



What to do about Social Security

Steve Gaito, CFP®

Director of Advisor and Enterprise Solutions

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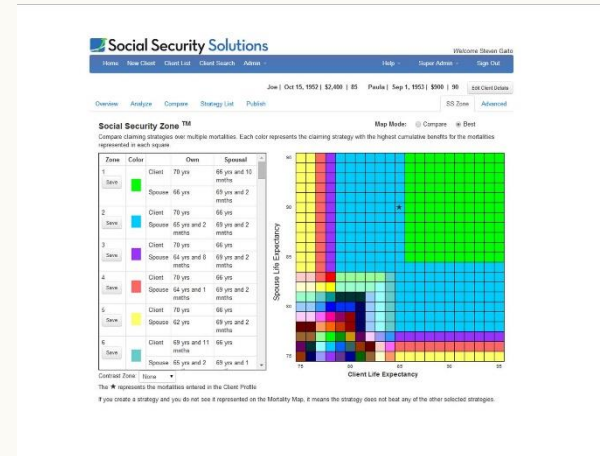
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Experience

An advisor for over 20 years, Steve has worked as a Registered Representative, Independent Financial Advisor and owned his own RIA. He was also the director of My Retirement Education Center, a company that focused on educating both advisors and individuals on retirement topics such as Social Security. He comes to Social Security Solutions with a passion to help advisors grow their practice through Social Security education and analysis.



One of the best ways to illustrate Social Security optimization is with software.

www.SSAnalyzer.com

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Outline

- Challenges
- Rules and definitions you should know
- Strategies for singles
- Spousal benefit rules and calculations
- Survivor benefit rules and calculations
- Anatomy of a claiming strategy
- Strategies for married couples
- Misc
 - Earnings test and benefit recomputation
 - Divorced rules
 - WEP/GPO gotchas

Why is Social Security so Complicated?

- Rules
- Variables
- Technology
- Opinions

Rules

- Estimated 22,000 pages of rules
- Apply to 4 different filing status'
- 96 possible starting dates for each person
- Thousands of claiming strategy possibilities

Basics

- File and Suspend
- Restricted Application
- Spousal Benefits
- Widow Benefits
- Divorced Benefits

Technology

Basic Calculators

- Look similar on outside
- Limited functionality
- Time consuming
- Subject to significant operator error
- Can give incomplete advice

Advanced Calculators

- Designed to solve specific problems
- Efficiently answer complicated questions
- Reduce operator error
- Professional

Opinions Not Facts

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Ed G

May 31, 2014 at 6:46 pm

Persons with a Social Security eligibility age of 66 are best off taking SS at age 62 if their life expectancy is 80 years old or less. Even with the higher rate at 66, it would take 14 years to catch up to those who started at 62.

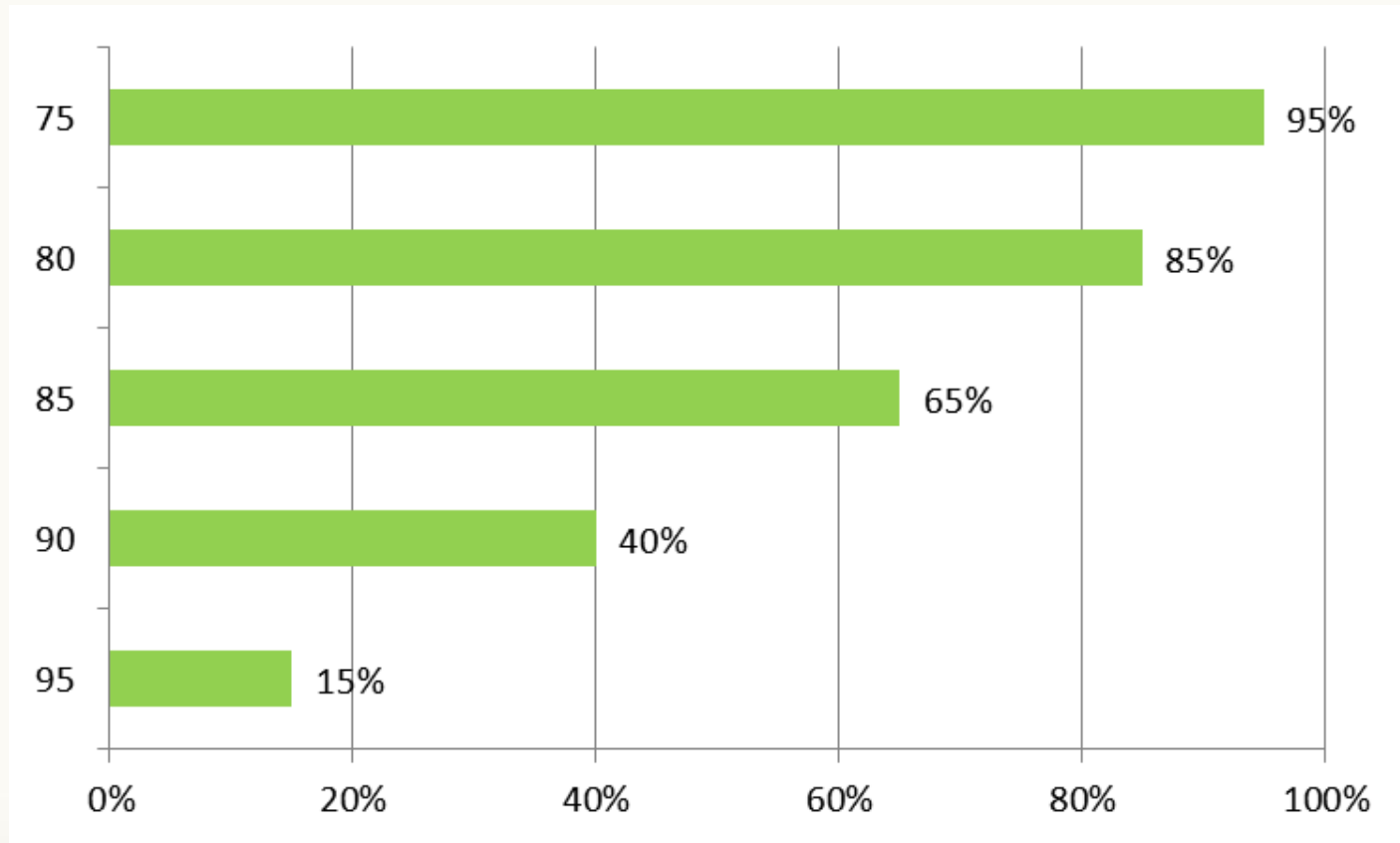
Even worse is waiting until age 70 to claim. You'd have to live until you were 95 years old to break even with those who retired at 62.

For the vast majority of us, retiring at age 62 makes the most financial sense and also gives you several more years in which to enjoy retirement.

Comment from: Why take Social Security early?

By [Jennie L. Phipps](#) · Bankrate.com Wednesday, May 28, 2014

Chances that one person in a married couple, both 62, will live to.....



