Social Security

The Cornerstone of Retirement Income

Guidance on Effective Claiming Strategies to Empower You to Thrive in Retirement

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MEET

Imagine for a moment:

You wake up tomorrow morning, and something is missing…

What's missing?

Your alarm clock going off!

It's missing because you no longer need to wake up at a specific time.

You're retired… and you retired right!

Because you retired right, you do not need to wake up early to go to a part-time job to make extra money to fill in your financial gaps….

Because you retired right, you can wake up when you want, spend time with who you wish to, and for as long as you want!

You enjoy a leisurely breakfast without feeling rushed. You then decide to listen to some public radio or read a book.

You see that you have a relaxing day planned– walking your dog in the park with your

grandkids and letting them play as long as they want!

You come back to spend time doing projects you want to do, with no sense of deadlines or stress, and without having to worry about your financial future.

At the end of the month, when you pay the bills, you no longer feel that pit in your stomach wondering how to cover all your financial responsibilities; paying bills is now fun!

Why fun?

Because you have enough extra at the end of every month to not only pay your bills but plenty left over to give to causes you care about!

You realize when you wake up this morning that everything is fantastic. In fact, you feel that you are thriving in life!

You. Retired. Right.

Why We Wrote This Book

We wrote this book in the format of "micro-publishing" to distill specific concepts and strategies into the most concise length imaginable to clearly communicate the message. This book is strategically designed to be read in one sitting.

For many folks, social security will be one of their largest retirement assets, yet it is also often one of the most mismanaged. Poorly timed claiming decisions can result over time in the forfeiture of tens of thousands, if not hundreds of thousands, of dollars of precious retirement income—retirement income that is government backed, inflation adjusted, and tax advantaged.

There is only one source of retirement income you will ever have access to in retirement that can claim to possess all three of those characteristics. An insurance salesperson, financial advisor, or a commissioned broker working for a broker dealer, can't sell you more of it. There's no financial product that can be purchased that offers all three of these features. Therefore, it may be worth your time to study the

nuances so that you can make an educated claiming decision.

Becoming educated on how to optimize your benefits for your household is what this book is all about. Before making an irrevocable decision, please read on.

Because most Americans don't know if they will run out of money in retirement, this book will help guide you to understand examples of effective social security claiming strategies that could help empower you to THRIVE in retirement.

You may be asking yourself, "How do Social Security claiming decisions impact the money I will need in retirement to live the life I desire?"

We're glad you asked. Let's clear that up for you now!

If you're confident you have enough retirement resources to help prevent you from outliving your money—the next step is making the most out of what you have (if you don't feel confident your money will last as long as you do, please reach out to a financial professional who

possesses the tools and expertise to help you get your arms around your current financial situation).

Since cumulative lifetime benefits from Social Security are often one of the largest sources of income in retirement (and one of the least understood), Social Security claiming decisions that impact the retirement lifestyle you desire will be the focus of this book.

We've seen many American workers lose out on tens of thousands of dollars over the course of their retirement just by choosing the wrong claiming strategy. We don't want that to happen to you.

Before we dive in, which of the following questions do you have about social security claiming strategies? Many people find they have more than one.

- What's the best age to claim social security benefits?
- How much can I expect to receive, and how is it calculated?

- What can I do to ensure I receive the most that I possibly can?
- How do I coordinate benefits with my spouse or ex-spouse?
- If I'm still working, how much can I earn and still collect social security benefits?
- Will my Social Security benefits be subject to tax, and if so, is there anything I can do about it?
- What strategies could potentially reduce my taxes throughout retirement?
- How will distributions from my other retirement assets impact taxes on my Social Security benefits?

People are often uncertain about when to claim Social Security benefits and can end up choosing the wrong strategy. This book is designed to show you the importance of claiming strategies, specifically when it comes to social security. We'll help you answer some of these questions or point you in the right direction to find the answers specific to your situation.

Now, there is no one right strategy and every situation is unique, so the best you can do is optimize your claiming strategy for your household. However, that can be a complex goal. Working with a financial professional who has the kind of tools and expertise needed to help you manage the various moving parts, can be beneficial. Also, your claiming strategy will not be “set it and forget it.” It will need to be monitored throughout your retirement as your situation and needs in life change.

Knowing what to consider when it comes to retirement income claiming strategies and working with a financial professional who understands Social Security claiming strategies can help you have a better retirement.

Before we take a more in-depth look at claiming strategies that can help you optimize your benefits, we want to make sure you have a basic understanding of Social Security.

CHAPTER 1

What Is Social Security and How Does It Work?

In 1935, Social Security was created to provide income to retired workers age 65 or older. Today, Social Security provides supplemental retirement income to older Americans, and much needed financial support to disabled workers, and dependent family members in situations where a spouse or parent has died. As of June 2020, about 180 million people paid into Social Security via payroll taxes and

approximately 65 million people received social security benefits.[1]

That's about 2.7 workers for every person drawing benefits. In 1960, the ratio of workers to benefit recipients was 5.1, and 2.9 workers for every beneficiary as of 2010. By 2040 it is estimated that there will only be 2.2 workers to each beneficiary. As you can see, the trend is fewer workers to beneficiaries for the foreseeable future.

Covered Workers and Beneficiaries
Calendar Years 1960-2040

Year	Covered workers per OASDI beneficiary
1960	5.1
1970	3.7
1980	3.2
1990	3.4
2000	3.4
2010	2.9
2020	2.7
2030	2.3
2040	2.2

Workers who are paid at some time during the year for employment on which OASDI taxes are due. Beneficiaries with monthly benefits in current-payment status as of June 30.

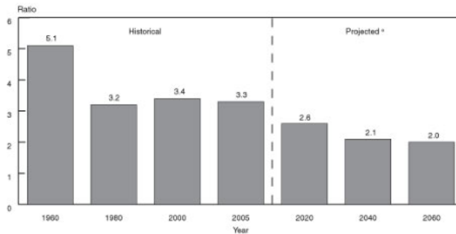
A small number of beneficiaries receive benefits from both funds.

Additional Notes:

1. The number of beneficiaries does not include uninsured individuals who received benefits under Section 228 of the Social Security Act. The General Fund of the Treasury reimbursed the trust funds for the costs of most of these individuals.
2. Historical covered worker and beneficiary data are subject to revision.
3. Totals do not necessarily equal the sums of rounded components.

Data Source: Social Security Administration. Covered Workers And Beneficiaries – 2018 OASDI Trustees Report. https://www.ssa.gov/oact/TR/2018/lr4b3.html. (Visit URL to view larger image.)

Chart 3.
Worker-to-beneficiary ratio, selected years 1960–2060



SOURCE: Board of Trustees (2006, Table IV.B2).

a. Projected using the intermediate assumptions in the 2006 annual report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

Source: Gayle L. Reznik, Dave Shoffner, and David A. Weaver. Social Security, Office of Policy. Social Security Bulletin, Vol. 66, No. 4, 2005/2006. "Coping with Demographic Challenge: Fewer Children and Living Longer. https://www.ssa.gov/policy/docs/ssb/v66n4/v66n4p37.html. (Visit URL to view larger image.)

Social security is not a true "pay-as-you-go" system as of the writing of this book. Pay-as-you-go would mean that as revenue from taxpayers comes in, that full amount is immediately sent out as benefit payments. Currently, the trust fund is still quite sizeable, but it's expected to be depleted within a short period of time relative to how long the program has been in existence.

This might make more sense if we explain with a metaphor. Consider a hypothetical couple with $3,000 in a savings account earmarked to buy birthday presents for their current and future grandchildren. Although they do earn interest on the savings account, because of the low interest rate environment, it isn't much.

Each year they add $1,000 to the account from their annual income, and each year on their birthdays they buy gifts for their two grandchildren. They spend $450 on each grandchild or $900 total from the savings account. In the short term, they have enough money coming into the savings account that they are not depleting it.

However, they are expecting more grandchildren in the coming years. In fact, one of their children just announced to them a new grandchild was on the way.

According to their current plan, when the next grandchild is born, they will be spending $1,350 on gifts but only adding $1,000 a year to their savings account.

If they don't take any action to amend their current plan by increasing the annual contributions to their savings account, they will eventually begin to deplete it. At the time it is depleted they will be forced to reduce the annual amount they spend on gifts for each grandchild. Instead of $450 each, they will only have enough to spend $333 each grandchild or about 74 percent of what they had been spending per grandchild.

Well, that's essentially where our Social Security system is today—they need to increase revenue coming into the system or reduce payments going out. They could do this in several ways, which we'll get into.

The Social Security trust fund income is derived from payroll taxes paid by workers and their employers, as well as investment returns. Social Security currently only invests trust fund income in interest bearing securities issued by the U.S Government.[2]

The money workers and employers pay into Social Security during their working years helps contribute to the benefits of those receiving

payments now—qualified retirees, disabled people and their survivors, dependents, and beneficiaries. It also allows workers to earn the Social Security credits they'll need to take advantage of Social Security benefits themselves in the future (more on that later).

If you look at your paycheck stub, you may see Federal Insurance Contributions Act (FICA) tax on your paycheck. This tax is used to fund Social Security and Medicare. Included with FICA, or listed separately, is the OASDI tax. OASDI stands for old age, survivors, and disability insurance tax. To fund Social Security, the government taxes both an employee and the employer each 6.2%. Self-employed individuals pay 12.4%—both employee and employer taxes––but they can deduct half as a business expense.[3] There haven't been any changes in these rates since 1990. They don't change regularly like the wage cap, cost-of-living adjustment (COLA), or bend points do.

