

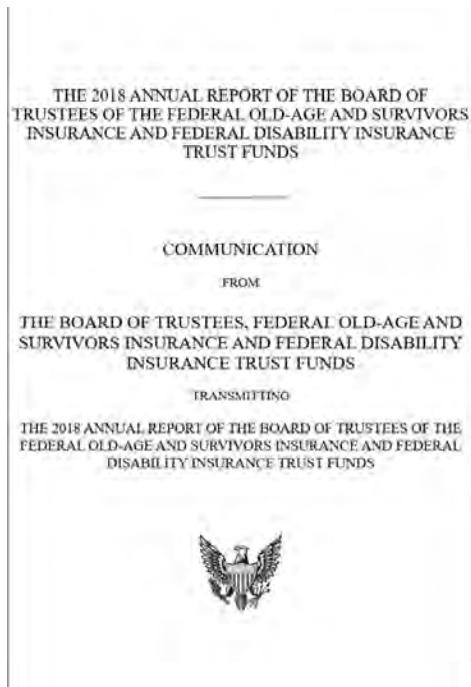
# Social Security Benefit Maximization Workshop (2019 edition)

Instructor: John Pak, CFP® RICP® EA

# Disclaimer

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 *trained* financial planner or a benefits technician of the Social Security Administration before making any decisions.

# 2018 Annual Social Security Trustees Report



- The combined assets reserves of the Old Age and Survivors insurance and disability insurance (OASI) Trust funds are projected to be depleted by 2034
- DI Trust fund will be depleted by 2032 (extended from 2028)
- 77% of funds would still be paid out in 2034, again, assuming status quo
- Total annual cost of the program is projected to exceed total annual income for the first time since 1982 (\$952 Billion in 2017)
- Asset reserves of the combined OASDI trust fund increased by \$44 Billion to a total of \$ 2.9 Trillion

# Remember this?

- **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.*

# Strategies no longer ...

- Restricted applications will no longer be accepted...for most claimants (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

	Married Couples	Divorced Couples	Widow(ers)	Singles
Age 66 or Older on April 30 <sup>th</sup> 2016 (Born April 30 <sup>th</sup> 1950 or earlier)	You can still File and Suspend prior to April 30 <sup>th</sup> 2016 (must have reached FRA)	Cannot F/S NOR file a Restricted Application	New Rules do not apply widow(ers) benefits	Able to file and suspend prior to April 30 <sup>th</sup> 2016, must have reached FRA
Age 62 or older in 2016 (Born January 1 <sup>st</sup> 1954 or earlier)	Can file a restricted application at FRA	Cannot F/S, but can file a restricted application at FRA	New Rules do not apply widow(ers) benefits	N/A
Age 62 or younger (Born January 2 <sup>nd</sup> 1954 or later)	Can't File and Suspend NOR file a Restricted application	Cannot F/S NOR file a restricted application	New Rules do not apply widow(ers) benefits	N/A

# 2019 Updates



UPDATE!

- Payroll ceiling increased (**\$132,900**)
- COLA adjustment – CPI-W (**2.8%**)
- The average benefit of \$1 422 will rise to **\$1461**
- The earnings test increased to **\$17640 per year** for those claiming benefits prior to reaching full retirement age.
- The earnings test increased to **\$46,920 per year** for those claiming benefits in the year you reach full retirement age.