Source: Trustees of Boston College, Center for Retirement Research

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Viewing delayed SS as an investment

- Single delaying to 68 results in 4.4% real IRR through age 85.
- Viewed as SPIA:

CPI-U SPIA rate for male 5%

CPI-U SPIA rate for female 4.6%

SS “rate” $9.1\% = (1.16 - 0.75) / (0.75 \times 6 \text{ yrs.})$,
where numerator is increase and
denominator is foregone benefits

Viewing delayed SS as an investment

- Couple, equal ages and PIA's. One claims spousal at FRA, both claim retirement at age 70. Results in 5.14% real IRR through age 85.
- Viewed as SPIA:

CPI-U SPIA rate for couple	4.7%
SS "rate"	11.4%

Pacific Life SPIA quote for couple both age 70, 50% survivor benefit.

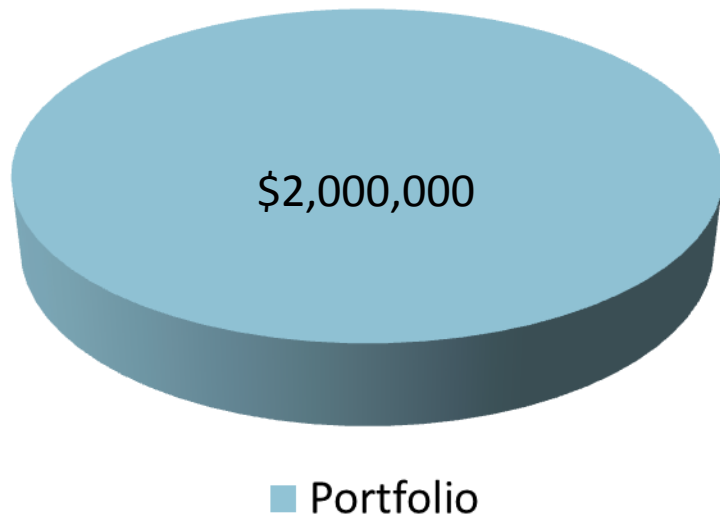
Breakeven Analysis Comparing Two Strategies:

Joe Smith	Paula Smith	Joe and Paula's Choice				Primary				Difference
		Joe Smith (PIA=2400.0)	Paula Smith (PIA=900.0)	Annual Benefits	Cumulative Benefits	Joe Smith (PIA=2400.0)	Paula Smith (PIA=900.0)	Annual Benefits	Cumulative Benefits	
62	61	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
63	62	\$1,958	\$0	\$5,875	\$5,875	\$0	\$0	\$0	\$0	(\$5,875)
64	63	\$1,998	\$982	\$28,881	\$34,756	\$0	\$0	\$0	\$0	(\$34,756)
65	64	\$2,037	\$1,002	\$36,470	\$71,227	\$0	\$0	\$0	\$0	(\$71,227)
66	65	\$2,078	\$1,022	\$37,199	\$108,425	\$0	\$0	\$0	\$0	(\$108,425)
67	66	\$2,120	\$1,042	\$37,942	\$146,367	\$487	\$974	\$7,305	\$7,305	(\$139,062)
68	67	\$2,162	\$1,063	\$38,701	\$185,068	\$497	\$994	\$17,882	\$25,188	(\$159,880)
69	68	\$2,205	\$1,084	\$39,474	\$224,542	\$507	\$1,013	\$18,239	\$43,427	(\$181,115)
70	69	\$2,249	\$1,106	\$40,262	\$264,804	\$3,711	\$1,406	\$29,303	\$72,730	(\$192,074)
71	70	\$2,294	\$1,128	\$41,066	\$305,871	\$3,785	\$1,434	\$62,632	\$135,361	(\$170,510)
72	71	\$2,340	\$1,151	\$41,886	\$347,757	\$3,861	\$1,463	\$63,883	\$199,245	(\$148,512)
73	72	\$2,387	\$1,174	\$42,725	\$390,482	\$3,938	\$1,492	\$65,161	\$264,406	(\$126,076)
74	73	\$2,435	\$1,197	\$43,579	\$434,061	\$4,017	\$1,522	\$66,463	\$330,869	(\$103,192)
75	74	\$2,483	\$1,221	\$44,450	\$478,511	\$4,097	\$1,552	\$67,790	\$398,659	(\$79,852)
76	75	\$2,533	\$1,245	\$45,337	\$523,848	\$4,179	\$1,583	\$69,145	\$467,804	(\$56,044)
77	76	\$2,583	\$1,270	\$46,243	\$570,092	\$4,263	\$1,615	\$70,526	\$538,331	(\$31,761)
78	77	\$2,635	\$1,296	\$47,168	\$617,260	\$4,348	\$1,647	\$71,936	\$610,267	(\$6,993)
Break Even Point										
79	78	\$2,688	\$1,322	\$48,109	\$665,369	\$4,435	\$1,680	\$73,373	\$683,640	\$18,271
80	79	\$2,741	\$1,348	\$49,070	\$714,439	\$4,523	\$1,713	\$74,838	\$758,478	\$44,039
81	80	\$2,796	\$1,375	\$50,051	\$764,490	\$4,614	\$1,748	\$76,334	\$834,812	\$70,322
82	81	\$2,852	\$1,402	\$51,053	\$815,543	\$4,706	\$1,783	\$77,861	\$912,673	\$97,130
83	82	\$2,909	\$1,430	\$52,074	\$867,617	\$4,800	\$1,818	\$79,418	\$992,091	\$124,474
84	83	\$2,967	\$1,459	\$53,114	\$920,731	\$4,896	\$1,855	\$81,006	\$1,073,097	\$152,366
85	84	\$3,027	\$3,121	\$49,995	\$970,726	\$4,994	\$4,994	\$76,950	\$1,150,047	\$179,321
86	85	\$0	\$3,184	\$38,202	\$1,008,928	\$0	\$5,094	\$61,123	\$1,211,171	\$202,243
87	86	\$0	\$3,247	\$38,965	\$1,047,893	\$0	\$5,195	\$62,344	\$1,273,514	\$225,621
88	87	\$0	\$3,312	\$39,744	\$1,087,637	\$0	\$5,299	\$63,590	\$1,337,105	\$249,468
89	88	\$0	\$3,378	\$40,538	\$1,128,176	\$0	\$5,405	\$64,861	\$1,401,966	\$273,790
90	89	\$0	\$3,446	\$41,347	\$1,169,523	\$0	\$5,513	\$66,157	\$1,468,123	\$298,600
91	90	\$0	\$3,515	\$28,116	\$1,197,639	\$0	\$5,623	\$44,986	\$1,513,109	\$315,470

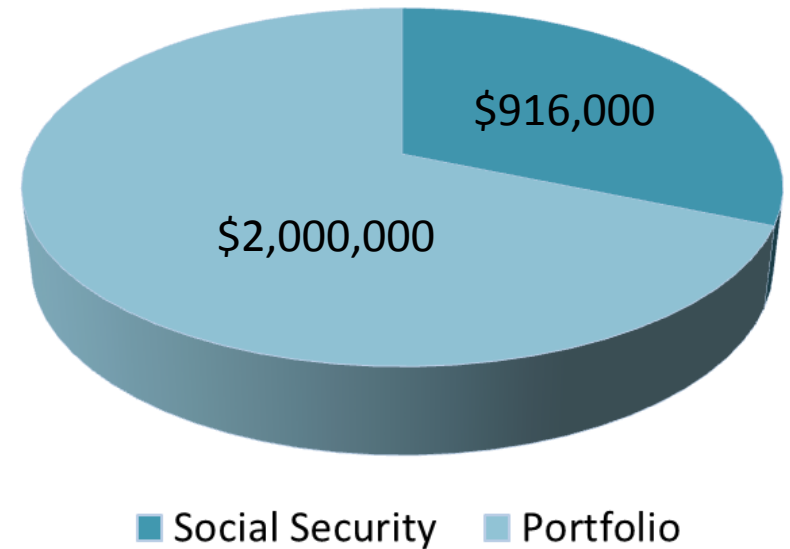
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**You're advising your clients
on their retirement savings.**



**What about the rest of their
retirement assets?**



Total Social Security benefits for couple. His PIA is \$2000, hers is \$1800. Both claim at 70 and live to 90.

