

# **Savvy Social Security Planning:**

**What Baby Boomers Need to Know  
to Maximize Retirement Income**

# **Baby boomers want to know:**

- **Will Social Security be there for me?**
- **How much can I expect to receive?**
- **When should I apply for Social Security?**
- **How can I maximize my benefits?**
- **Will Social Security be enough to live on in retirement?**

# Understanding the value of Social Security



# **Social Security offers income you can't outlive**

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

<b>10 more years</b>	<b>you'll receive a total of</b>	<b>\$301,141</b>	<b>in lifetime benefits</b>
<b>20 more years</b>		<b>\$659,382</b>	
<b>30 more years</b>		<b>\$1,122,454</b>	

**Assumes 2.6% annual cost-of-living adjustments**

# Social Security offers annual inflation adjustments

If your monthly benefit is \$2,000 today and annual cost-of-living adjustments are 2.6% :

In 10 years	Your monthly benefit will be	\$2,585
In 20 years		\$3,342
In 30 years		\$4,320

Assumes 2.6% annual cost-of-living adjustments

# Baby Boomer Social Security Question #1

Will Social Security be there for me?



# OASDI Trust Fund still growing

Trust fund balance on 12/31/17: \$2.892 trillion

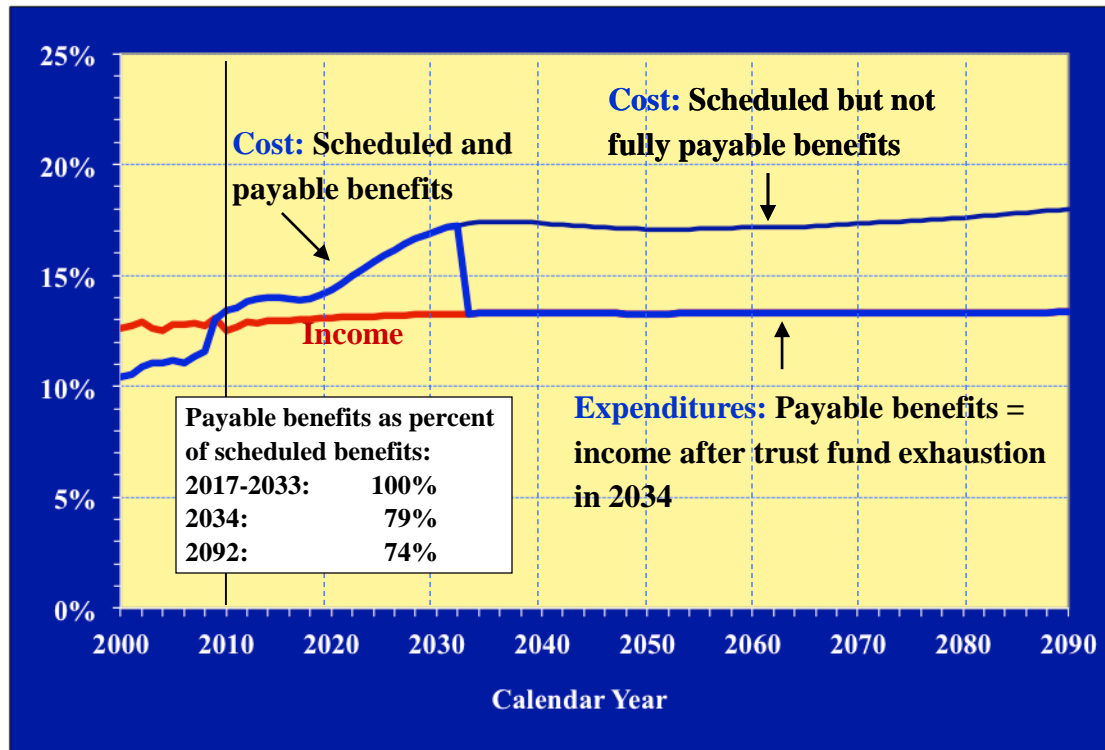
## 2018 results

- Total income: \$1.003 trillion
- Total expenditures: \$1.000 trillion
- Net increase in assets: \$ 3 billion

Trust fund balance on 12/31/18: \$2.895 trillion

# Long-term projections: without reform, benefits fall to 79% in 2034

OASDI Income, Cost and Expenditures as Percentages of Taxable Payroll  
[Under Intermediate Assumptions]