You pay Social Security taxes up to a cap, referred to as the "wage cap," which can change from year to year.

You can see the wage cap in action if you review page 3 of your green and white Social Security estimate statement, “Your Earnings Record.” If you have ever made more income in a given year than the wage cap for that specific year, you’ll notice that “Your Taxed Social Security Earnings” column will equal the wage cap for that year. The column titled, “Your Taxed Medicare Earnings,” lists your actual total reported earned income that year and could exceed the wage cap. This is because you pay Medicare tax on 100 percent of your annual reported income.

Sample partial statement:

Your Earnings Record

Years You Worked	Your Taxed Social Security Earnings	Your Taxed Medicare Earnings
1977	226	226
1978	611	611
1979	1,208	1,208
1980	2,258	2,258
1981	3,361	3,361
1982	4,293	4,293
1983	5,473	5,473
1984	7,287	7,287
1985	9,018	9,018
1986	10,453	10,453
1987	12,223	12,223
1988	13,894	13,894
1989	15,441	15,441
1990	17,064	17,064
1991	18,522	18,522
1992	20,238	20,238
1993	21,076	21,076
1994	22,237	22,237
1995	23,674	23,674
1996	25,364	25,364
1997	27,321	27,321
1998	29,204	29,204
1999	31,254	31,254
2000	33,373	33,373
2001	34,514	34,514

Years You Worked	Your Taxed Social Security Earnings	Your Taxed Medicare Earnings
2002	35,205	35,205
2003	36,391	36,391
2004	38,364	38,364
2005	40,041	40,041
2006	42,116	42,116
2007	44,208	44,208
2008	45,296	45,296
2009	44,665	44,665
2010	45,727	45,727
2011	47,176	47,176
2012	48,560	48,560
2013	48,911	48,911
2014	50,277	50,277
2015	51,550	51,550
2016	51,462	51,462
2017	51,990	51,990
2018	52,445	52,445
2019	52,769	52,769
2020	Not yet recorded	

Total Social Security and Medicare taxes paid over your working career through the last year reported on the chart above:

Estimated taxes paid for Social Security:		Estimated taxes paid for Medicare:	
You paid:	$73,110	You paid:	$17,585
Your employers paid:	$75,047	Your employers paid:	$17,585

Note: Currently, you and your employer each pay a 6.2 percent Social Security tax on up to $142,800 of your earnings and a 1.45* percent Medicare tax on all your earnings. If you are self-employed, you pay the combined employee and employer amount, which is a 12.4 percent Social Security tax on up to $142,800 of your net earnings and a 2.9* percent Medicare tax on your entire net earnings.

*If you have earned income of more than $200,000 ($250,000 for married couples filing jointly), you must pay 0.9 percent more in Medicare taxes.

Source: Social Security Administration. https://www.ssa.gov/myaccount/assets/materials/SSA-7005-SM-SI%20Wanda%20Worker%20Near%20retirement.pdf.

In 2020, the maximum earnings subject to Social Security tax was $137,700 and in 2021, it is $142,800.[4] Which means, if you make $142,800 or more annually, you only pay taxes on earnings up to $142,800. Anything over that amount is not taxed for Social Security.

Here's a chart showing how the wage cap has changed from 1937 through 2021.

Contribution and benefit bases, 1937-2021

Year	Amount	Year	Amount	Year	Amount
1937-50	$3,000	1986	$42,000	2006	$94,200
1951-54	3,600	1987	43,800	2007	97,500
1955-58	4,200	1988	45,000	2008	102,000
1959-65	4,800	1989	48,000	2009	106,800
1966-67	6,600	1990	51,300	2010	106,800
1968-71	7,800	1991	53,400	2011	106,800
1972	9,000	1992	55,500	2012	110,100
1973	10,800	1993	57,600	2013	113,700
1974	13,200	1994	60,600	2014	117,000
1975	14,100	1995	61,200	2015	118,500
1976	15,300	1996	62,700	2016	118,500
1977	16,500	1997	65,400	2017	127,200
1978	17,700	1998	68,400	2018	128,400
1979	22,900	1999	72,600	2019	132,900
1980	25,900	2000	76,200	2020	137,700
1981	29,700	2001	80,400	2021	142,800
1982	32,400	2002	84,900		
1983	35,700	2003	87,000		
1984	37,800	2004	87,900		
1985	39,600	2005	90,000		

Note: Amounts for 1937-74 and for 1979-81 were set by statute; all other amounts were determined under automatic adjustment provisions of the Social Security Act.

Source: Social Security Administration. Contribution And Benefit Base. https://www.ssa.gov/oact/cola/cbb.html. (Visit URL to view larger image.)

As you can see, the wage cap is adjusted in most years, and continues to increase, taxing a greater percentage of worker wages over time. From 2018 to 2019, the wage cap rose by 3.5 percent. From 2019 to 2020, it rose by 3.6 percent and from 2020 to 2021 it jumped by 3.7 percent. The wage cap seems to be increasing at

a faster pace than wages themselves. Meaning, more folks are paying more of their income into the system even though the ratio of workers to beneficiaries is on the decline.

To be eligible for benefits, you must earn Social Security credits. To earn a single credit in 2021, you must make at least $1,470 and pay taxes on that amount. The dollar amount it takes to earn a single credit can change from year to year. In order to qualify for Social Security retirement benefits, you must have at least 40 credits accumulated over your working years. If you earn at least 40 credits, you're exempt from paying Medicare Part A premiums, which just leaves you responsible for the applicable deductibles, copays, and coinsurance.

To qualify for disability and life insurance benefits if you become disabled, you must meet certain criteria and satisfy the minimum credits required according to your age. If you were to die, Social Security survivor benefits may be available to eligible family members.[5]

If you look at a green and white estimate statement on page 3, you will see your work

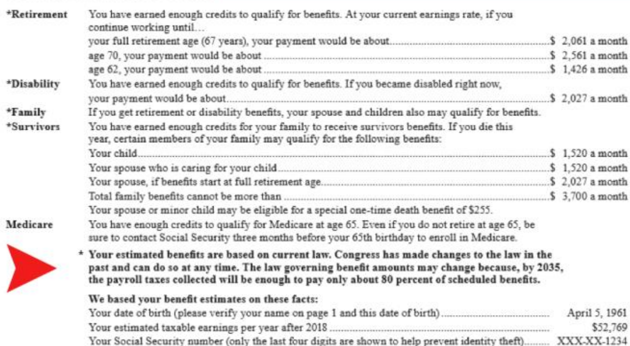
history record under the heading, “Your Earnings Record.”

It’s important to review your green and white estimate statement to ensure the IRS reported it properly to the Social Security Administration (SSA). If you believe there is an error, contact the SSA. If not corrected, you could receive reduced benefits or be denied benefits altogether.

As we just mentioned, Social Security is in a potentially precarious situation. There’s a possibility if nothing changes, that by 2035 (the Bipartisan Policy Center policy think tank suggests as soon as 2028)[6], the Social Security trust fund could be depleted. A common misinformed belief is that if the Social Security system were to “run out of money,” they’d be forced to stop sending checks to those who are receiving benefits. However, even if the Social Security trust fund were depleted in the future, those who are receiving benefits would still get their checks, albeit a reduced benefit.

If you investigate page 2 of any green and white Social Security estimate statement under “Your

Estimated Benefits," there's a disclosure made to this point.



Your Estimated Benefits

***Retirement**	You have earned enough credits to qualify for benefits. At your current earnings rate, if you continue working until...
	your full retirement age (67 years), your payment would be about .... $ 2,061 a month
	age 70, your payment would be about .... $ 2,561 a month
	age 62, your payment would be about .... $ 1,426 a month
***Disability**	You have earned enough credits to qualify for benefits. If you became disabled right now, your payment would be about .... $ 2,027 a month
***Family**	If you get retirement or disability benefits, your spouse and children also may qualify for benefits.
***Survivors**	You have earned enough credits for your family to receive survivors benefits. If you die this year, certain members of your family may qualify for the following benefits:
	Your child .... $ 1,520 a month
	Your spouse who is caring for your child .... $ 1,520 a month
	Your spouse, if benefits start at full retirement age .... $ 2,027 a month
	Total family benefits cannot be more than .... $ 3,700 a month
	Your spouse or minor child may be eligible for a special one-time death benefit of $255.
Medicare	You have enough credits to qualify for Medicare at age 65. Even if you do not retire at age 65, be sure to contact Social Security three months before your 65th birthday to enroll in Medicare.
	* **Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2035, the payroll taxes collected will be enough to pay only about 80 percent of scheduled benefits.**
	We based your benefit estimates on these facts:
	Your date of birth (please verify your name on page 1 and this date of birth) .... April 5, 1961
	Your estimated taxable earnings per year after 2018 .... $52,769
	Your Social Security number (only the last four digits are shown to help prevent identity theft) XXX-XX-1234

Source: Social Security Administration. https://www.ssa.gov/myaccount/assets/materials/SSA-7005-SM-SI%20Wanda%20Worker%20Near%20retirement.pdf. (Visit URL to view larger image.)

At this time, it's estimated that Social Security will only be able to pay 80 cents on the dollar of promised benefits. The estimated date at which the trust fund will no longer be sufficient to pay 100 percent of the benefits and the percentage of benefits that payroll taxes are estimated to cover, does fluctuate from year to year.

