Social Security Maximization

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Credentials

Background:
• 17 years in the Financial Advisory Industry
• Preservation / Distribution Planning Specialist
• Certification in Financial Planning from NYU

Licenses:
• Certified Financial Planner™
• Retirement Income Certified Professional™

An Instructor at:
• California State University (OLLI)
• University California (Extension)
This class is designed to help you understand **CONCEPTS** and is not intended to give you advice on social security or other financial issues. There is a myriad of social security laws and regulations to be aware of, therefore it is recommended that you speak to a **proficient** financial advisor or an employee of the Social Security Administration before making any decisions on your social security benefits. These benefits are permanent so please be careful.
What’s new?

• Title VIII, Section 831 of the House Budget Bill – Social Security

Title VIII makes a number of changes to the Social Security Disability Program. The Disability Insurance (DI) trust fund is estimated to run out of money at the end of 2016. This proposal would “reallocate” about $150 billion over the next three years from the Social Security Trust Fund to the DI Trust Fund. This infusion of Social Security revenues should keep the DI program solvent through 2022.
Changes in 2016

- Restricted applications will no longer be accepted (Claim now, Claim more later – for spouses)
- The ‘File and Suspend’ strategy will no longer be permitted
- If you are under Full Retirement Age, the deeming rule will force you to take your own reduced retirement or your reduced spousal (whichever is larger)
- If the higher earning spouse decides to delay, spouses will be forced to delay filing for spousal benefits as well
OAS-DI-HI-SMI

How Social Security Works

An employee pays 7.65% of his/her salary into SS Trust Fund

Employers pay 7.65% to the SS Trust Fund

(2 Parts)
Social Security Trust Fund

Payments to retirees, disabled, survivors and dependents

Any surplus taxes go to the US Treasury in exchange for IOUs, secured in the form of U.S. Treasury Bonds

Source: procon.org
SS: Worker to beneficiary ratio

1960: 5.1 to 1  
2009: 3.0 to 1  
2030: 2.2 to 1

Source: Social Security Administration, Trustees Report Table IV.B2
Ratio of covered workers to beneficiaries
Ways to eliminate SS shortfall

- Lift the payroll ceiling (2016 - $118,500)
- Increase social security (FICA) taxes (2016 – 6.2%)
- Raise the eligibility age from 62 to 64 (*FRA rose to 67)
- Change the cost of living adjustment (2016 – 0%)
- Reduce benefits for new retirees
- Tighten up Disability Rules
- Average in more working years
- Focus Social Security benefits on those who need them the most (cut benefits for the rich)
Eligibility – So how can I participate?

• Earn and accumulate 40 credits from your working years

• To earn one credit, you must earn $1260 (2016)

• Max of 4 credits per year may be earned at any time during the calendar year
What you get...

Social Security is an **annuity** policy that protects both workers and their families.

* An annuity is an insured savings vehicle which guarantees “something” at some point of time...
Fun fact!

• The idea of paying out a stream of income to an individual dates back to the Roman Empire.
So now that I have the credits, what’s next?

• SSA will calculate your benefits by plugging in some **key factors** into a formula

• Factors:

  1) **Your highest 35 years of earnings** that were subject to FICA taxes (different wage bases each year) \( \times \) **an Index Factor assigned for each year** (inflation adjusted)

  2) Sum from step 1 \( / \) **420** \((35 \times 12)\) = AIME (Average Indexed Monthly Earnings)

  3) AIME is **assigned bend points**: 90% (1\textsuperscript{st} $856), 32% (2\textsuperscript{nd} $5157), 15% (the rest)
What is your benefit based on?

Your **PIA** (Primary Insurance Amount) is the basic unit used to determine the amount of each monthly benefit payable under social security at **FRA** (Full Retirement Age).
Full retirement age

- Prior to 1937: 65
- 1943-1954: 66
- 1960 or later: 67
What you get from SS...