# OAS-DI-HI-SMI

## How Social Security Works

An employee  
pays 6.2% of  
his/her salary  
into SS Trust  
Fund &  
1.45% into  
Medicare



Employers  
pay 6.2% to  
the SS Trust  
Fund &  
1.45% into  
Medicare

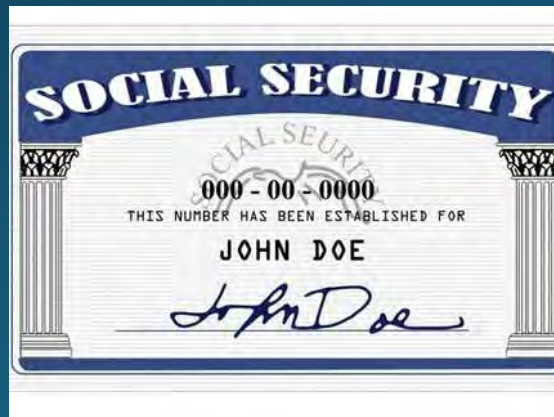
Social Security  
Trust Fund

Payments to retirees, disabled, survivors and dependents

Any surplus taxes go to the SSTF, secured in the  
form of U.S. Treasury Bonds

# Eligibility – So how can I participate?

- Earn and accumulate 40 credits from your working years
- To earn one credit, you must earn **\$1360** (2019)
- Max of 4 credits per year may be earned at any time during the calendar year



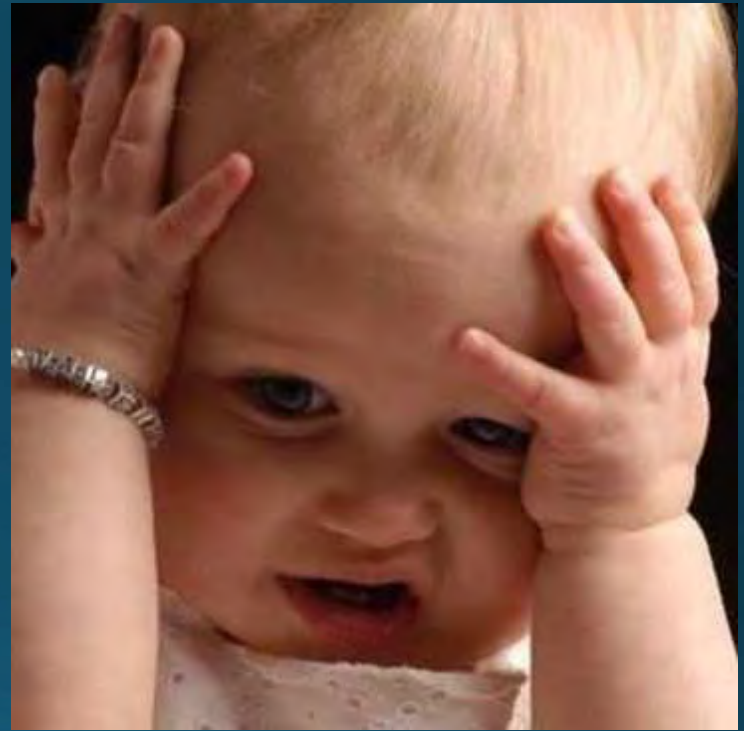
a. Control number		OMB No. 1545-0048		State, insurance, FUTA: Use <b>e-file</b>		Visit the IRS website at <a href="http://www.irs.gov/efile">www.irs.gov/efile</a>	
b. Employer identification number (EIN)		44-1XXXXXX		1. Wages, tips, other compensation	2. Federal income tax withheld		
				16500.25	2097.54		
c. Employer's name, address, and ZIP code		West Way Books 43 Bookend Rd Albuquerque, NM 87108		3. Social security wages	4. Social security tax withheld		
				16500.25	1023.02		
d. Employee's social security number		444-XX-XXXX		5. Medicare wages and tips	6. Medicare tax withheld		
				16500.25	239.25		
e. Employee's first name and initial		Last name		7. Social security tips	8. Allocated tips		
Susan A. Quintana		1000 Old Club Rd SW Albuquerque, NM 87105		9. Advance EIC payment	10. Dependent care benefits		
f. Employee's address and ZIP code				11. Nonqualified plans	12a. See instructions for box 12		
				13. Other	12b.		
				14. Other	12c.		
				15. State income tax	16. State income tax		
NM 44-0XXXXXX-XX		16500.25		404.26	17. Local income tax		
				18. Local income tax	19. Local income tax		
				20. Local income tax	21. Local income tax		

**W-2 Wage and Tax Statement** 20XX  
Form 941-SS  
Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.

# 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) X **an Index Factor assigned for each year** (inflation adjusted)
  - 2) Sum from step 1 / **420** (35 X 12) = AIME (Average Indexed Monthly Earnings)
  - 3) AIME is **assigned bend points**: 90% (1<sup>st</sup> \$926) , 32% (2<sup>nd</sup> \$5583), 15% (the rest)

Come  
again???