If you're still in your saving years right now—say, in your 40s and 50s—this applies to you as well. You may not get your full Social Security benefits. While it's good to be aware of this, you shouldn't let fear of Social Security "running out" scare you into claiming early, as that may not be best for you in the long run. We'll get into why you might want to even delay benefits later in this book.

Currently, there are a couple of major factors working against the system. According to the Social Security Administration (SSA), the number of Americans 65 and older will increase from 56 million to over 78 million by 2035. The number of workers paying into the system for every beneficiary would is estimated to reduce from 2.8 to 2.3 by 2035.[7] This means there would be more people receiving benefits than contributing towards them than there are today.

On top of that, the global pandemic that struck in 2020 caused wages to be cut, less income tax to be paid, more Social Security disability filings, and people retiring early due to unexpected layoffs.[6]

However, there are actions the government could take to get cash flowing back into the system. For instance:

- Eliminate or drastically increase maximum earnings subject to Social Security tax (wage cap)
- Raise full retirement age (FRA), which is the age you become eligible for unreduced Social Security retirement benefits and is based on the year you were born (more on that later)
- Raise Social Security tax (FICA)
- Alter the cost-of-living adjustment (COLA) calculation

A few of these actions on their own could potentially make the system solvent, but it's more likely that any legislative action to fix the underfunded nature of the Social Security system would include a combination of these actions.

When it's all said and done, even if you receive a reduced amount, a Social Security benefit check

that is government backed, inflation adjusted, and tax advantaged is a tremendous retirement resource that you can't get anywhere else.

CHAPTER 2

How Benefits Are Calculated

Although Social Security may be your largest source of retirement income, or at least the only income source that is government backed, inflation adjusted and tax advantaged, it was never meant to be your only income source in retirement. Social Security replaces a percentage of your pre-retirement income based on your lifetime earnings. Any gap would need

to be filled with other retirement resources. This is part of an overall retirement income drawdown strategy.

So, how much will you receive from Social Security? Well, that depends on whether you have enough credits to qualify, your lifetime earnings averaged and indexed for inflation, and when you choose to receive benefits.

If you were born in 1929 or later, to qualify for Social Security retirement benefits, as we mentioned earlier, you must earn at least 40 Social Security credits over your wage-earning lifetime. The amount it takes to earn a single credit can vary from year to year. In 2021, you receive one credit for each $1,470 of earnings (up from $1,410 in 2020), up to the maximum of four credits per year.[8] If you are self-employed, it works the same way, unless your annual net earnings are less than $400, then special rules apply. There are also special rules if you're in the military, perform domestic work, farm work, or work for a nonprofit or religious organization that does not pay OASDI taxes.

Your monthly benefit amount is also dependent on your lifetime earnings. The SSA typically calculates your monthly benefit amount using average indexed monthly earnings (AIME). Your AIME is calculated using your 35 highest earning years, indexed for inflation. If you have a year in which your earnings are greater than one of the preceding index years of earnings, it will replace the lowest earnings year. If you have fewer than 35 years of reported earnings, your earnings record will substitute any zero dollars in earnings for each year that you have that is fewer than 35, thus reducing your AIME. If you have more than 35 years of earnings, the higher index earning years will replace any lower indexed earning years.[10]

A formula is then applied to that AIME to determine the primary insurance amount. The "primary insurance amount" (PIA) is the benefit (before rounding down to next lower whole dollar) a person would receive if he/she elects to begin receiving retirement benefits at his/her normal retirement age. Normal retirement age is

the same as full retirement age (FRA) and is based on when you were born:

The normal retirement age (NRA) is the age at which retirement benefits (before rounding) are equal to the "primary insurance amount." The table below shows how NRA varies by year of birth for retirees.

Normal Retirement Age

Year of birth	Age
1937 and prior	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-54	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Notes:

1. Persons born on January 1 of any year should refer to the normal retirement age for the previous year.
2. For the purpose of determining benefit reductions for early retirement, widows and widowers whose entitlement is based on having attained age 60 should add 2 years to the year of birth shown in the table.

Source: Social Security Administration. Normal Retirement Age. *https://www.ssa.gov/oact/ProgData/nra.html*. *(Visit URL to view larger image.)*

At this age, the benefit is neither reduced for early retirement nor increased for delayed retirement.[9]

The formula uses three "bend points," or dollar amounts in which you receive an increasingly

smaller percentage of your AIME. The percentages used in the calculation are 90 percent, 32 percent, and 15 percent.

For example, in 2021 if your AIME were $10,000, your PIA would be calculated by adding together 90 percent of the first $996 of your AIME, 32 percent of the difference between $996 and $6,002, which is $5,006, and 15 percent of anything greater than $6,002. In this case, the difference between $10,000 and $6,002 is $3,998.

Step 1: 90% of $996 = $896.40

Step 2: 32% of $5,006 = $1,601.92

Step 3: 15% of $3,998 = $599.70

Add totals from Step 1, 2 and 3 and that's your PIA at your full retirement age (FRA). In this example, the PIA at FRA would be $3,998.

While the dollar figures, or "bend points" in the formula change periodically, the percentages used have not.

Dollar amounts in Primary Insurance Amount and maximum family benefit formulas

Year[a]	Dollar amounts in PIA formula		Dollar amounts in maximum family benefit formula		
	First	Second	First	Second	Third
1979	$180	$1,085	$230	$332	$433
1980	194	1,171	248	358	467
1981	211	1,274	270	390	508
1982	230	1,388	294	425	554
1983	254	1,528	324	468	610
1984	267	1,612	342	493	643
1985	280	1,691	358	517	675
1986	297	1,790	379	548	714
1987	310	1,866	396	571	745
1988	319	1,922	407	588	767
1989	339	2,044	433	626	816
1990	356	2,145	455	656	856
1991	370	2,230	473	682	890
1992	387	2,333	495	714	931
1993	401	2,420	513	740	966
1994	422	2,545	539	779	1,016
1995	426	2,567	544	785	1,024
1996	437	2,635	559	806	1,052
1997	455	2,741	581	839	1,094
1998	477	2,875	609	880	1,147
1999	505	3,043	645	931	1,214
2000	531	3,202	679	980	1,278
2001	561	3,381	717	1,034	1,349
2002	592	3,567	756	1,092	1,424
2003	606	3,653	774	1,118	1,458
2004	612	3,689	782	1,129	1,472
2005	627	3,779	801	1,156	1,508
2006	656	3,955	838	1,210	1,578
2007	680	4,100	869	1,255	1,636
2008	711	4,288	909	1,312	1,711
2009	744	4,483	950	1,372	1,789
2010	761	4,586	972	1,403	1,830
2011	749	4,517	957	1,382	1,803
2012	767	4,624	980	1,415	1,845
2013	791	4,768	1,011	1,459	1,903
2014	816	4,917	1,042	1,505	1,962
2015	826	4,980	1,056	1,524	1,987
2016	856	5,157	1,093	1,578	2,058
2017	885	5,336	1,131	1,633	2,130
2018	895	5,397	1,144	1,651	2,154
2019	926	5,583	1,184	1,708	2,228
2020	960	5,785	1,226	1,770	2,309
2021	996	6,002	1,272	1,837	2,395

[a] Year of eligibility; that is, the year in which a worker attains age 62, becomes disabled before age 62, or dies before attaining age 62.

Source: Social Security Administration. Benefit Formula Bend Points. https://www.ssa.gov/oact/cola/bendpoints.html. (Visit URL to view larger image.)

The bend points ensure that lower wage earners receive a much higher percentage of their pre-retirement income as a social security benefit than do higher wage earners. You might say social security is already means-tested by how it is calculated favoring lower wage earners.

For example, in 2021 if a lower wage earner's AIME was $5,000, his PIA would be calculated by adding together 90 percent of the first $996 of you AIME, 32 percent of the difference between $996 and $5,000, which is $4,004.

Step 1: 90% of $996 = $896.40

Step 2: 32% of $4,004 = $1,281.28

His PIA at full retirement age (FRA) would be $2,177.68, or 43.55 percent of his AIME. On the other hand, looking back at the example of a person with a $10,000 AIME, only 30.98 percent is replaced.

The PIA is the basis for your benefits.[10] It's a good idea to check your green and white statement for Your Estimated Benefits (page 2), and Your Earnings Record (page 3) to confirm there are no reporting errors.

Sample estimate statement, Page 2

Your Estimated Benefits

***Retirement** You have earned enough credits to qualify for benefits. At your current earnings rate, if you continue working until…

your full retirement age (67 years), your payment would be about .... $ 2,061 a month
age 70, your payment would be about .... $ 2,561 a month
age 62, your payment would be about .... $ 1,426 a month

***Disability** You have earned enough credits to qualify for benefits. If you became disabled right now, your payment would be about .... $ 2,027 a month

***Family** If you get retirement or disability benefits, your spouse and children also may qualify for benefits.

***Survivors** You have earned enough credits for your family to receive survivors benefits. If you die this year, certain members of your family may qualify for the following benefits:

Your child .... $ 1,520 a month
Your spouse who is caring for your child .... $ 1,520 a month
Your spouse, if benefits start at full retirement age .... $ 2,027 a month
Total family benefits cannot be more than .... $ 3,700 a month

Your spouse or minor child may be eligible for a special one-time death benefit of $255.

Medicare You have enough credits to qualify for Medicare at age 65. Even if you do not retire at age 65, be sure to contact Social Security three months before your 65th birthday to enroll in Medicare.