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An optimal SS claiming strategy can help plans succeed

He's 61, she's 57

His PIA: \$2000

Her PIA : \$950

Taxable assets \$250,000

IRA \$285,000

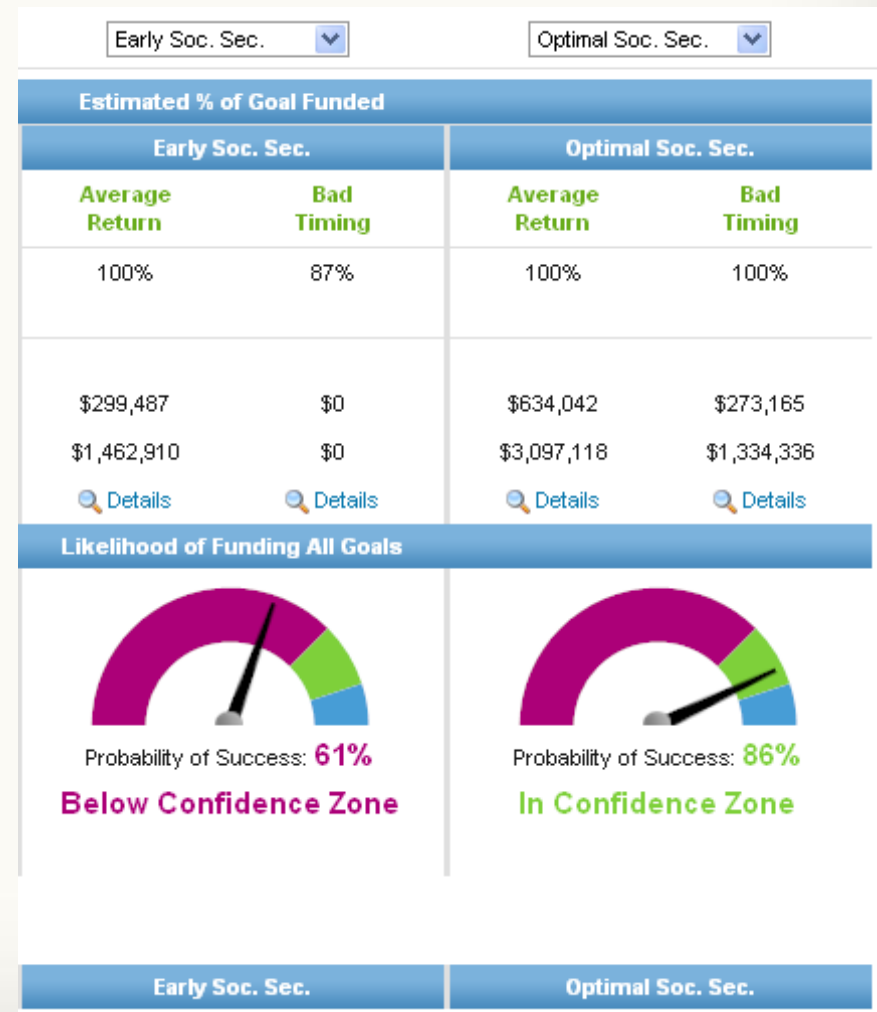
Spending \$50,000/yr

Portfolio 61/39

Early claim: both claim at 62

Optimal claim:

- At 66 he files and suspends
- At 66 she files a restricted application for spousal benefits
- At 70 both claim their own benefits which have grown due to delayed retirement credits.



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Is there a risk in waiting?

- Social Security has been running surpluses for the past 25 years.
- It will continue to run surpluses until 2022-that is, tax revenue plus interest on reserves will continue to exceed benefit payments each year.
- Reserves will begin to be drawn upon by the end of 2022. Then reserves will gradually be drawn down to pay benefits. By 2035, reserves will be depleted.
- After 2035 funds (FICA and taxes on benefits) will cover 75% of scheduled benefits **if nothing is done**.
- The past two changes to SS benefits in 1977, and 1983 provided for a 7 and 17 year advance warning respectively.
 - Work on the 1977 amendment began in 1974. At that time the trust fund was expected to be depleted by the early '80's.
 - **The Greenspan Commission (1983 amendment) was established 2 yrs. before forecast fund depletion!!**
- From CBO report on SS policy options:
 - While some proposals analyzed “would involve abrupt reductions....In practice, policymakers might choose to introduce major changes gradually, as they have done in the past...” (Pg. 23)
 - “Proposals to change Social Security commonly would not reduce benefits for people older than 55 in the year a reform proposal is considered.” (Pg. 24)

Source: National Academy of Social Insurance, SSA, Congressional Budget Office, Summary of The 2013 Annual Report Social Security and Medicare Board of Trustees

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Primary Insurance Amount

- Primary Insurance Amount (PIA) is the basis of most Social Security Benefits.
- PIA is derived from a worker's lifetime earnings record.
- It is the retirement benefit one would receive if claimed at the full retirement age.

www.ssa.gov/myaccount

Your Estimated Benefits

*Retirement	You have earned enough credits to qualify for benefits. At your current earnings rate, if you stop working...		
	At age 62, your payment would be about	\$	1,364 a month
	If you continue working until. . .		
	your full retirement age (67 years), your payment would be about	\$	1,941 a month
	age 70, your payment would be about	\$	2,407 a month

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Eligible and Entitled

- To be eligible for benefits a worker must
 - Be fully insured
 - Have earned 10 years of coverage
 - Have attained age 62
- To be **entitled** to benefits a worker must...
 - Be fully insured
 - Have attained age 62
 - Have filed a claim (established an account) or has filed and suspended the claim
 - Note: think of “entitled” as the account being “opened”
- Important! Being **entitled** allows AND disallows some benefits