Year	A. Maximum earnings	B. Actual earnings	C. Index factor	D. Indexed earnings
1956	\$4,200		13.62	
1957	\$4,200		13.21	
1958	\$4,200		13.09	
1959	\$4,800		12.47	
1960	\$4,800		12.00	
1961	\$4,800		11.77	
1962	\$4,800		11.21	
1963	\$4,800		10.94	
1964	\$4,800		10.51	
1965	\$4,800		10.32	
1966	\$6,600		9.74	
1967	\$6,600		9.23	
1968	\$7,800		8.63	
1969	\$7,800		8.16	
1970	\$7,800		7.78	
1971	\$7,800		7.40	
1972	\$9,000		6.74	
1973	\$10,800		6.35	
1974	\$13,200		5.99	
1975	\$14,100		5.57	
1976	\$15,300		5.21	
1977	\$16,500		4.92	
1978	\$17,700		4.56	
1979	\$22,900		4.19	
1980	\$25,900		3.84	
1981	\$29,700		3.49	
1982	\$32,400		3.31	
1983	\$35,700		3.16	
1984	\$37,800		2.98	
1985	\$39,600		2.86	

Year	A. Maximum earnings	B. Actual earnings	C. Index factor	D. Indexed earnings
1986	\$42,000		2.78	
1987	\$43,800		2.61	
1988	\$45,000		2.49	
1989	\$48,000		2.39	
1990	\$51,300		2.29	
1991	\$53,400		2.21	
1992	\$55,500		2.10	
1993	\$57,600		2.08	
1994	\$60,600		2.02	
1995	\$61,200		1.95	
1996	\$62,700		1.86	
1997	\$65,400		1.75	
1998	\$68,400		1.67	
1999	\$72,600		1.58	
2000	\$76,200		1.50	
2001	\$80,400		1.46	
2002	\$84,900		1.45	
2003	\$87,000		1.41	
2004	\$87,900		1.35	
2005	\$90,000		1.30	
2006	\$94,200		1.24	
2007	\$97,500		1.19	
2008	\$102,000		1.16	
2009	\$106,800		1.18	
2010	\$106,800		1.15	
2011	\$106,800		1.12	
2012	\$110,100		1.09	
2013	\$113,700		1.07	
2014	\$117,000		1.03	
2015	\$118,500		1.00	
2016	\$118,500		1.00	

# Here is the math

**TOTAL :**      **4362377.85 / 420**

**Step 1:**      **10386.61393**

**Step 2:**      **First \$926 \*90%**

**833.4**

**PIA: 3044.18209**

**Step 3:**      **Between 926 and 5583\*32%**

**1490.24**

**Step 4:**      **Over 5583\*15%**

**720.5420893**



What's  
the  
point?

Attempt to work for 35 years or more

# Will your benefits increase?

- To determine whether it is worth working an extra year or two to replace the lower earnings years try this calculation:
- Take your anticipated earning and subtract the lower existing earning .
- Then divide the number by 420
- Multiply it by .90 or .32 or .15 (depends on your AIME)
- Answer is the increase in monthly payments!