* **Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2035, the payroll taxes collected will be enough to pay only about 80 percent of scheduled benefits.**

We based your benefit estimates on these facts:

Your date of birth (please verify your name on page 1 and this date of birth) .... April 5, 1961
Your estimated taxable earnings per year after 2018 .... $52,769
Your Social Security number (only the last four digits are shown to help prevent identity theft) XXX-XX-1234

Sample estimate statement, Page 3

Your Earnings Record

Years You Worked	Your Taxed Social Security Earnings	Your Taxed Medicare Earnings
1977	226	226
1978	611	611
1979	1,208	1,208
1980	2,258	2,258
1981	3,361	3,361
1982	4,293	4,293
1983	5,473	5,473
1984	7,287	7,287
1985	9,018	9,018
1986	10,453	10,453
1987	12,223	12,223
1988	13,894	13,894
1989	15,441	15,441
1990	17,064	17,064
1991	18,522	18,522
1992	20,238	20,238
1993	21,076	21,076
1994	22,237	22,237
1995	23,674	23,674
1996	25,364	25,364
1997	27,321	27,321
1998	29,204	29,204
1999	31,254	31,254
2000	33,373	33,373
2001	34,514	34,514

Years You Worked	Your Taxed Social Security Earnings	Your Taxed Medicare Earnings
2002	35,205	35,205
2003	36,391	36,391
2004	38,364	38,364
2005	40,041	40,041
2006	42,136	42,136
2007	44,208	44,208
2008	45,296	45,296
2009	44,665	44,665
2010	45,727	45,727
2011	47,176	47,176
2012	48,560	48,560
2013	48,911	48,911
2014	50,277	50,277
2015	51,550	51,550
2016	51,462	51,462
2017	51,990	51,990
2018	52,445	52,445
2019	52,769	52,769
2020	Not yet recorded	

Total Social Security and Medicare taxes paid over your working career through the last year reported on the chart above:

Estimated taxes paid for Social Security:		Estimated taxes paid for Medicare:	
You paid:	$73,110	You paid:	$17,585
Your employers paid:	$75,047	Your employers paid:	$17,585

Note: Currently, you and your employer each pay a 6.2 percent Social Security tax on up to $142,800 of your earnings and a 1.45* percent Medicare tax on all your earnings. If you are self-employed, you pay the combined employee and employer amount, which is a 12.4 percent Social Security tax on up to $142,800 of your net earnings and a 2.9* percent Medicare tax on your entire net earnings.

*If you have earned income of more than $200,000 ($250,000 for married couples filing jointly), you must pay 0.9 percent more in Medicare taxes.

Help Us Keep Your Earnings Record Accurate

Source: Social Security Administration. https://www.ssa.gov/myaccount/assets/materials/SSA-7005-SM-SI%20Wanda%20Worker%20Near%20retirement.pdf. (Visit URL to view larger image.)

The age you choose to take your Social Security benefits is also used to determine the amount you'll receive. For many people, thinking about when to claim benefits is as simple as whether

to take it early or to wait. But there are actually many nuances.

Generally speaking, the earliest you can take your retirement benefits is age 62. If you claim early, your PIA is reduced. You get a smaller benefit, but you get more checks. If you wait until FRA, there's no reduction in your PIA benefit. Every year you delay beyond your full retirement age (FRA), you add 8 percent of your PIA to your benefit—up to age 70 maxing out at 132 percent of your PIA or full retirement age benefit. But don't make the mistake of waiting past age 70 because there is no delayed credit awarded beyond that. You would simply miss out on receiving those extra years of Social Security checks. The chart below shows the percent of PIA you would receive at each claiming age:

Retirement Age	Percent of PIA
62	75
63	80
64	86 2/3
65	93 1/3
66	100
67	108
68	116
69	124
70	132

Source: Social Security Administration. Retirement Benefits. Chart for people born between 1943 and 1954. (Visit URL to view larger image.)

So, the question becomes—should you take smaller checks over a longer period of time or larger checks over a shorter period of time?

Many people choose to take their Social Security benefits as early as possible. In fact, according to MoneyTalksNews, "Nearly 35 percent of men

and nearly 40 percent of women take benefits at 62, the earliest possible age of eligibility for most Americans. Taking benefits that early makes sense in some circumstances, such as if you absolutely need the money, or have health problems that suggest you may not live a long life."[11]

However, as the Bipartisan Policy Center points out, taking benefits early can be hazardous to your financial health: "The income losses from early claiming are quite large. A study commissioned by United Income estimates that today's older Americans will lose a total of $3.4 trillion in potential income because of early claiming, with an average lifetime loss of $95,000 per household."[11]

CHAPTER 3

Important Considerations Before Choosing to Claim Early

The simple fact is that many people claim early with a misguided eye towards when they would *like* to retire instead of when they're *financially prepared* to retire. Some claim early because of a feeling of uncertainty around the Social Security system not being available later and wanting to get as much as they can now.

Retirement income planning is a critical matter and what people may not recognize is that many factors are involved in when you claim, how you claim, and how much total income you'll need in retirement.

Suppose you're trying to maintain even a semblance of what your previous lifestyle was. In that case, it involves calculating what your financial needs are now and what they're going to be during retirement. This requires developing a strategic and tactical strategy with your financial professional. Indeed, one of the most crucial components of that, for many retired Americans, will be their Social Security benefit.

So, it's imperative to get that right and claim at the correct time, given your individual financial situation.

When you claim Social Security benefits and when you transition into retirement are completely independent of one another. Just because you decide to retire from your full-time employment doesn't mean you have to file for Social Security benefits. On the other hand, just

because you haven’t transitioned into retirement, doesn’t mean that you can’t file for Social Security benefits. Although one decision may affect the other, they are two totally separate decisions to make.

Many people claim too early out of ignorance. They haven't had a financial professional who understands Social Security claiming strategies look at their financial situations, so they're not aware of what they could be giving up.

That being said, there can be several valid reasons why someone might claim early. You would want to consider your own personal health as well as your family health history. There may be health considerations making it an advantage to claim early.

For example, if you have a history of heart disease or some other life-threatening illness that could result in a shorter than average life expectancy, it may make sense to claim early. This is because you're likely to receive more cumulative benefits than if you took a delayed strategy and only lived a few years, for example. No one knows exactly how many years they have

left on this spinning planet. However, science and medical data can help you make an educated decision if you happen to have a history of life-threatening illness.

However, keep in mind that claiming too early will likely limit the total benefits you can receive from Social Security. If you have longevity in your family, and you're anticipating a longer than average lifespan, claiming early could be a big mistake. You may be forfeiting tens of thousands of dollars in cumulative lifetime Social Security benefits. Every dollar of forfeited benefits will have to be replaced by your own personal savings, or potentially through a reduction in your retirement lifestyle.

You also want to consider your marital status. Are you married, divorced after 10 years of marriage or longer, or a widow/widower? Depending on your situation and your age or the age of your spouse, there are different options available to you. Some of those options may involve claiming your benefits early to get the most that you can, while others may require you to claim one benefit and switch to another later.

A question that often comes up is whether someone can claim Social Security benefits while they're still working. And the answer to that is "yes." But it's extremely important to keep in mind the "still working penalty" you could incur if you claim benefits early while you're still working.[12]

If you're still working, earning an income, and choose to take Social Security benefits prior to your full retirement age (FRA), your income earnings may impact your Social Security benefit check.

If your earnings do not exceed the stated annual limit, you would receive all the Social Security benefits available to you.

However, if you do exceed the earnings limit, the SSA would deduct $1 from your benefits for every $2 you are over the limit. In the year you reach your full retirement age, the earnings limit increases, and there would be $1 deducted from your benefits for every $3 over the limit.

The earnings limit can change each year. The earnings limit for workers who are younger than

full retirement age, or normal retirement age as it's sometimes called, is $18,960 in 2021. The earnings limit for workers reaching their full retirement age in 2021 is $50,520. There is no limit on earnings for workers who are full retirement age or older for the entire year.

The normal retirement age (NRA) is the age at which retirement benefits (before rounding) are equal to the "primary insurance amount." The table below shows how NRA varies by year of birth for retirees.

Normal Retirement Age

Year of birth	Age
1937 and prior	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-54	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Notes:

1. Persons born on January 1 of any year should refer to the normal retirement age for the previous year.
2. For the purpose of determining benefit reductions for early retirement, widows and widowers whose entitlement is based on having attained age 60 should add 2 years to the year of birth shown in the table.

Source: Social Security Administration. Normal Retirement Age.
https://www.ssa.gov/oact/ProgData/nra.html.
(Visit URL to view larger image.)

Let's consider a hypothetical example to illustrate what this would look like.

We'll assume a 62-year old is making $50,000 per year. His PIA at FRA is $2,666. However, he is claiming early at age 62 and therefore, his benefit is reduced by 25 percent. His reduced Social Security benefit would be $2,000 a month, which would be $24,000 per year. If the earnings limit for someone younger than full retirement age is $18,960, SSA will reduce his Social Security benefit by $1 for every $2 over this limit. So, $50,000 minus $18,960 is $31,040.

What is their Social Security benefit going to be?

Well, let's do some more math.

If $1 is deducted for every $2 made over the limit, we would need to divide $31,040 (the amount over the limit) by 2 to find out how much would be returned in benefits. That's $15,520.

We would then subtract that from the total benefits they were to receive, which was $24,000.

So, $24,000 minus $15,520 is $8,480.

This means that this hypothetical 62-year-old worker making $50,000 would end up receiving $8,420 of his $24,000 calculated annual benefit.

For the first seven months, he would not receive a benefit check. His first check deposited into his account would be received in August. However, it would be a partial benefit. Social Security would withhold his benefits until the total of $15,520 worth of his $2,000 monthly benefit checks were withheld.