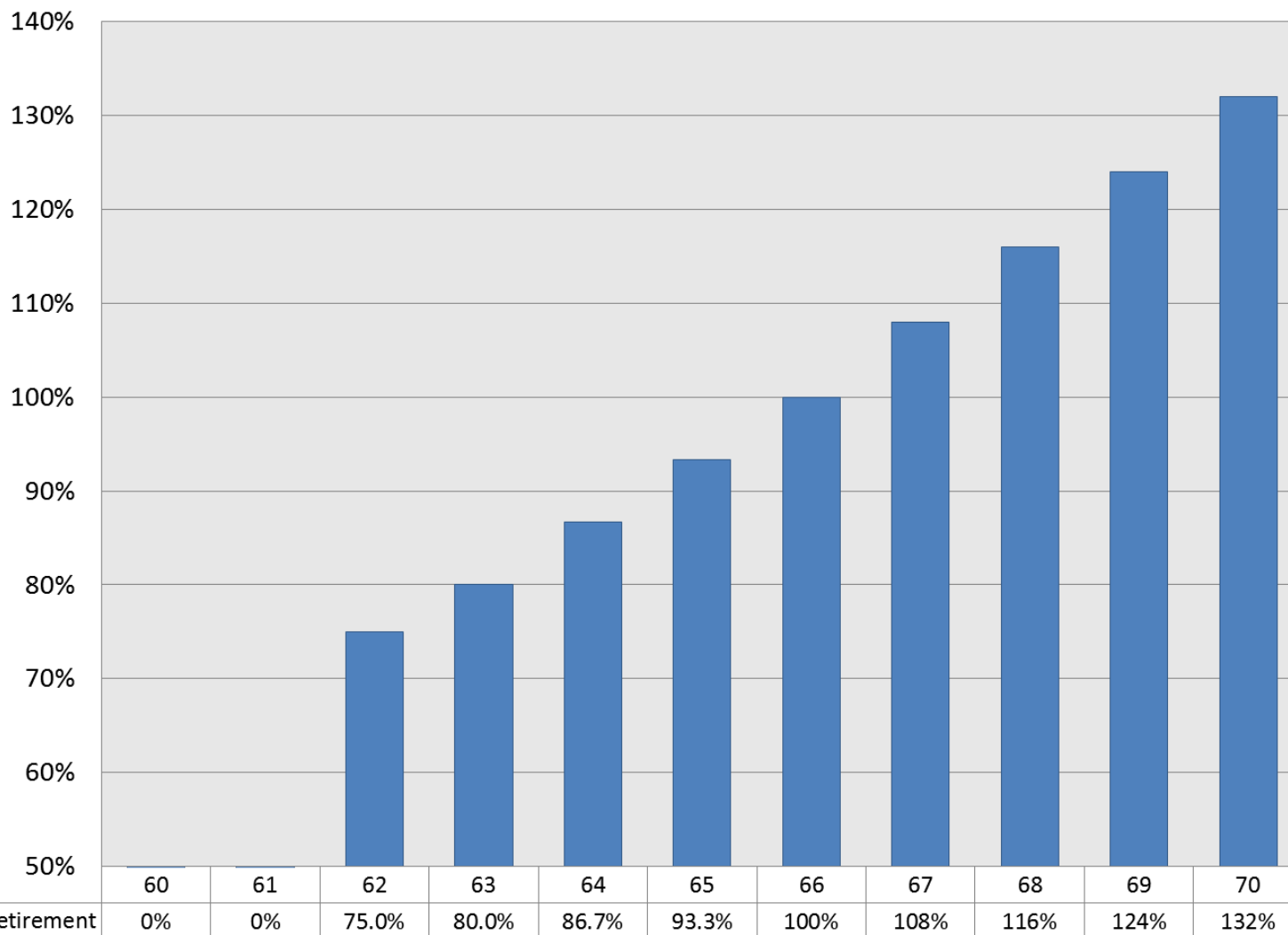
Voluntary suspension

- Between FRA and age 70 a worker can claim benefits but ask that they be held in suspension.
- This often done to allow a spouse to claim a spousal benefit while allowing the worker to continue to accrue delayed retirement credits.
- Benefits in suspension can always be claimed retroactive to the first month of suspension.

Benefits in general

- Primary insurance amount (PIA) is basis for most benefits.
- Monthly retirement benefit = 100% of PIA at FRA
- Full retirement age (FRA) is 66 for retirement and spousal benefits for those born 1943-1954.
- For widow(er)'s it's 66 for those born 1945-1956.
 - All three benefits have separate reduction factors if claimed before FRA.

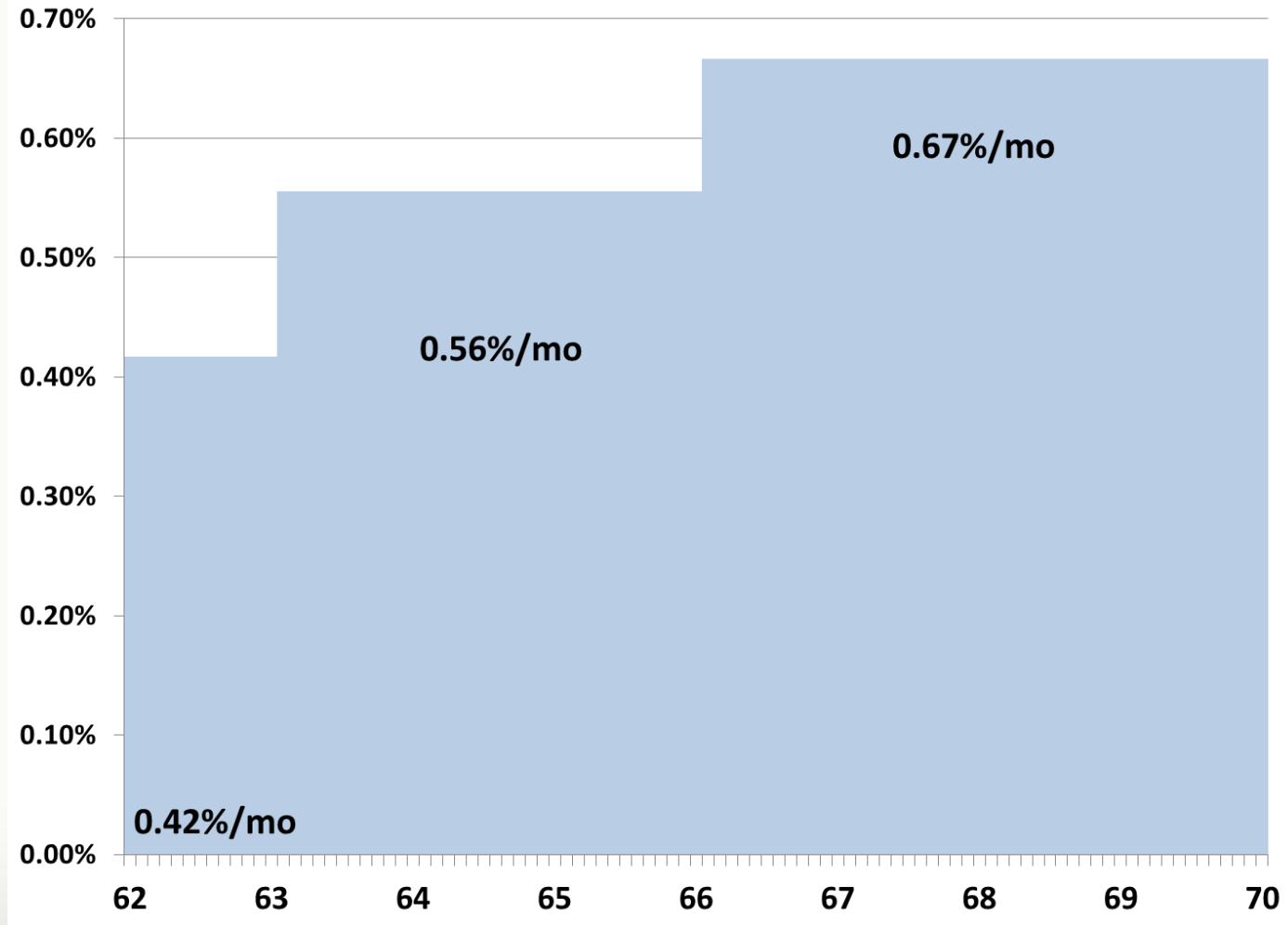
Adjustments for early/late claim



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Retirement benefit monthly increases