# 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...

Your Age	62 “Premature”	66 Full Retirement Age	70 Delayed Retirement
What You Get...	Pay Cut 25%	Income	Pay Raise 32%
For Example...	\$750	\$1,000	\$1,320

# Impact of early retirement

- Benefits can start as early as age 62
- $\frac{5}{9}$  of 1% reduction in PLA benefit per month for the first 36 months retired before FRA
- $\frac{5}{12}$  of 1% reduction in PLA 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%

# PIA Cheat Sheet

## Age when you claim retirement benefits

4 years before FRA  
3 years before FRA  
2 years before FRA  
1 year before FRA  
FRA  
1 year after FRA  
2 years after FRA  
3 years after FRA  
4 years after FRA

## Amount of retirement benefit

75% of PIA  
80% of PIA  
86.67% of PIA  
93.33% of PIA  
100% of PIA  
108% of PIA  
116% of PIA  
124% of PIA  
132% of PIA

## Monthly Benefit Amounts Differ based on Age



# You can continue to work after you claim but...



UPDATE!

For Every \$1 You Earn Above...	Benefits are reduced by...
<b>\$17,640 Per Year</b> in the calendar years <b>before</b> you reach FRA	1/2
<b>\$46,920 Per Year</b> in the calendar year <b>in</b> which you reach FRA	1/3

Remember: No Benefits Are Withheld **After** You Reach FRA



What's  
the  
point?

Don't let the earnings test stop you from  
working

# Income not subject to earnings test

- Pension income
- Withdrawals from qualified plans
- Passive income (rental home)
- Investment interest
- Investment dividends

# How are benefits taxed?

## **Your adjusted gross income**

+ Nontaxable interest (Muni Bond Interest)

+ 1/2 of your Annual Social Security benefits

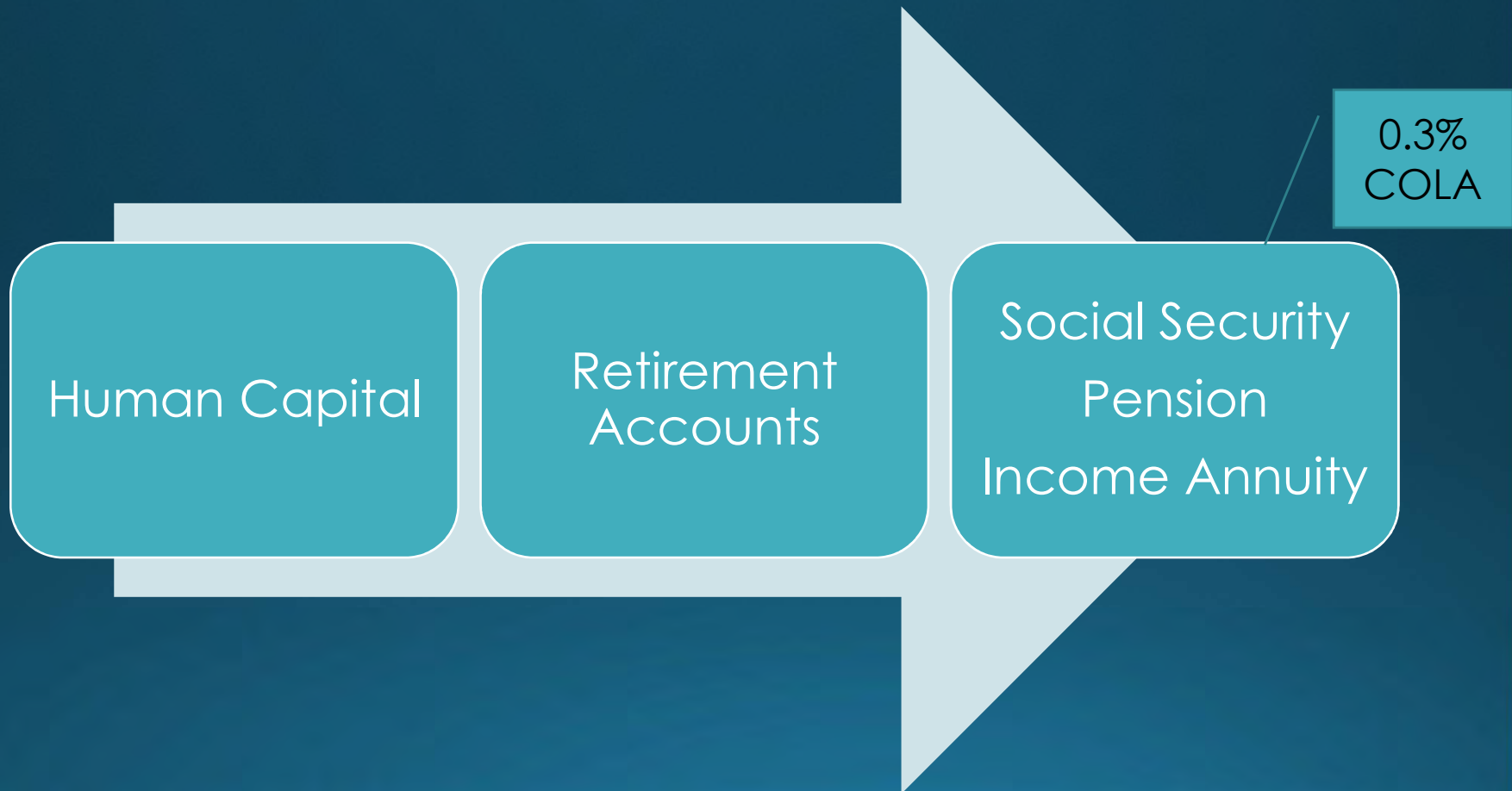
= Your "**provisional income**"