January – no check, February – no check, March – no check and so on. Finally, in August he'd receive his first deposit. A check for a reduced amount of approximately $480 which would be his $2,000 benefit minus the remaining $1,520 of withheld benefits. By September, he'd receive his first full $2,000 monthly check and would continue to do so through the end of the year.

You really have to ask yourself, is claiming early and electing reduced benefits only to have your reduced benefits withheld because you are making too much income, worth it? Why do that? Why not just delay claiming until either your annual income is expected to be less than

the annual earnings limit or you reach full retirement age?

Once you have reached FRA, you can make as much as you want, and no benefit will be withheld. That's the good news! The bad news is you may end up paying taxes on a large percentage of your benefit if you continue to work and earn an income. You must consider taxation of benefits at this point. If you feel you would still like to work, that would definitely be a factor that would play into your decision on when to claim benefits.

You'll want a tax analysis done on all your retirement resources. The makeup of your portfolio—pre-taxed, like IRAs; after-taxed savings; and never-taxed, like Roth accounts, could make a difference on whether you should claim early or delay.

CHAPTER 4

Does A Delayed Claiming Strategy Make More Sense?

Unless you have been diagnosed with a life-threatening medical condition that could potentially shorten your life expectancy, or you have a family history of short life expectancy due to hereditary health complications, waiting at least until full retirement age often makes sense.

There are a few reasons you might delay claiming Social Security benefits. Many folks have never thought about these before. Have you?

No forfeiture of benefits and cost-of-living adjustments (COLAs)

First and foremost, by waiting until full retirement age to claim, you could avoid forfeiting a significant percentage of full retirement age benefits and the cost-of-living adjustments that you would receive on those lost benefits. These two factors can have a dramatic effect on the cumulative benefits you'll receive.

Let's look at an example to get a better idea of how big of a difference delaying benefits can mean to you over the long run, shall we?

Let's make believe that your full retirement age (FRA) was 66, and your Primary Insurance Amounts (PIA) at FRA was $2,000 per month. If you elected to claim reduced benefits at age 62, you'd forfeit 25 percent of your PIA, which means $2,000 would become a $1,500 per

month benefit. We'll also assume a cost-of-living Adjustment (COLA) of two percent. However, the two percent COLA is now applied only to $1,500, not $2,000. Therefore, you would lose the cost-of-living adjustment that would have been applied to the forfeited five hundred dollars of benefit. If you live until age 90 (collecting benefits over 28 years), your cumulative lifetime benefits would be $666,921. That's a significant amount, but let's look at what they could be if you instead waited until age 66, your full retirement age, to take Social Security benefits.

Because you waited, you'll receive 100 percent of your benefits and the COLA on the entire amount. If you live until age 90 (collecting benefits for only 24 years), your lifetime cumulative benefits would be $730,124. That's $63,203 more!

Part of what makes a difference in your cumulative benefits is the cost-of-living adjustment—even though it may not seem like much. In fact, this effect of waiting often gets overlooked. But it's important because it's the only way to help you gain some of your purchasing power back.

The COLA is currently based on the percent increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The SSA looks at the CPI-W in the third quarter of the previous year and compares that to the third quarter of the current year. Any positive adjustment in Social Security benefits is calculated and announced in October and the cost-of-living adjustments becomes effective starting in January the following year. If there is no increase in the CPI-W, the COLA for the next year would be zero percent. If the CPI-W decreases from one year, the next COLA is still zero percent. Zero percent is the floor, and your benefit payments would never decrease because of deflation. Although your benefits will not decrease, no positive COLA would be applied until the CPI-W exceeds the previous high point.[13,14]

Here's a lookback at cost-of-living adjustments over the years. The years with a zero percent COLA are because the CPI-W had decreased from the previous year. For example, in 2008 the COLA was 5.8 percent because of the CPI-W's

increase year over year from the third quarter of 2006 to 2007. However, in 2009 and 2010 the COLA was zero percent because the CPI-W had decreased because of the Great Recession of 2008 and 2009. The CPI-W did not increase beyond the 2007 level until the third quarter of 2010, resulting in a positive COLA for 2011.

Social Security Cost-Of-Living Adjustments

Year	COLA	Year	COLA	Year	COLA
1975	8.0	1995	2.6	2015	0.0
1976	6.4	1996	2.9	2016	0.3
1977	5.9	1997	2.1	2017	2.0
1978	6.5	1998	1.3	2018	2.8
1979	9.9	1999 [a]	2.5	2019	1.6
1980	14.3	2000	3.5	2020	1.3
1981	11.2	2001	2.6		
1982	7.4	2002	1.4		
1983	3.5	2003	2.1		
1984	3.5	2004	2.7		
1985	3.1	2005	4.1		
1986	1.3	2006	3.3		
1987	4.2	2007	2.3		
1988	4.0	2008	5.8		
1989	4.7	2009	0.0		
1990	5.4	2010	0.0		
1991	3.7	2011	3.6		
1992	3.0	2012	1.7		
1993	2.6	2013	1.5		
1994	2.8	2014	1.7		

[a] The COLA for December 1999 was originally determined as 2.4 percent based on CPIs published by the Bureau of Labor Statistics. Pursuant to Public Law 106-554, however, this COLA is effectively now 2.5 percent.

Source: Social Security Administration. Cost-of-Living Adjustments.

https://www.ssa.gov/OACT/COLA/colaseries.html. (Visit URL to view larger image.)

You may wonder if there will come a time when COLAs will not be made, and your Social Security payments no longer be inflation adjusted. It's possible, but not likely unless there was a major change in legislation. Currently, future cost-of-living adjustments for Social Security and Social Security Insurance (SSI) must be tied to the Consumer Price Index per legislation from 1972, which has been in effect since 1975. Under current law, the cost-of-living adjustment calculation occurs each year without any congressional action.

There have been numerous legislation proposals centered around changing the yardstick that is used to measure the cost-of-living adjustment from year to year—changing from the CPI-W to another consumer price index (yes, there are several variations). However, no legislation has been introduced yet that would completely get rid of the COLA. Although, if the Social Security trust fund was depleted, benefits may have to be reduced.

If you don’t have a cost-of-living adjustment to hedge against inflation, the money you have today won’t buy you nearly as much in the future as it does now. Think about rising cost of health care, for example, it would be much more difficult to manage those expenses without a COLA to help offset some of that increase.

Avoid the earnings limit

Many folks are still working into their 60s and wonder if they can claim Social Security benefits while they’re still working. Claiming Social Security before full retirement age will subject Social Security benefits to the earnings limit discussed earlier in the book.

If you are making a good income, there's a chance you may receive no benefit check at all if you claim early — simply because you exceeded a base amount as defined by the IRS.

You may also end up paying taxes on a significant portion of your Social Security benefits at a higher effective tax rate due to your employment income. We’ll talk more about this

when we get to the section on taxation of benefits.

Super-size survivor benefits

Another potential reason for claiming benefits under a delayed strategy is to increase the survivor benefit.

One spouse is often a lower wage earner, and the other spouse is a higher wage earner. When one of the spouses passes away, the surviving spouse will generally receive the higher of the two Social Security benefits and lose the lower one.

It can often make sense for the lower wage-earning spouse to claim benefits early and get cash flow coming into the household retirement income plan while the higher wage earner delays benefits to earn delayed retirement credits and increase the future survivor benefit.

Since 30 percent of women outlive their husbands by more than a decade, compared to 18 percent of men outliving their wives by more

than 10 years, most survivor benefits are received by widows.[15] Therefore, it can be somewhat of a women's planning issue when making Social Security claiming decisions.

But it's quite common to see a husband with a higher Social Security benefit. There may be many reasons for this, and while it’s not always the case, it is most common. Meanwhile, the wife may have been the lower wage earner for several reasons, and she may often be the younger spouse.

It can be a selfless decision for an older male spouse to delay claiming Social Security benefits as a higher wage earner even though there might be a natural desire for him to want to claim early and start receiving benefits on his record. Delaying so that the survivor benefit is optimized will likely profoundly impact his spouse after he's gone.

Acting on impulse and claiming early under these conditions could be viewed as a selfish decision. It would permanently reduce Social Security benefits for the household, he'd lose out on any delayed retirement credits, and

consequently the survivor benefit would be permanently reduced as well.

Helping spouses coordinate benefits is one way your financial professional can guide you regarding retirement income planning and Social Security claiming strategies. We'll talk a bit more about retirement, spousal and survivor benefits shortly.

We're living longer

Another reason you may choose to delay claiming social security is that we're living longer, and our retirement income must last as long as we do. Life expectancies have increased substantially.

According to the Society of Actuaries, 1 in 3 men and 1 in 2 women in their mid-50s will live to be age 90. For couples age 65 today, there's a 50 percent chance that one will live to age 92.[15]

Developing a strategy in which retirement resources are exhausted at a person's life expectancy will fail 50 percent of the time. By definition, life expectancy is the midpoint at

which half a peer group is alive, and half a peer group has passed. If a retirement income strategy isn't sufficient to get beyond life expectancy, the odds of running out of money may be the same.

Delaying Social Security benefits can help you increase the odds of not running out of money and planning for their surviving spouse's wellbeing.

It's tax-advantaged income

By coordinating your retirement resources, including Social Security strategies, it may be possible to reduce taxable income during the waning years of retirement.