<table>
<thead>
<tr>
<th>Your Age</th>
<th>62 &quot;Premature&quot;</th>
<th>66 Full Retirement Age</th>
<th>70 Delayed Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>What You Get...</td>
<td>Pay Cut 25%</td>
<td>Income</td>
<td>Pay Raise 32%</td>
</tr>
<tr>
<td>For Example...</td>
<td>$750</td>
<td>$1,000</td>
<td>$1,320</td>
</tr>
</tbody>
</table>
Impact of early retirement

- Benefits can start as early as age 62

- 5/9 of 1% reduction in PIA benefit per month for the first 36 months retired before FRA

- 5/12 of 1% reduction in PIA benefit per month for each month in excess of 36 months retired before FRA
Impact of Late Retirement

• 3-8% increase in PIA benefit for every one year delay in retirement (depending on your birth year)

• Delayed Retirement Credit
  • 1939-1940 7.0%
  • 1941-1942 7.5%
  • 1943 and later 8.0%
Monthly Benefit Amounts Differ based on Age

Age Initiated Benefits

- Age 62: $750
- Age 63: $800
- Age 64: $866
- Age 65: $933
- Age 66: $1,000
- Age 67: $1,080
- Age 68: $1,160
- Age 69: $1,240
- Age 70: $1,320
You can continue to work after you claim but...

<table>
<thead>
<tr>
<th>For Every $1 You Earn Above...</th>
<th>Benefits are reduced by...</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15,720 Per Year in the calendar years before you reach FRA</td>
<td>1/2</td>
</tr>
<tr>
<td>$41,880 Per Year in the calendar year in which you reach FRA</td>
<td>1/3</td>
</tr>
</tbody>
</table>

Remember: No Benefits Are Withheld After You Reach FRA
Income not subject to earnings test

- Pension income
- Withdrawals from qualified plans (e.g., 401K, IRA)
- Passive income (rental home)
- Investment interest
- Investment dividends
- Capital Gains
- Unemployment compensation
How are benefits taxed?

Your adjusted gross income  
+ Nontaxable interest (Muni Bond Interest)  
+ $1/2$ of your Annual Social Security benefits  
= Your “provisional income"
How are benefits taxed?

<table>
<thead>
<tr>
<th></th>
<th>Below</th>
<th>Between</th>
<th>Above</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$25,000</td>
<td>$25,000-34,000</td>
<td>$34,000</td>
</tr>
<tr>
<td>Married Filing Jointly</td>
<td>$32,000</td>
<td>$32,000-44,000</td>
<td>$44,000</td>
</tr>
<tr>
<td>Taxed Portion</td>
<td>0%</td>
<td>50%</td>
<td>85%</td>
</tr>
</tbody>
</table>
Do you plan on delaying?
It depends...

Reasons to take it early:
1. You need the money
2. Health or Family longevity issues
3. You won’t hit the break even point
4. You are risk averse

Reasons to take it late:
1. You have a nest egg
2. Healthy or Family longevity issues
3. A larger benefit for you and your spouse
4. You are a risk taker
How much income will you need in retirement?
• Your expenses may go **down** once you retire...

• Possible changes...
  • No More FICA taxes
  • No More high health premiums (covering entire family)
  • No More contributions to a retirement account
  • No More Business Expenses
  • Mortgage Paid Off?
  • Lower tax bracket?
  • Less Fuel usage
  • Empty Nest?
So when should you claim?
Decide to Delay

- Age 62
  - PIA = $750

- Age 66
  - Break even = 12 years
  - Opp Cost = $36K

- Age 70
  - Break even = 10.5 years
  - Opp Cost = $72K

*Not this simple, if you are married*
Will you rely on Social Security as your main source of income?
Create a plan

Expected Expenses

Fixed Income

- Social Security
- Pension
- Fixed Annuity
- W-2

Available Assets

- Retirement
- Non-Retirement
NEW STRATEGIES
OPTIMIZE YOUR BENEFITS

*please complete Social Security Questionnaire