# How are benefits taxed?



	Below	Between	Above
Single	\$25,000	\$25,000-34,000	\$34,000
Married Filing Jointly	\$32,000	\$32,000-44,000	\$44,000
Taxed Portion	0%	50%	85%

# Protection from living too long



# Can I estimate what my benefits will look like when I retire?

- Expect your Social Security statement to be mailed to you every 5 years, if you do not have an online account (starting from age 25)
- After age 60, the statements will be mailed to you annually.
- You can always create an account. You must provide personal information to verify your identity and create a username and password

Prevent identity theft—protect your Social Security number

## Your Social Security Statement

Prepared especially for Wanda Worker

May 12, 2009 [www.socialsecurity.gov](http://www.socialsecurity.gov)

Use inside for your personal information →

WANDA WORKER  
455 ANYWHERE AVENUE  
MANTOWN, USA 11111-1111

**What's inside...**

<b>Your Estimated Benefits</b>	2
<b>Your Earnings Record</b>	3
<b>Some Facts About Social Security</b>	4
<b>If You Need More Information</b>	4
<b>To Request This Statement In Spanish</b> (Para Solicitar Esta Declaración en Español)	4

### What Social Security Means To You

This *Social Security Statement* can help you plan for your financial future. It provides estimates of your Social Security benefits under current law and updates your latest reported earnings.

Please read this *Statement* carefully. If you see a mistake, please let us know. That's important because your benefits will be based on our record of your lifetime earnings. We recommend you keep a copy of your *Statement* with your financial records.

**Social Security is for people of all ages...**  
We're more than a retirement program. Social Security also can provide benefits if you become disabled and help support your family after you die.


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

Saving and investing wisely are important not only for you and your family, but for the entire country. If you want to learn more about how and why to save, you should visit [www.mymoney.gov](http://www.mymoney.gov), a federal government website dedicated to teaching all Americans the basics of financial management.

**About Social Security's future...**  
Social Security is a compact between generations. For decades, America has kept the promise of security for its workers and their families. Now, however, the Social Security system is facing various financial problems, and action is needed soon to make sure the system will be sound when today's younger workers are ready for retirement.

In 2016 we will begin paying more in benefits than we collect in taxes. Without changes, by 2037 the Social Security Trust Fund will be exhausted\* and there will be enough money to pay only about 75 cents for each dollar of scheduled benefits. We need to resolve these issues soon to make sure Social Security continues to provide a foundation of protection for future generations.