Sometimes it makes sense to delay Social Security benefits and use pre-tax (IRA or 401(k)) retirement assets to help fill the gap. For example, suppose someone wanted to retire at age 65. In that case, it might make sense for them to use some of their pre-tax money to maintain their lifestyle from age 65 to 70 while they allow their Social Security benefits to earn delayed retirement credits.

By the time they turn on social security, which is tax advantaged, government backed, and inflation adjusted, they may have spent down a good portion of their pre-tax dollars. In that case, their required minimum distributions after age 72 are likely to be lower than they would have been otherwise. Since distributions from pre-tax accounts have a profound impact on the taxation of Social Security benefits, this may be one way to help mitigate those taxes.

You may not be able to immunize benefits from taxes completely, especially considering most people's retirement accounts are pre-tax accounts. But if a financial professional can consider someone's tax bracket and keep their next taxable dollar distributed in a tax lower bracket, that person could potentially lower the taxes they pay on social security.

For that reason, a delayed claiming strategy to build a more considerable Social Security benefit can have a more significant positive tax impact than most people realize.

That's why the decision about when and how to claim Social Security benefits to maximize household retirement resources is not one you will want to take lightly.

Once you make a decision regarding your Social Security claiming strategy – in most cases, that decision cannot be reversed. So, to help you in making the appropriate decision, next we'll cover important claiming considerations to discuss with your financial professional.

As you can see so far, decisions regarding your Social Security benefits are very complex. If you feel confused, it's not your fault, and you are not alone!

Consulting a financial professional that can evaluate all of your assets and determine your basic income needs as well as intelligently discuss Social Security claiming options, can help you determine how to cover retirement necessities. They can also help you position your assets to allow for luxury items you may want, free up other assets in a way that could either help mitigate taxation and offer a potential

hedge against inflation so that you not only survive, but thrive, in retirement.

CHAPTER 5

Coordinating Three Types of Benefits

A good claiming strategy makes the most of three categories of benefits. The first step is to know all the benefits that may be available to you.

Category 1: Retirement Benefits. These are your benefits based on your work history. Most

people are aware of their retirement benefits. When you review your green and white estimate statement from Social Security, you are looking at your retirement benefits.

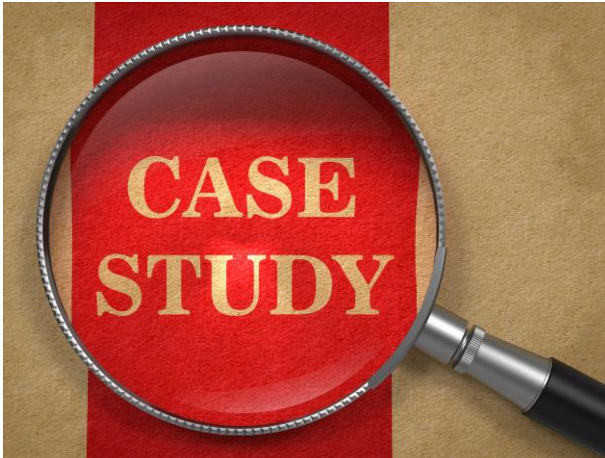
Category 2: Spousal Benefits. These are not as well-known and if you're not aware of them, could cause you to choose the wrong claiming strategy. If you're married or divorced after at least 10 years of marriage to the same person, you may be able to access a spousal benefit, which can be up to 50 percent of your spouse or ex-spouse's full retirement age (FRA) benefit.

Category 3: Survivor Benefits. Upon the death of the first spouse, the surviving spouse or even a divorced surviving spouse, may be able to access a survivor's benefit. This is generally the higher of your own worker benefit or that of the deceased.

A financial professional qualified to speak on Social Security claiming strategies can help spouses and ex-spouses to coordinate these benefits when it comes to retirement income and claiming Social Security.

CHAPTER 6

Claiming Strategies: Hypothetical Case Studies



Next, we'll cover a couple of potential claiming strategies in detail using hypothetical examples. These examples are not of actual people and are presented for context and examples.

Social Security Case Study 1: Switch Strategy

A “switch strategy” only applies if one of the spouses was born before January 2, 1954.

In this hypothetical case, John is 65 in November 2018. He was born in 1953. So, this strategy applies to this couple because John was born before January 2nd,1954. Jane, on the other hand, was born in 1957 and is age 61; she was born after January 1954. Now, should they both elect their benefits as early as they can? Or should they take a different approach?

First, we have to make a couple of assumptions: John's Primary Insurance Amount (PIA) at Full Retirement Age (FRA) is $2,500. Jane's would be $1,300, in this example. We're going to assume one of them passes away at age 86 and the survivor continues to receive the higher of the two benefits.

So, in this case, they both claim as early as possible at age 62, electing to receive permanently reduced benefits. With this decision to claim before reaching their FRA, they

are in the majority making the same decision as about 80 percent of the population makes.[11]

Cumulatively over their lifetime, they will have about $893,000 of government-backed inflation-adjusted tax-advantaged income hitting their household, which is nothing to turn your nose up at–that's a significant retirement income source. But if they want to get an additional $132,000 hitting their household, they need to know how to make the appropriate claiming decision for their family.

Now, what is the strategy they could consider?

Remember, the longer you delay, the better off you are most of the time. If you wait from age 62 until your full retirement age, you don't forfeit any of your benefits. If you wait beyond your full retirement age, you can get a delayed credit of eight percent each year that you delay. So, waiting makes a lot of sense.

But in this case, we're going to have John file a restricted application for spousal benefits at age 66. A "restricted application" allows someone who's reached full retirement age and not yet claimed their own benefits, born on or before

January 2nd, 1954, currently married or divorced (and eligible for a benefit on an ex-spouse's record) to receive a spousal benefit equal to as much as half their spouse's unreduced full retirement age benefit.[16]

John would elect to restrict his benefit to the spousal benefit he's entitled to. Meanwhile he'd let his own benefit increase, earning delayed retirement credits until age 70, at which point he would switch to his own benefit based on his own work history.

In our hypothetical scenario, John should receive approximately $650, or half of his wife's full retirement age benefit, because that's what he's entitled to receive. And by the time he switches to his own benefits, they will be worth an estimated $3,800 a month.

The last thing that has to happen for John to do this, is for his spouse to file. He cannot claim a restricted application unless Jane files on her record.[17]

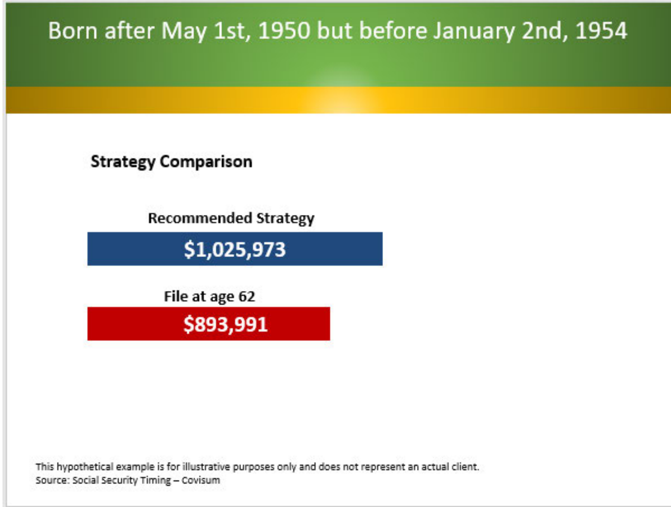
However, Jane has not reached full retirement age. Should she really be claiming early and

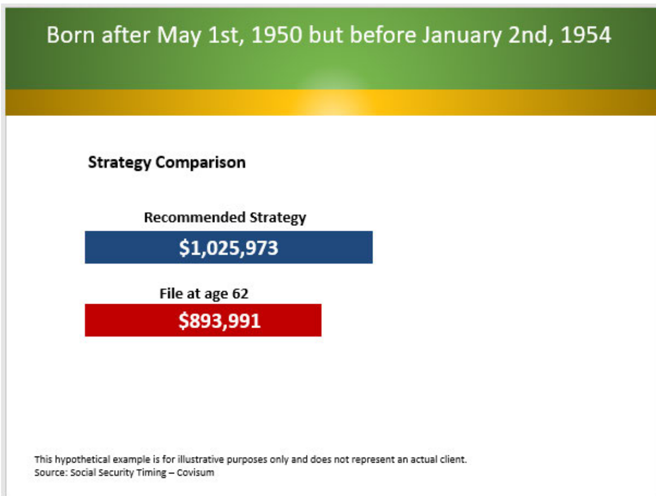
forfeiting a percentage of her full retirement age benefit? In this example, the answer is yes! Sometimes, it makes sense for one spouse to claim early and forfeit some benefits. Other times, it makes sense for one spouse to delay. In this case, Jane files at 62 and five months, which would open up John's ability to file a restricted application and receive that cash flow.

So, they get the combined cash flow of her benefit at a reduced amount at 62 and five months, they get John's spousal benefit coming in because he claimed a restricted application, and then he switches to his increased benefit at age 70. When the first spouse passes, most likely John in this case, the survivor retains the higher of the two benefits until death.

This is how they could optimize income from Social Security for their household.

Switch Strategy Summary





Born after May 1st, 1950 but before January 2nd, 1954

Strategy Comparison

$132,000 Difference

This hypothetical example is for illustrative purposes only and does not represent an actual client.
Source: Social Security Timing – Covisum

What was the Strategy?

John

- File a Restricted application for spousal benefit based on Jane's earnings record at your age 66: Approximate spousal benefit would be $650.
- File for own benefit at age 70: Approximate benefit on own earnings record would be $3,769.