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SINGLES

- Key Lesson
- Two Criteria for Selecting Claiming Strategies

Key Lesson 1

- If a single individual lives to \approx age 80, the cumulative lifetime benefits will be approximately the same whether benefits begin at 62, 63, 64, or any age through 70.
- **If you anticipate living well beyond average life expectancy, you should delay your claim as long as possible. If well short, claim early.**
- SSA expects (SSA Period Life Table) the following longevity for a 62 year old:
 - Male: 81
 - Female: 84

Two Criteria for Selecting Claiming Strategy

Criterion 1: Which starting date for singles or dates for couples will maximize expected cumulative lifetime benefits?

Criterion 2: Which starting date for singles or starting dates for couples will minimize longevity risk, that is, the risk of outliving their portfolio.

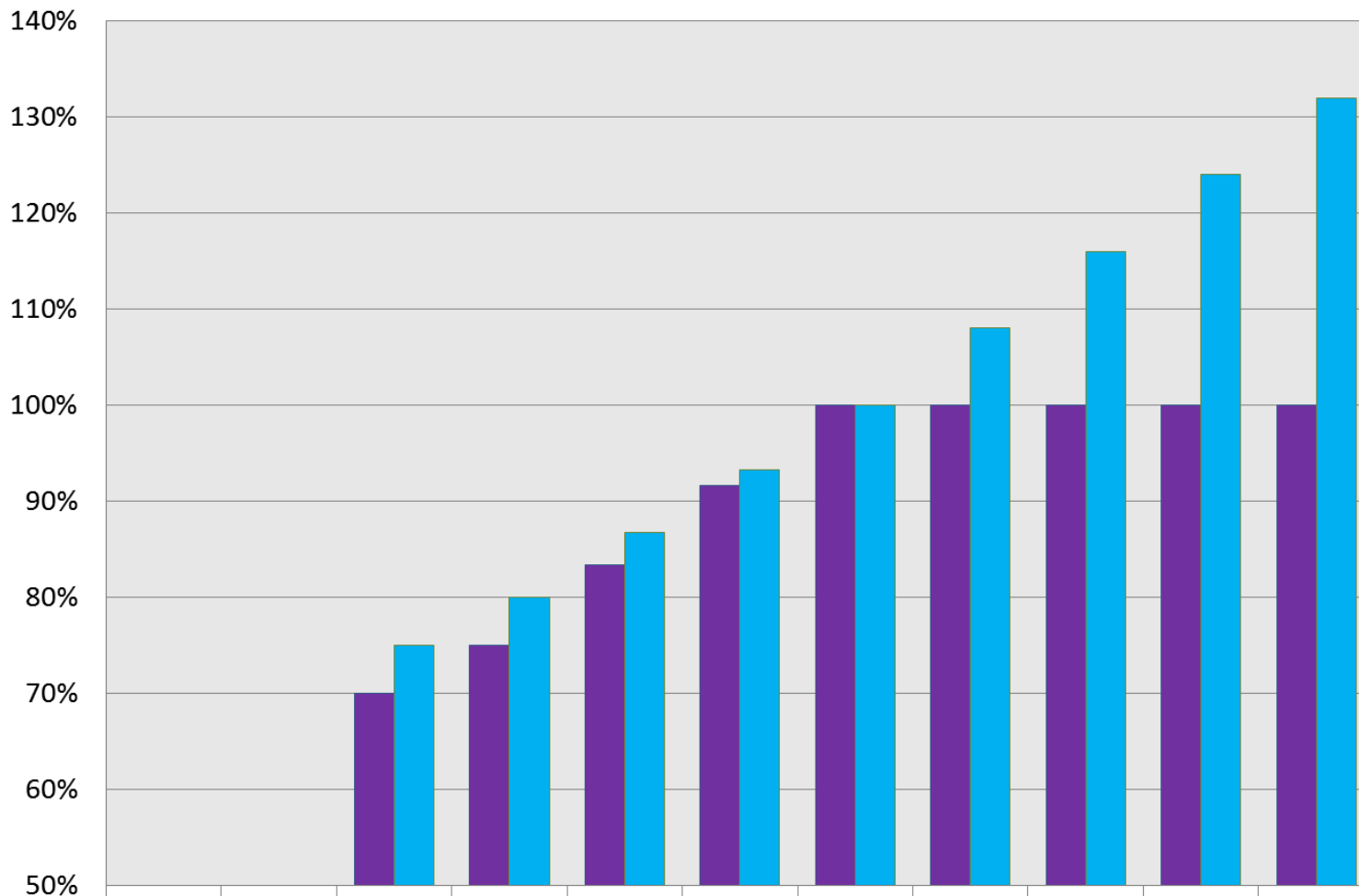
MARRIED COUPLES

- **Rules governing Spousal and Widow(er)'s benefits and their calculations**
- **Key Lessons**

What is a spousal benefit and when are you entitled to it? (partial list)

- The spousal benefit is **based on** 50% of the other spouses PIA
- As the spouse of an insured worker, you are **entitled** to spouse's insurance benefits if you meet the conditions below:
 1. The worker (other spouse) is **entitled** to retirement or disability benefits.
 2. You are not **entitled** to a retirement or disability insurance benefit based on a primary insurance amount which equals or exceeds one-half the worker's primary insurance amount.
 3. Over 62