Source: 2018 OASDI Trustees Report



# **What would it take to restore solvency to the system?**

## **Reform proposals being studied**

- **Increase maximum earnings subject to Social Security tax (currently \$132,900 in 2019)**
- **Raise the normal retirement age (currently 66 for individuals born between 1943 and 1954; 67 for those born in 1960 or later)**
- **Lower benefits for future retirees (escalate benefits based on increases in consumer prices rather than wages)**
- **Reduce cost-of-living adjustments (COLAs) for all retirees**

# **The bottom line for baby boomers**

**Your benefits are not likely to be affected by  
Social Security reform**



# **Baby Boomer Social Security question #2**

**How much can I expect to receive?**



# **Your benefit will depend on:**

- **How much you earned over your working career**
- **The age at which you apply for benefits**

# **How Social Security benefits are calculated**

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

# Example of benefit formula

- Baby Boomer born in 1957
- Maximum Social Security earnings every year since age 22
- AIME = \$10,296
- PIA formula:
  - $\$926 \times .90 = \$833.40$
  - $\$4,657 \times .32 = \$1,490.24$  ( $\$5,583 - \$926 = \$4,657$ )
  - $\$4,713 \times .15 = \underline{\$706.95}$  ( $\$10,296 - \$5,583 = \$4,713$ )
  - Total =  $\$3,030.59$

**PIA = \$3,030.50**

**Amount worker will receive at full retirement age**

# Full Retirement Age (FRA)

Year of Birth	Full Retirement Age
• 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

# What if you apply for early benefits?

You will receive a percentage of your PIA

Apply at age	If FRA = 66	If FRA = 67
62	75.0%	70%
63	80.0%	75%
64	86.7%	80%
65	93.3%	86.7%
66	100%	93.3%
67		100%



# What if you apply after FRA?

**You will earn 8% annual  
delayed credits**

<b>Apply at age</b>	<b>Benefit will be % of PIA if FRA = 66</b>	<b>Benefit will be % of PIA if FRA = 67</b>
<b>66</b>	<b>100%</b>	<b>93.3%</b>
<b>67</b>	<b>108%</b>	<b>100%</b>
<b>68</b>	<b>116%</b>	<b>108%</b>
<b>69</b>	<b>124%</b>	<b>116%</b>
<b>70</b>	<b>132%</b>	<b>124%</b>

# How to estimate your Social Security benefits

- Obtain your annual Social Security statement at [www.socialsecurity.gov/mystatement](http://www.socialsecurity.gov/mystatement)  
OR
- Go to [www.socialsecurity.gov](http://www.socialsecurity.gov), click on "Estimate Your Retirement Benefits"  
OR
- Use one of the calculators on the SSA website: [www.ssa.gov/planners/benefitcalculators.htm](http://www.ssa.gov/planners/benefitcalculators.htm)

# Spousal benefits

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

**Example:**

- **John's PIA is \$2,000**
- **Jane's PIA is \$800**
- **If Jane applies at FRA, her benefit will be \$1,000 (50% of John's PIA)**

# Rules for spousal benefits

- **Primary worker must have filed for benefits**
- **Spouse must be at least 62 for reduced benefit or 66 for full benefit**
- **No delayed credits on spousal benefits after 66**

# **Divorced-spouse benefits**

**Same as spousal benefits if:**

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

# **Rules for divorced-spouse benefits**

- **More than one ex-spouse can receive benefits on the same worker's record**
- **Benefits paid to one ex-spouse do not affect those paid to the worker, the current spouse, or other ex-spouses**
- **Divorced-spouse benefits stop upon remarriage of spouse collecting benefits (not upon remarriage of primary worker spouse)**

# Survivor benefits

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

# Survivor benefits

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

## **Example:**

- **Joe and Julie are married. Both are over full retirement age.**
- **Joe's benefit is \$2,000, Julie's benefit is \$1,200.**
- **Joe dies.**
- **Julie notifies Social Security and her \$1,200 benefit is replaced by her \$2,000 survivor benefit.**