**Social Security on the Net...**  
Visit [www.socialsecurity.gov](http://www.socialsecurity.gov) on the Internet to learn more about Social Security. You can read publications, including *When To Start Receiving Retirement Benefits*; use our Retirement Estimator to obtain immediate and personalized estimates of future benefits; and when you're ready to apply for benefits, use our improved online application—It's so easy!

  
Michael J. Astruc  
Commissioner

\* These estimates are based on the intermediate assumptions from the Social Security Trustees' Annual Report to the Congress.



Social Security

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## Create your personal *my* Social Security account today

With your free, personal *my* Social Security account, you can receive personalized estimates of future benefits based on your real earnings, see your latest *Statement*, and review your earnings history. It even makes it easy to request a replacement Social Security Card or check the status of an application, all from the comfort of your home or office!

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[www.ssa.gov/myaccount](https://www.ssa.gov/myaccount)

# SS benefits matrix

	Retirement	Survivorship	Disability
	Fully Insured	Fully Insured	Based on Age
	(40 credits)	(40 credits)	
<b>Participant-Worker</b>	100%	Deceased	100%
<b>Child &lt; 18</b>	50%	75%	50%
<b>Spouse w/ Child &lt; 16</b>	50%	75%	50%
<b>Spouse age 65 FRA</b>	50%	100%	50%
<b>Spouse age 62</b>	35%	81%	35%
<b>Spouse age 60</b>	n/a	71.50%	n/a

# Claiming tips

*Rules to keep in mind...*

1. The best way to grow is to delay
2. The Magic happens at FRA
3. File before FRA, chance of permanent reduction (for spouses – Deeming Rule)
4. Spousal benefits do not grow
5. Ask yourself what is more important – a larger monthly benefit or largest collected balance over lifetime?
6. Higher earning spouse must be collecting benefits in order for spousal benefits to be approved

# What is the deeming rule?

- If you are eligible for benefits both as a retired worker and as a spouse in the first month you want your benefits to begin and are not yet full retirement age, you must apply for both benefits. You will receive the higher of the two benefits.
- It is called “Deeming” because when you apply for one benefit you are “deemed” to have also applied for the other.
- Does not affect widow(er)s

# What is voluntary suspension of benefits?

- This means you are voluntarily suspending benefit payments at your full retirement age in order to earn higher benefits for delaying.
- But during the voluntary suspension, benefits to your spouse will also be suspended
- And during the voluntary suspension, you also cannot receive spousal benefits
- Divorced spouses are the exception (simply follow the two year rule)