Adjustments for early/late claim

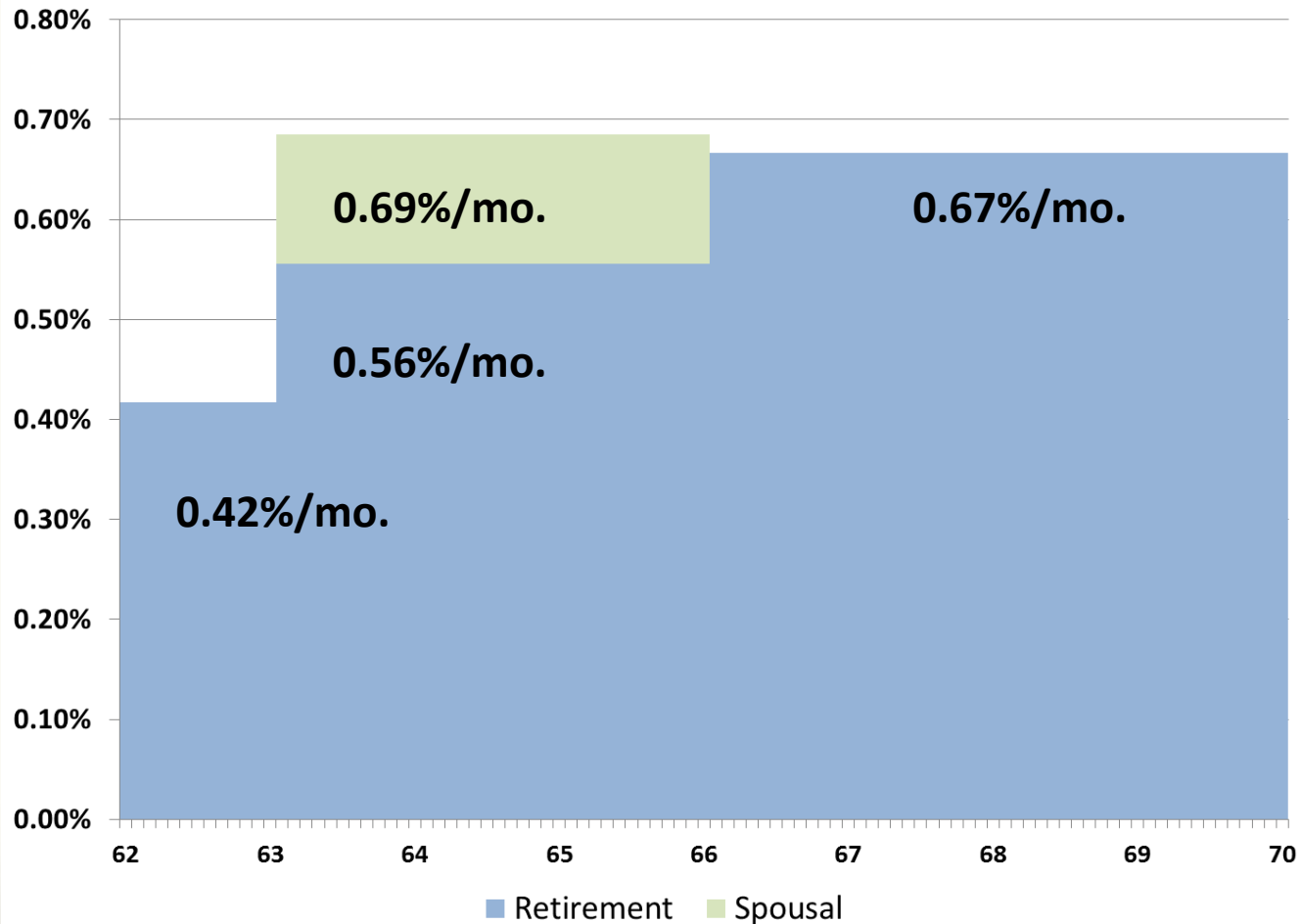


	60	61	62	63	64	65	66	67	68	69	70
Spousal	0%	0%	70%	75%	83%	92%	100%	100%	100%	100%	100%
Retirement	0%	0%	75.0%	80.0%	86.7%	93.3%	100%	108%	116%	124%	132%

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Monthly benefit increase if not claimed



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Deemed & Restricted Application

- Before FRA someone applying for either spousal or retirement benefits is deemed to be applying for both if eligible for both. Eligible for both if...
 - The other spouse is entitled (receiving or filed and suspended) and
 - Claiming spouse has a PIA < 50% of entitled spouse
- At/After FRA someone can restrict an application for only spousal or only retirement.

Spousal and retirement benefits when simultaneously entitled

His PIA \$2000, her PIA \$400

His PIA	\$2000	
	X .50	
	<hr/>	
Spousal Base	\$1000	
Her PIA	(\$400)	←
	<hr/>	
Spousal Excess (Spousal Benefit)	\$600	← Different adjustments for early/late claim

Calculating benefits when spousal is claimed after or together with retirement

S1 PIA = \$2000, S2 PIA = \$400. S2 spousal benefit is \$600 = $(2000/2) - 400$

	S2 claim age	Retirement	+	Spousal	=	Total benefit	
Case 1	62	(400×0.75)	+	(600×0.70)	=	\$720	
Case 2	63	(400×0.80)		S1 not entitled	=	\$320	
	65		+	$(600 \times .916)$	=	\$550	\$870
Case 3	62	(400×0.75)		S1 not entitled	=	\$320	
	66		+	(600×1.00)	=	\$600	\$920

Benefits are calculated separately, reduced separately then **added** together

Calculation for retirement when claimed after spousal S1 PIA = \$2000, S2 PIA = \$900.

- At 66 she files a restricted application for spousal benefits only. At FRA deemed no longer applies. She is eligible for, but not **entitled** to her own retirement benefits since she hasn't claimed them. Therefore, her PIA is not part of the calculation.
- At 70 she claims her own retirement benefit which has grown by 32%
- The amount payable as a spouse will be the difference between the spouse's benefit and the retirement benefit. In this case: $1000 - 1188 = 0$

	S2 claim age	Retirement	+	Spousal	=	Total benefit	
Case 1	66	0	+	(1000×1.00)	=	\$1000	
	70	(900×1.32)	+	0	=	\$1188	

The retiree will **switch** from a spousal to a retirement benefit

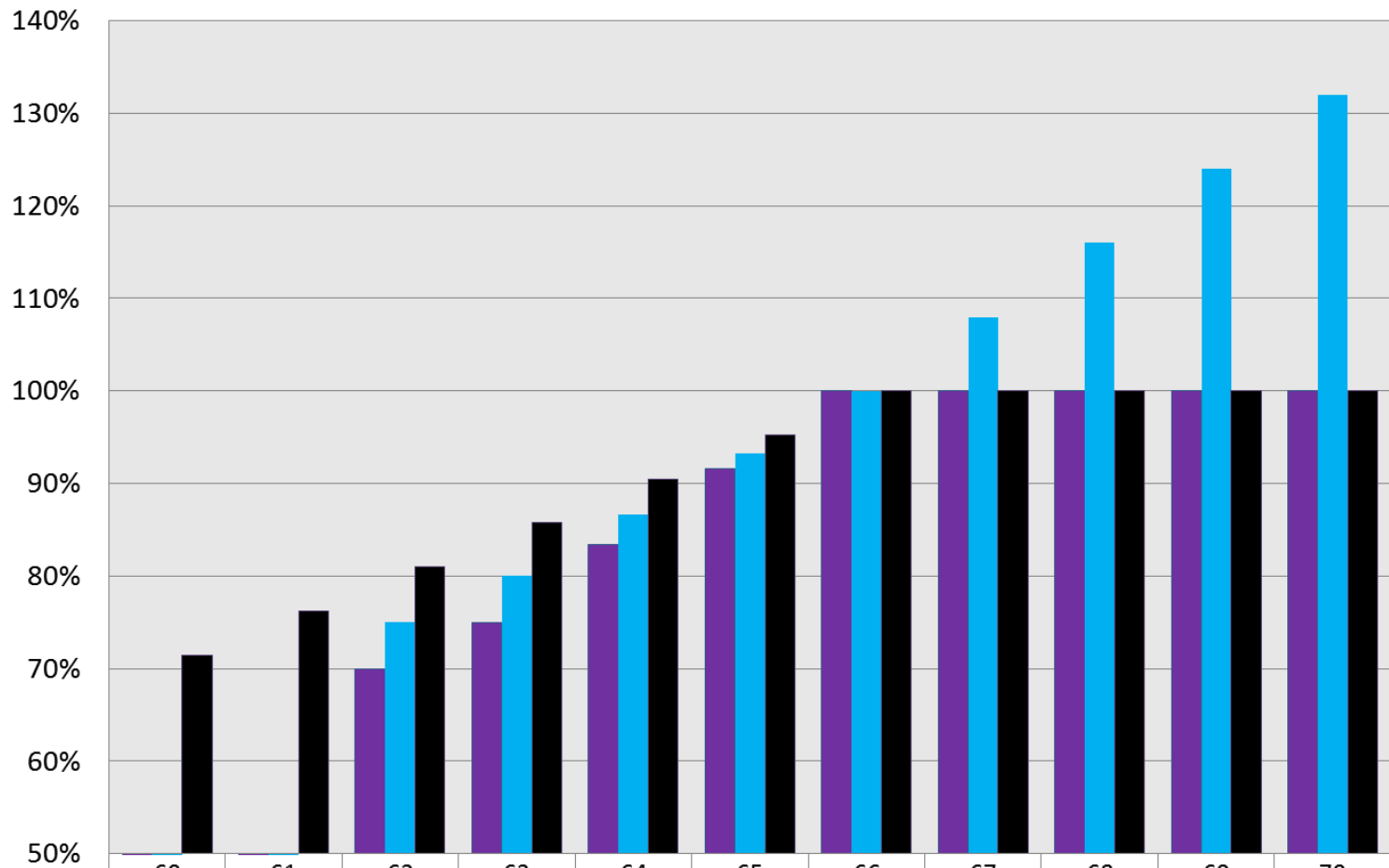
When are you entitled to a widow(er)'s benefit? (partial list)