# **Survivor benefits**

## **Example of early claiming**

- **Joe and Julie are married.**
- **Joe's PIA is \$2,000.**
- **Joe files for Social Security at 62; his benefit is 75% of \$2,000, or \$1,500.**
- **Joe dies.**
- **Julie's survivor benefit will depend on when she claims it.**
  - **If Julie claims her survivor benefit at 66 or later, her benefit will be 82.5% of Joe's \$2,000 PIA, or \$1,650 (special floor for survivor benefits).**
  - **If Julie claims her survivor benefit at age 60, her benefit will be 71.5% of \$2,000, or \$1,430.**

# **Survivor benefits**

## **Example of delayed claiming**

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

# Rules for survivor benefits

- **Couple must have been married at least 9 months at date of death (except in case of accident).**
- **Survivor must be at least 60 for reduced benefit (50 if disabled), or FRA for full benefit.**
- **Survivor benefit not available if widow(er) remarries before age 60 (or 50 for disabled survivor), unless that marriage ends.**
- **Divorced-spouse survivor benefit available if the marriage lasted at least 10 years.**

# Baby Boomer Social Security Question #3

When should I apply for benefits?



# **Factors to consider when deciding when to apply**

- **Health status**
- **Life expectancy**
- **Need for income**
- **Whether or not you plan to work**
- **Survivor needs**

# Why delay benefits?

## Bigger checks to start

Age at which benefits are claimed	% of PIA if FRA = 67	Benefit without COLAs (\$)	Benefit with COLAs (\$)
62	70.00	1,960	1,960
63	75.00	2,100	2,155
64	80.00	2,240	2,358
65	86.67	2,427	2,621
66	93.33	2,613	2,896
67	100.00	2,800	3,183
68	108.00	3,024	3,527
69	116.00	3,248	3,887
70	124.00	3,472	4,263

Assumes PIA = \$2,800 and 2.6% annual COLAs from age 62

# Why delay benefits?

## More income later on

Benefit at age	If claim at 62	If claim at 67	If claim at 70
70	\$2,407	\$3,576	\$4,263
75	\$2,736	\$4,065	\$4,847
80	\$3,111	\$4,622	\$5,511
85	\$3,537	\$5,255	\$6,266
90	\$4,021	\$5,975	\$7,124
95	\$4,572	\$6,793	\$8,099
100	\$5,198	\$7,723	\$9,208

Assumes PIA at 67 = \$2,800 and 2.6% annual COLAs from age 62

# **When to apply for Social Security: Key points to remember**

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



# Baby Boomer Social Security Question #4

How can I maximize my benefits?



**Strategy #1 for maximizing your benefits**

## **Improve your earnings record**

**Examine your earnings record from your latest Social Security statement, available online at [www.socialsecurity.gov/mystatement](http://www.socialsecurity.gov/mystatement)**

- **Is it accurate?**
- **Any missing years?**
- **Can you improve it by working longer?**

**Strategy #2 for maximizing your benefits**

# **Apply for Social Security at the optimal time**

**Consider:**

- **Your income needs, both now and in the future**
- **Your life expectancy**
- **Your spouse's life expectancy**

# **Annual earnings test**

- **If you apply for Social Security before full retirement age and you work:**
- **\$1 in benefits will be withheld for every \$2 you earn over \$17,640 in 2019**
- **Benefit will be adjusted at full retirement age**
- **Don't let annual earnings test discourage you from working**
- **To avoid the earnings test, wait until full retirement age or later to apply for benefits**