Jane

- File a standard application for benefits at age 62 years 5 months: Approximate monthly benefit would be $969.

This hypothetical example is for illustrative purposes only and does not represent an actual client.
Source: Social Security Timing - Covisum

Social Security Case Study 2: Timing Strategy

In this hypothetical scenario, neither a restricted application nor switch strategy is an option because both spouses were born after January 2nd,1954. They're going to use a "timing strategy" instead. Jack was 63 in January 2016. Diane was 61 in 2016; how can they maximize their benefits?

We will assume Jack's Primary Insurance Amount (PIA) at full retirement age is $2,400. Diane's PIA at full retirement age is $901. We'll assume one spouse lives to age 85, and the survivor collects the higher of the two benefits for another five years until age 90.

Let's assume they both claim as early as possible. Jack claims at age 62, and then when Diane turns 62 two years later, she does the same. They'll have $710,000 of cumulative lifetime cash flow from Social Security hitting the household. However, if they apply a well thought out timing strategy, they could collect an additional $122,000 of cumulative lifetime benefits.

So, what strategy could they consider?

Well, in this case, neither Jack nor Diane can take advantage of a restricted application because they were born after January 1954. Jack is going to delay his benefits because he is the higher earner of the two. His benefit by age 70 will be approximately $3,800 a month; Diane will file for her full retirement age benefit at 66 and six months–before Jack does. By that time, her own benefit based on her earnings history would be approximately $1,000 a month because of the cost-of-living adjustment.

When Jack turns 70 and files based on his own workers' record, Diane, who's now 68, is eligible for a spousal benefit on top of her own benefit. So, she has been receiving her own benefit for several years, but when Jack files, she's going to be entitled to an additional spousal benefit on top of that. This is because her own benefit is less than half of his full retirement age benefit. Until he filed, her spousal benefit was locked, but when he filed it became unlocked. However, getting this additional benefit doesn't happen automatically. Diane would need to contact the Social Security Administration to get it.

Timing Strategy Summary

Married Couple
Case Study #2

- Jack age 63 and Diane age 61 in Jan. 2016
- How can they get a better payout?

Assumptions:

PIA: Primary Insurance Age

FRA: Full Retirement Age

- Jack PIA at FRA $2,400
- Diane PIA at FRA $900
- Living to age 85 and 90
- 2.7% inflation
- 1% over inflation credited

This hypothetical example is for illustrative purposes only and does not represent an actual client.
Source: Social Security Timing - Covisum

Born on or after January 2, 1954

Strategy Comparison

Recommended Strategy

$832,313

File at age 62

$710,014

This hypothetical example is for illustrative purposes only and does not represent an actual client
Source: Social Security Timing – Covisum

Born on or after January 2, 1954

Strategy Comparison

Recommended Strategy
$832,313

File at age 62
$710,014

$122,000 Difference

This hypothetical example is for illustrative purposes only and does not represent an actual client.
Source: Social Security Timing - Covisum

What was the Strategy?

Jack

- File a standard application for benefits at age 70: Approximate monthly benefit would be $3,880.

Diane

- Files for benefits under her earnings at age 66 years, 6 months.
- No spousal benefit will be available so Her benefit will be approximately $1,055.
- At age 68, spousal benefits will be added based on Jack's earnings record. Her spousal benefit would be $371 in addition to the benefit she was already receiving.

This hypothetical example is for illustrative purposes only and does not represent an actual client.
Source: Social Security Timing - Covisum

CHAPTER 7

Taxation of Benefits

Much of what makes a claiming strategy effective is *timing.* Second to that is *taxation.* Optimizing your retirement income for both of those factors could help you have a more comfortable retirement. We've talked a lot about what goes into the timing of Social Security benefits. Now we're going to look at taxation.

By coordinating your retirement resources, including Social Security strategies, it may be possible to reduce your taxable income during waning years of retirement.

Social Security benefits were never originally intended to be taxed, and not everyone will pay taxes on them. However, today many folks are paying federal income taxes on a significant percentage of their benefits. Even some states are getting in on the action taxing Social Security benefits at the state level. Some states don't tax Social Security benefits at all.

The percentage of your benefits that are subject to federal income tax depends on something called, *provisional income*. "Provisional income is an IRS threshold above which social security income is taxable."[18]

Provisional income is calculated differently than your taxable or adjusted gross income. It's made up of several components, including 50 percent of your Social Security benefit (household combined benefits if married), ordinary income, dividends and capital gains, and non-taxable interest.

To figure out how much you have in provisional income, you start by calculating half of your Social Security benefit. If you and your spouse are both drawing benefits you will take 50 percent of your combined household benefits into consideration.

Now add to that your earned income (otherwise known as ordinary income). For example, if you went to work, trading your time or expertise for a paycheck would be considered earned income. Upon hearing this, many folks believe when they are retired and no longer working for a paycheck, they won't be earning ordinary income anymore and therefore, it won't impact their provisional income. Sadly, that's not usually the case. When you retire and take a distribution from your pre-tax account like IRAs, 401(k)s, or other "IOUs to the IRS," for example, that's considered ordinary income because you deferred taxes and now, you're required to pay those taxes on any withdrawals.

Next, you'll add in any dividends and capital gains on after-tax accounts you own. Municipal bonds offer tax-free income, but that tax-free

interest gets included in your provisional income too. When you add all this up, you have your total provisional income.

Note that Roth IRA distributions and some distributions from properly funded cash value life insurance do NOT count toward provisional income. This is why you might want to meet with your financial professional. Early planning, well before transitioning into retirement or making an irrevocable Social Security claiming decision, may help. Strategically repositioning some of your funds where less would be counted towards provisional income could potentially reduce the percentage of your benefits subject to taxation. To know if taxable distributions from accounts like an IRA or 401(k) will affect your Social Security checks and if so, by how much—it's important to consult your financial professional.

Sometimes it makes sense to delay Social Security benefits and use pre-tax (IRA or 401(k)) retirement assets to fill the income gap until you start receiving Social Security checks. For example, if someone wanted to retire at age 65 it might make sense for them to use some of their pre-tax money to maintain their lifestyle from

age 65 to age 70 while they allow their Social Security benefits to earn delayed retirement credits.

By the time they start taking social security, they may have spent down a good portion of their pre-tax dollars or converted some to a Roth IRA. In that case, their required minimum distributions after age 72 are likely to be lower than they would have been otherwise. Since distributions from pre-tax accounts have a profound impact on taxation of Social Security benefits, this may be one way to mitigate those taxes.

Let's look at an example of how provisional income would affect how much a person's Social Security benefits could be taxed.

The thresholds that are used to determine what percentage of your Social Security benefits are subject to tax hasn't changed in 30 years. What **has** changed? The cost of living for most folks has risen substantially. Therefore, it's increasingly likely that folks will get ensnared by these thresholds as time passes. This means

more and more folks each year are likely to pay some tax on a percentage of their benefits.

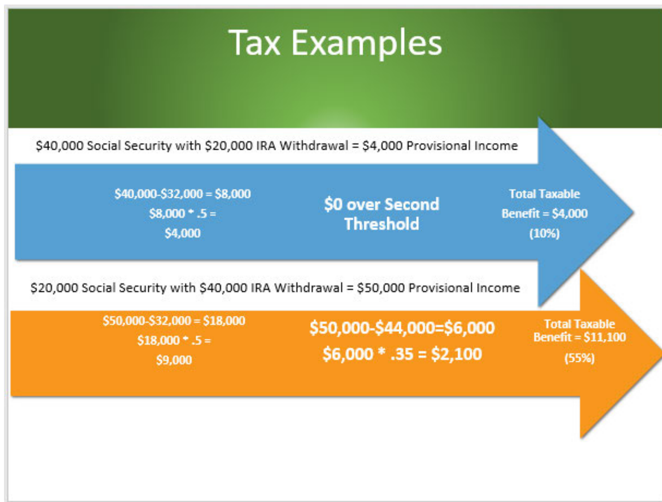
If you're a married couple whose provisional income is more than $44,000 per year, you're going to pay taxes on social security. Up to 85 percent of your benefits could be subject to tax at next highest marginal tax bracket. But there is a silver lining—15 percent of your benefits are tax free!

Even if your Social Security benefits are destined to be taxed because you have so much in provisional income, you may be able to manage your next marginal tax bracket and your

effective tax rate. By strategically managing how and when you pay taxes on your retirement assets, you may be able to save yourself on taxes in the future.

Consider this first hypothetical scenario: A married couple needs $60,000 per year to maintain their lifestyle. They've decided to take a delayed strategy and optimize their social security benefits. Their total household benefits are $40,000 per year. Since they need $60,000 of income, they'll take $20,000 from an IRA or other "IOU" to the IRS (pre-tax accounts) to hit the $60,000 they need. If we take half of their $40,000 in benefits plus $20,000 of ordinary income from the IRA, we get a total of $40,000 in provisional income.

The $40,000 breaches the first threshold of $32,000 by $8,000 so half of that is subject to tax, which is $4,000. As a percentage of their household Social Security benefits only 10 percent is subject to tax at their next highest marginal tax rate. They haven't broken through the second threshold of $44,000, so there is no additional taxation.



Second hypothetical scenario: This couple perhaps opted for an early claiming strategy believing it more advantageous to receive smaller checks over a longer period of time. As a result of this decision, their combined household benefits are only $20,000. But they still want a total of $60,000 of income per year, so to make up the difference they'll take $40,000 in withdrawals from pre-tax accounts. As a result, their provisional income is $50,000.