- You are age 60 or over
- You did not remarry before age 60
- You are not **entitled** to a retirement insurance benefit that is equal to or larger than the worker's primary insurance amount

Widow(er)'s benefit rate

- Spouse dies before FRA and was not entitled
 - Survivor benefit will be based on decedents PIA
- Spouse dies after FRA and was not entitled
 - Survivor benefit will be based on monthly benefit amount decedent would have received had they claimed benefits on the date of death
- Spouse is receiving benefits at death (entitled)
 - If survivor begins benefits at or after FRA the benefit will be based on greater of
 - Decedent's monthly benefit
 - 82.5% of decedent's PIA (widow's limit provision)
- Complex calc. for cases in which both claimed before FRA

Adjustments for early/late claim



■ Spousal	60	61	62	63	64	65	66	67	68	69	70
■ Retirement	0%	0%	75.0%	80.0%	86.7%	93.3%	100%	108%	116%	124%	132%
■ Widow(er)	72%	76%	81%	86%	91%	95%	100%	100%	100%	100%	100%

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Key Lessons

Lesson 2:

The relevant life expectancy for the decision of when the spouse with the higher PIA should begin benefits based on his/her earnings record is the lifetime of the second spouse to die, while the relevant life expectancy for the decision as to when the spouse with the lower PIA should begin benefits based on his/her record is the lifetime of the first spouse to die.

Lesson 3:

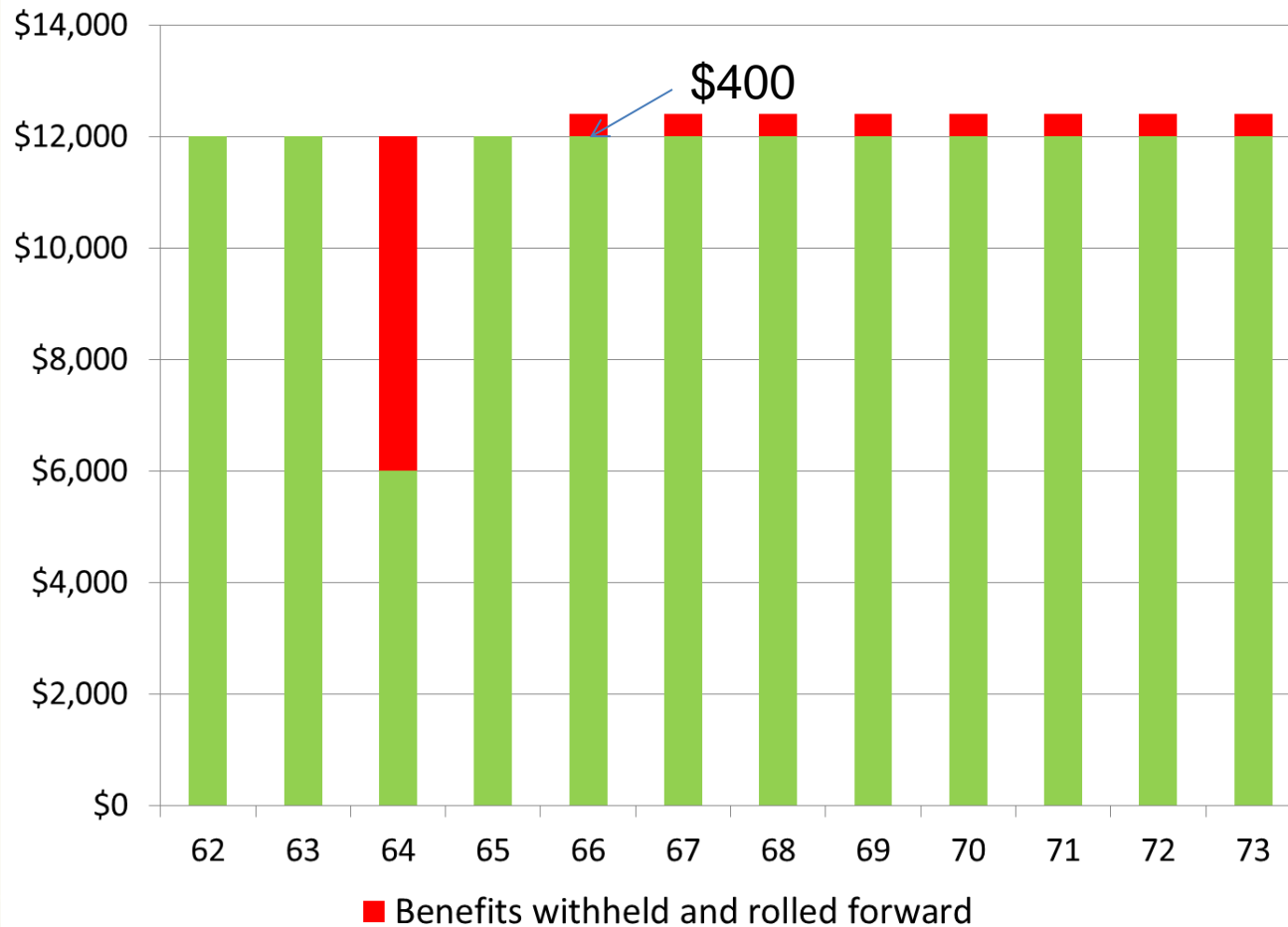
If at least one spouse lives well beyond the age that the higher earner turns 80, the couple's cumulative lifetime benefits will usually be highest if the higher earner delays benefits based on his record until age 70.

Useful miscellaneous rules and facts

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Benefits rolled forward due to earnings test



It will take $\$6000/400=15$ years to recoup withheld benefits

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Divorced

- Any divorced client that had been married at least ten years and not remarried is eligible for a divorced spouse benefit or surviving divorced spouse benefit.
- Multiple marriages
 - Client married ten years, divorced, then married eight years and divorced from that second marriage. Client is still eligible for a divorced spousal benefit from first marriage.