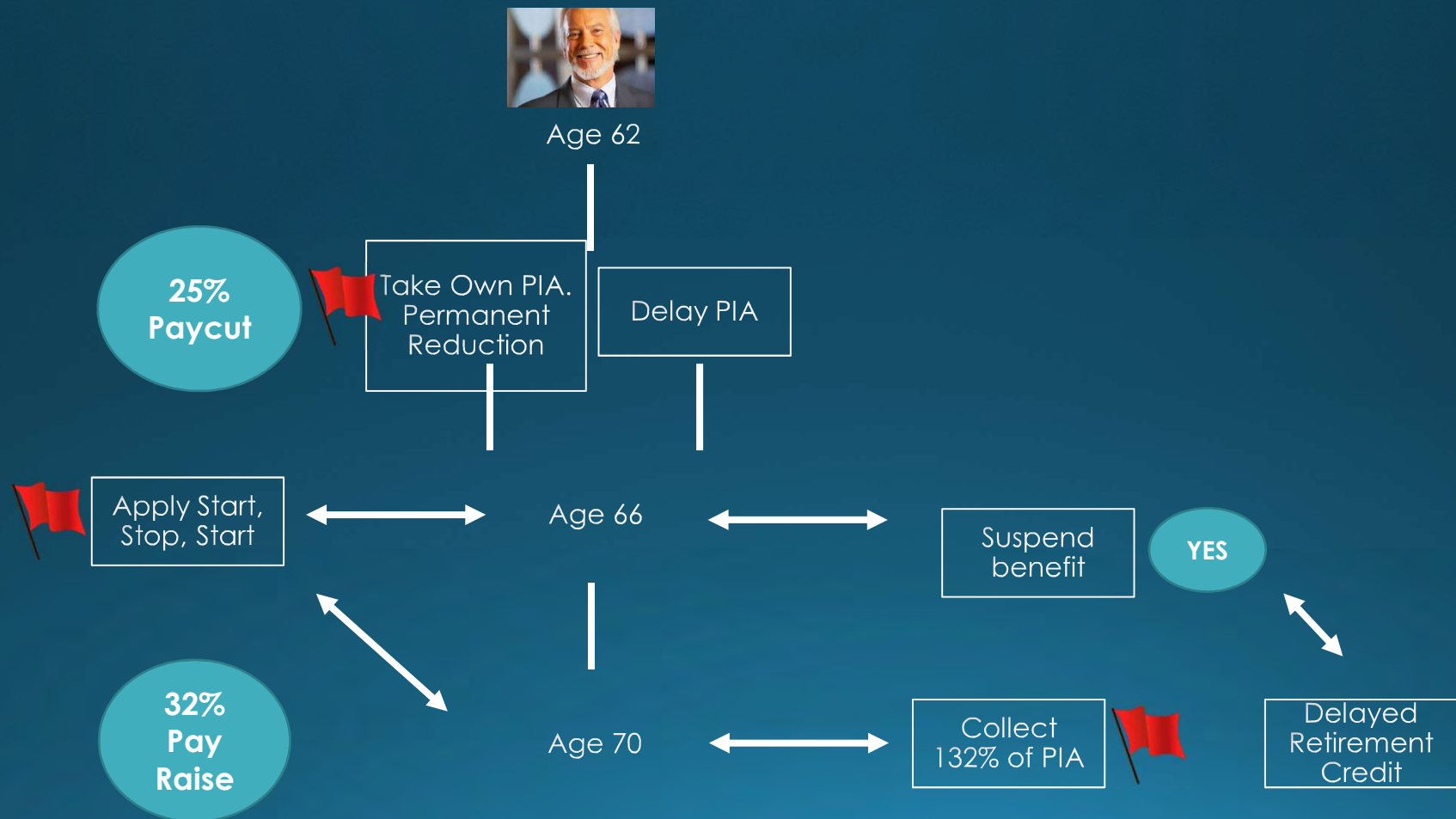
# Case Studies

## Case # 1

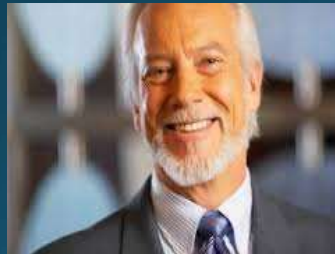


- Albert, single man, aged 61
- Never married
- No children
- Fully funded nest egg with no risk of funds running out or standard of living being compromised prior to death
- History of good health

