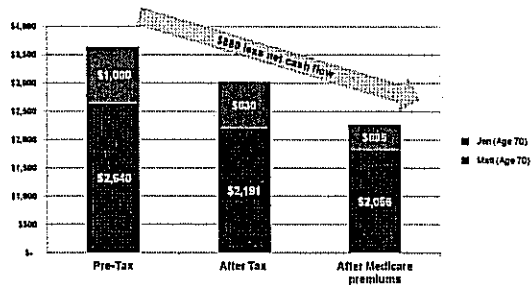
If Your Yearly Income in 2011 was		Monthly Medicare Part B Premium
File Individual Tax Return	File Joint Tax Return	
\$85,000 or less	\$170,000 or less	\$104.90
above \$85,000 up to \$107,000	above \$170,000 up to \$214,000	\$146.90
above \$107,000 up to \$160,000	above \$214,000 up to \$320,000	\$209.60
above \$160,000 up to \$214,000	above \$320,000 up to \$428,000	\$272.70
above \$214,000	above \$428,000	\$339.70

www.medicare.gov as of November 2012

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## Calculating Retirement Cash Flow



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## Calculating Social Security Cash Flow

- What will reduce my client's cash flow in retirement?
  - How much will my clients owe in taxes?
    - Federal / State / Local
  - What pension option did my client choose?
    - Is my client's pension integrated?
      - » Could be reduced when they become eligible for Social Security
    - Will a government pension reduce my client's Social Security?
      - » Government Pension Offset / Windfall Elimination Provision

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## Calculating Social Security Cash Flow

- What will reduce my client's cash flow in retirement?
  - How will the cost of Medicare affect my client's Social Security?
    - Premiums for Part B, D, Supplement, Co-pays and Deductibles
  - How will other Healthcare and Long-term Care costs affect cash flow?
  - Have my clients accounted for Inflation?

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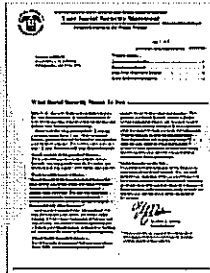
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## Retirement Income – Then and Now

"Social Security is the largest source of income for most elderly Americans today, but Social Security was never intended to be your only source of income when you retire. You also will need other savings, investments, pensions or retirement accounts to make sure you have enough money to live comfortably when you retire."



Without changes, in 2033 the Social Security Trust Fund will be able to pay only about 75 cents for each dollar of scheduled benefits."

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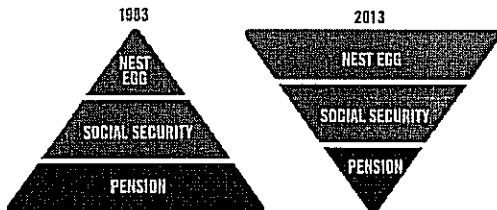
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## Retirement Income – Then and Now



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## Generating Supplemental Income

### Variable Annuities Provide:

- Control Over Timing of Taxes
- Tax Deferral
- Tax-Free Portfolio Rebalancing
- Access to Equity Markets
- Potential for Guaranteed Lifetime Income

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## Generating Supplemental Income

### Considerations include:

- Fees & Charges – May apply and will vary depending on the annuity product chosen and any optional features selected.
- Access to Money – Generally allows up to 10% of purchase payments without incurring any charges.
- Withdrawals – Taxable amounts are subject to ordinary income tax and, if made prior to age 59½, may result in an additional 10% federal income tax penalty. Withdrawals, other than from IRAs or employer retirement plans, are deemed to be gains out first for tax purposes.
- Suitability – Investors should consider all aspects of a variable annuity including investment objectives, risks, charges and expenses carefully before investing.

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## Follow a Three-Step Plan

1. Schedule Conversations
2. Review Social Security Benefits and Options
3. Ask Three Questions

1. What strategies do you have to increase your Social Security benefits?
2. Other than Social Security, what guaranteed income sources do you have?
3. How important is it to have a source of guaranteed income?

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## Summary

- Social Security is an important part of a retirement income plan
- Certain strategies can increase benefits
- Help clients determine how much retirement cash flow they need

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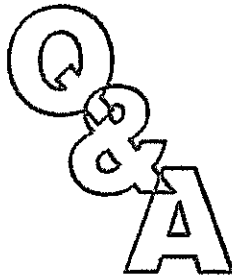
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## Questions



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A variable annuity is a long-term investment designed for retirement purposes. Investment returns and the principal value of an investment will fluctuate so that an investor's units, when redeemed, may be worth more or less than the original investment. Withdrawals or surrenders may be subject to contingent deferred sales charges. Withdrawals and distributions of taxable amounts are subject to ordinary income tax and, if made prior to age 59½, may be subject to an additional 10% federal income tax penalty. Withdrawals, other than from IRAs or employer retirement plans, are deemed to be gains out first for tax purposes. Withdrawals reduce the account value and the living and death benefits.

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