Fifty thousand blows through the first threshold by $18,000, leaving them with $9,000 subject to tax at their next highest marginal tax bracket.

They have also gone over the second threshold by $6,000. This means the total taxable amount is $11,100, which represents 55 percent of their Social Security benefits—just because of the claiming strategy they chose and the fact they had to pull more money from pre-tax accounts.

CHAPTER 8

Why Not Ask the Social Security Administration for Advice?

Now that you have a good idea of what should go into a Social Security claiming decision, you may be wondering, *why not just ask the SSA*? And it's a good question.

The answer is that it's a matter of perspective. SSA personnel are trying to get you the highest monthly benefit they can *on the day you come*

into the office to file, whereas financial professionals should be looking to organize all your retirement resources to get the most over your lifetime or if you're married, the joint lives of you and your spouse. Consequently, very different perspectives will get you very different results.

The SSA's rules actually prevent personnel from giving advice. They can't ask you about outside retirement assets or income. Therefore, they can't help you coordinate your Social Security claiming decision with your other retirement resources within a well written retirement income strategy. Obviously, how you take social security impacts how you use your other assets, so missing this piece probably won't get you where you need to go.

The benefit of working with a financial professional who understands the nuances of social security is that they can look at your entire financial situation and help tailor a strategy for you and your household—a strategy

where you may be able to improve your cumulative lifetime benefits.

Pop Quiz:

1. Like most Americans, are you unsure whether you'll run out of money in retirement?
2. Do you feel like your Social Security claiming decisions will have a significant impact on your desired retirement lifestyle?
3. Before reading this book, did you think after you reached a certain age the Government just starts sending you checks?

This is not the time to try to figure it all out on your own.

Why?

Because once you've made your Social Security elections, it is generally a "forever decision."

You cannot amend it, and without taking the time to review your options specific to your

individual circumstances, you may negatively impact your retirement permanently.

So, are you wondering how Social Security claiming decisions could impact the money YOU'LL will need in retirement to live the life you desire?

If so, you're in good company. Many people want the answer to this. That's why we suggest speaking with a financial professional who is knowledgeable about Social Security claiming options. They can help you decide which option is ideal for your specific situation.

CHAPTER 9

A Necessary Part of Your Comprehensive Retirement Income Strategy

If you believe Social Security planning and tax reduction strategies are a necessary part of your comprehensive written retirement income strategy, then you deserve a second opinion before making an irrevocable decision.

You must understand there is risk when it comes to outliving your retirement income. One thing you can do is figure out when or if you might run out of income and then what, if

anything, you can do about it. It may be a good idea to get a second set of eyes on your financial situation and have someone else look at where you are financially.

However, many financial professionals have little to no experience when it comes to the impact of Social Security elections. They might have become experts in wealth management, investment management, and other factors impacting the accumulation phase of retirement saving, but retirement income planning and the art of distributing assets to last a lifetime requires an entirely different set of skills and knowledge.

And here's something that might surprise you—"76 percent of near-retirees have said they'd be somewhat or extremely likely to switch financial professionals to increase potential Social Security benefits."[19]

A knowledgeable financial professional possessing the right tools and expertise may be able to guide you to see what your after-tax retirement income needs will be during retirement, spot any unforeseen complication,

and help you navigate the transition into retirement. The top three reoccurring concerns we see are:

1. Folks who are either at risk of running out of money before running out of breath and have no idea, or folks who are scared to spend their retirement assets because they are scared they might run out. In both circumstances, the root cause is a lack of planning and foresight to see where they are now relative to their vision for retirement and what if any changes they should or could make to be better prepared.
2. The potentially devastating impact that a long-term care event may have on the ability of a surviving spouse to maintain a comfortable lifestyle, and the legacy that was intended to be left to heirs.
3. The corrosive effects of taxation on retirement resources, both income like social security and assets like IRAs, and how to minimize unnecessary taxation by strategically distributing assets from

various taxable, after-tax, and never-taxed accounts.

While these concerns are challenging to address on your own, you can rest assured that a knowledgeable financial professional will provide a second set of eyes on your situation and help you understand every available opportunity to not only survive but THRIVE during your retirement years.

Would you like to feel at peace that you have optimized your Social Security claiming strategy, and that it elegantly fits into a retirement plan that is completely customized to your financial situation?

CHAPTER 10

3-Step Action Plan

1) Speak with a knowledgeable financial professional to help guide you.
2) Receive an effective Social Security claiming strategy customized for you.
3) Feel empowered to make decisions that help you THRIVE in retirement!

Now you can paint a picture of your perfect day!

How would you like to know that you're retired… and that you retired right?

If you retire right, you do not need to wake up early to go to a part-time job to make extra money to help fill in your financial gaps….

If you retire right, you can wake up when you want, spend time with who you wish to, and for as long as you want!

You can spend your days with the grandkids at the park or walking the dog—letting them play as long as they want!

You can do projects you want to do, with no sense of deadlines or stress.

At the end of the month, when you pay the bills, you no longer feel that pit in your stomach wondering how to cover all of your financial responsibilities; paying bills is now fun!

Because you have enough extra at the end of every month to not only pay your bills but have plenty left over to give to causes you care about!

You realize when you wake up this morning that everything is spectacular. In fact, you feel that you are thriving in life!

You. Retired. Right.

Glossary of Helpful Terms and Acronyms

AET Annual Earnings Test Prior to FRA, benefits are withheld if you exceed and earnings threshold. This is a 2-tiered test which consist of different reductions.

ARF Adjusted Reduction Factor An adjustment of the reduction factor is made at FRA to determine your benefit payable for the month you reach full retirement age and later months. This adjustment's applied in January on the following year.

AIME Average Index Monthly Earnings All past earnings are index and brought forward to near current levels based on average wages during the year you attain age 60. Wages at age 60 and later are considered at face value. The top 35 years are averaged and divided by 12. This value is used in the PIA formula Calculation.

COLA Cost of Living Adjustment Increase in the benefit amount to keep payments in line with inflation. Based on the CPI-W.

CPI-W Consumer Price Index for Urban Wage Earners and Clerical Workers Annual measure used to determine COLA for Social Security and Supplemental Security Income. Calculated monthly by the Bureau of Labor Statistics.

- **Deeming** Provision that prohibits a beneficiary from filing a restricted application for only spousal benefits prior to

FRA. This provision states that if you file for reduced retirement or a reduced spousal benefit then you must file for the other if available during your first month of election.

DIB Disability Insurance Benefits Benefits payable when you become disabled.

DMAX Disability Family Maximum The maximum monthly amount that can be paid on a disabled worker's earnings record. Auxiliary benefits are reduced proportionally if benefits exceed the maximum.

DRC Delayed Retirement Credit Credits received for each month in which you do not receive benefits after your FRA up to age 70. Currently the credit is up to 8% annually.

ET Earnings Test Social Security withholds benefits if your earned income exceeds a certain level, called a retirement earnings test exempt amount, and if you are under your FRA. Once you reach FRA, the earnings test is eliminated, and your monthly benefit will be increased permanently to account for the months in which benefits were withheld.

FMAX Family Maximum The maximum amount of benefits that are payable on one record. The family maximum is based on a formula similar to the PIA formula calculation. The maximum is not affected by the workers delayed retirement credits. Auxiliary benefits are reduced proportionality if benefits exceed the maximum.

FRA Full Retirement Age The age in which you first become eligible for an unreduced benefit amount.

GPO Government Pension Offset The Government Pension Offset applies not only to government workers, but to any worker who collects a pension for work for which they did not also pay into the Social Security system. This

offset reduces the Social Security spousal and survivor benefits by ⅔ of a non-Social Security covered pension.

IEDS Independently Entitled Divorced Spouse Allows a divorced spouse to take spousal benefits on their eligible ex-spouse without regard to whether their ex has claimed benefits, or whether their ex exceeds the exempt amount for the Retirement Earnings Test.

Non-Social Security Covered Pension Pension in which an employee did not pay Social Security taxes while paying into a pension.

NH Number Holder (Wage Earner) Worker that has earned a Social Security benefit.

PIA Primary Insurance Amount The basis of your own retirement benefit. The PIA is calculated in the year you turn 62 and will increase each year regardless of election by the annual Cost of Living Adjustment. The PIA can also increase due to continued work after you become eligible for benefits. The PIA is also used to derive auxiliary benefits.

QC Quarter of Coverage (Credits) Used to determine whether a worker qualifies for Social Security. You can earn 4 quarters or "credits" per year. You need 40 credits to qualify for retirement benefits. If you become disabled at a younger age you can qualify for disability benefits with fewer credits.

RF Reduction Factor (Actuarial Reduction Factor) Reduction for filing for benefits prior to your full retirement age. The reduction will depend on the type of benefit taken early. Factors vary between retirement, spousal, and widows' benefits.

RIB Retirement Insurance Benefit Benefits based on your own earnings record.

SSI Supplemental Security Income Benefits paid to the disabled or elderly who have limited resources and income. Not funded through FICA taxes but through the general fund.

WEP Windfall Elimination Provision Reduction in Social Security benefits of people who qualify for both a Social Security benefit

and a non-Social Security covered pension based on their own earnings.

WIB Widow Insurance Benefit Benefits paid to a surviving spouse on a deceased worker's earning record.

WIB LIM Widow(er) Limit Provision of Social Security establishes caps on the benefit amounts of widow(er)s whose deceased spouse filed for early retirement benefits.

WINDEX Widow(er)'s Indexing Calculation to bring the widows benefit to near current levels.

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