# Strategy #3 for maximizing your benefits

## **Coordinate spousal benefits**



# Maximization strategy

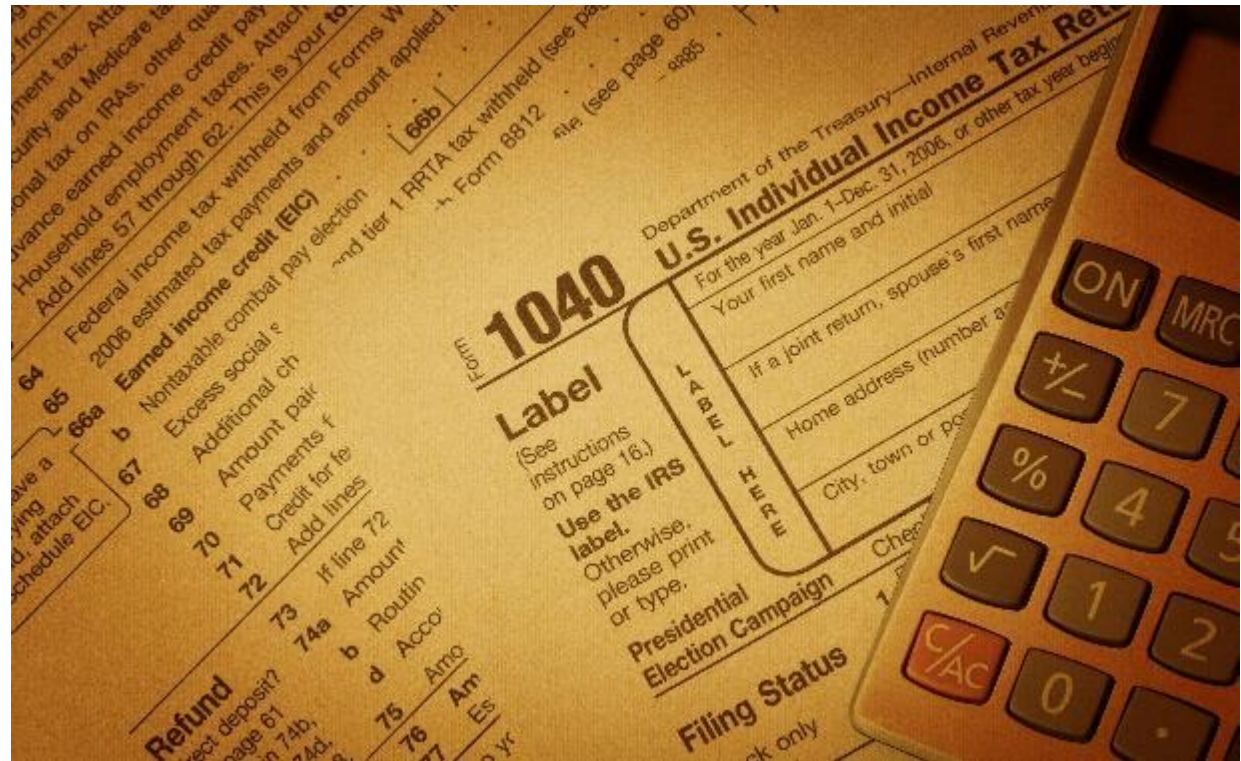
- Where lower-earning spouse's PIA is more than 50% of higher-earning spouse's PIA
  - Both spouses delay to age 70
  - One spouse takes advantage of spousal benefits as allowed
- Maximizes lifetime benefits over average or long life expectancies

# Hybrid strategy

- Where lower-earning spouse's PIA is less than 50% of higher-earning spouse's PIA
  - Lower-earning spouse claims early
  - Higher-earning spouse claims at 70
- Generates income sooner while maximizing higher-earning spouse's benefit over both lifetimes

# Strategy #4 for maximizing your benefits

## Minimize taxation of benefits





# Taxation of Social Security benefits

Filing status	Provisional income*	Amount of SS subject to tax
Married filing jointly	Under \$32,000 \$32,000 - \$44,000 Over \$44,000	0 Up to 50% Up to 85%
Single, head of household, qualifying widow(er), married filing separately & living apart from spouse	Under \$25,000 \$25,000 - \$34,000 Over \$34,000	0 Up to 50% Up to 85%
Married filing separately and living with spouse	Over 0	85%

\*Provisional income = AGI + one-half of SS benefit + tax-exempt interest

# **Ways to minimize taxes on Social Security benefits**

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

**Strategy #5 for maximizing your Social Security benefits**

**Coordinate Social Security with your overall retirement income plan**



# What Social Security personnel can and can't do

- **They CAN**
  - Estimate individual benefits
  - Tell you the amount you are entitled to now
- **They CAN'T**
  - Project future benefits through scenario planning
  - Help with innovative strategies designed to maximize benefits

# **Baby Boomer Social Security Question #5**

**Will Social Security be enough to  
live on in retirement?**

**Answer: Probably not.**

# **Consider Social Security in the context of:**

- **Pensions**
- **IRAs and 401(k)s**
- **Required minimum distributions at age 70-1/2**
- **Investment portfolio**
- **Work**

# **You have questions. We can help.**

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

# **Social Security is too important for guesswork.**



**Let us help you protect your nest egg and maximize  
your income in retirement.**