WEP/GPO gotchas

- The reduction for WEP and GPO is only applicable when the uncovered pension is actually being paid. It is not applicable if the client is simply vested but not receiving the pension.
- Non covered pension survivor benefit:
 - SSA public language:
 - *If you receive a pension from a federal, state or local government based on work where you did not pay Social Security taxes, your Social Security spouse's or widow's or widower's benefits may be reduced.*
 - POMS language:
 - *GPO applies to a spouse's Social Security benefit if the spouse receives a pension based upon his or her own government employment not covered under Social Security*

What's wrong with this picture?

Joe's age	Sue's age	Primary Strategy		Custom Strategy 1		Difference (PS vs CS1)
		Joe \$2,400 PIA	Sue \$1,100 PIA	Joe \$2,400 PIA	Sue \$1,100 PIA	
66	64			\$0	\$0	\$0
67	65			\$0	\$0	\$0
68	66			\$0	\$0	\$1,200
69	67			\$0	\$0	\$15,600
70	68			\$3,168	\$0	\$30,000
71	69			\$3,168	\$0	\$44,400
72	70			\$3,168	\$1,452	\$57,600
73	71			\$3,168	\$1,452	\$57,600
74	72			\$3,168	\$1,452	\$57,600
75	73			\$3,168	\$1,452	\$57,600
76	74			\$3,168	\$1,452	\$57,600
77	75			\$3,168	\$1,452	\$57,600
78	76			\$3,168	\$1,452	\$57,600
79	77			\$3,168	\$1,452	\$57,600
80	78			\$3,168	\$1,452	\$57,600
81	79			\$3,168	\$1,452	\$57,600
82	80			\$3,168	\$1,452	\$57,600
83	81			\$3,168	\$1,452	\$57,600
84	82			\$3,168	\$1,452	\$57,600
85	83			\$3,168	\$3,168	\$57,600
86	84			\$0	\$3,168	\$57,600
87	85			\$0	\$3,168	\$57,600
88	86			\$0	\$3,168	\$57,600
89	87			\$0	\$3,168	\$57,600
90	88			\$0	\$3,168	\$57,600
91	89			\$0	\$0	\$57,600

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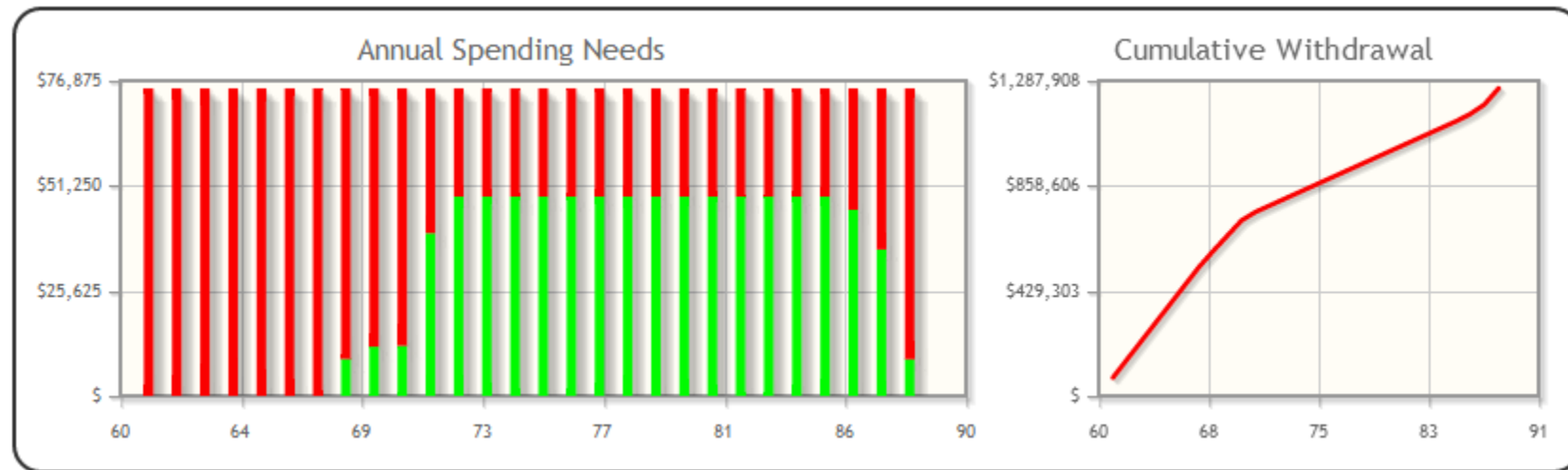
If both delay past FRA ensure *someone* is taking a spousal!...generally it should be the lower earner.

Joe's age	Sue's age	Primary Strategy		Custom Strategy 1		Difference (PS vs CS1)
		Joe \$2,400 PIA	Sue \$1,100 PIA	Joe \$2,400 PIA	Sue \$1,100 PIA	
66	64	\$0	\$0	\$0	\$0	\$0
67	65	\$0	\$0	\$0	\$0	\$0
68	66	\$0	\$1,200	\$0	\$0	\$1,200
69	67	\$0	\$1,200	\$0	\$0	\$15,600
70	68	\$3,168	\$1,200	\$3,168	\$0	\$30,000
71	69	\$3,168	\$1,200	\$3,168	\$0	\$44,400
72	70	\$3,168	\$1,452	\$3,168	\$1,452	\$57,600
73	71	\$3,168	\$1,452	\$3,168	\$1,452	\$57,600
74	72	\$3,168	\$1,452	\$3,168	\$1,452	\$57,600
75	73	\$3,168	\$1,452	\$3,168	\$1,452	\$57,600
76	74	\$3,168	\$1,452	\$3,168	\$1,452	\$57,600
77	75	\$3,168	\$1,452	\$3,168	\$1,452	\$57,600
78	76	\$3,168	\$1,452	\$3,168	\$1,452	\$57,600
79	77	\$3,168	\$1,452	\$3,168	\$1,452	\$57,600
80	78	\$3,168	\$1,452	\$3,168	\$1,452	\$57,600
81	79	\$3,168	\$1,452	\$3,168	\$1,452	\$57,600
82	80	\$3,168	\$1,452	\$3,168	\$1,452	\$57,600
83	81	\$3,168	\$1,452	\$3,168	\$1,452	\$57,600
84	82	\$3,168	\$1,452	\$3,168	\$1,452	\$57,600
85	83	\$3,168	\$3,168	\$3,168	\$3,168	\$57,600
86	84	\$0	\$3,168	\$0	\$3,168	\$57,600
87	85	\$0	\$3,168	\$0	\$3,168	\$57,600
88	86	\$0	\$3,168	\$0	\$3,168	\$57,600
89	87	\$0	\$3,168	\$0	\$3,168	\$57,600
90	88	\$0	\$3,168	\$0	\$3,168	\$57,600
91	89	\$0	\$0	\$0	\$0	\$57,600

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“Filling the Gap”



Analyze Tab – Needs View

Very easy to see the “gap” that needs to be filled over Social Security income.

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For More Information Contact

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