# Matrix (Single)

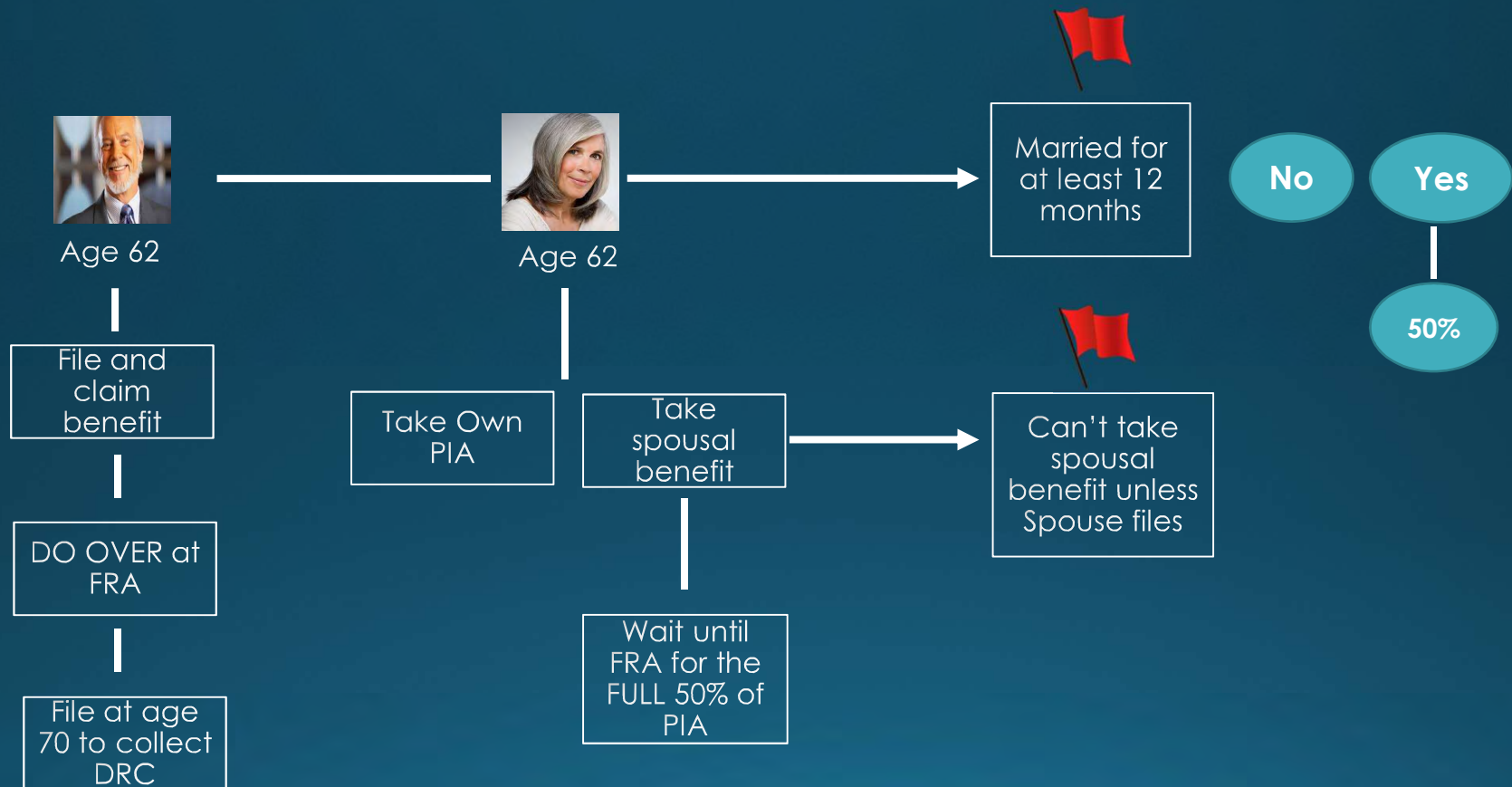


## Case # 2

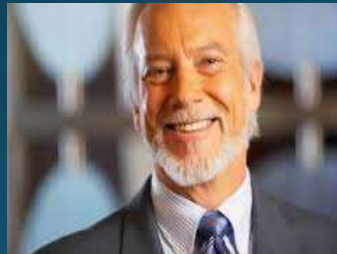


- Doris and Calvin
- Both aged 62
- Married for 31 years
- Doris works for LAUSD the entire marriage; her pension is 2000 /month.
- Calvin works for a private company as a corporate trainer. Been with them for 31 years. PIA expected to be \$2000
- Inadequately funded nest egg that will run out in 10 years
- Calvin has a family history of heart disease

# Matrix (Married)

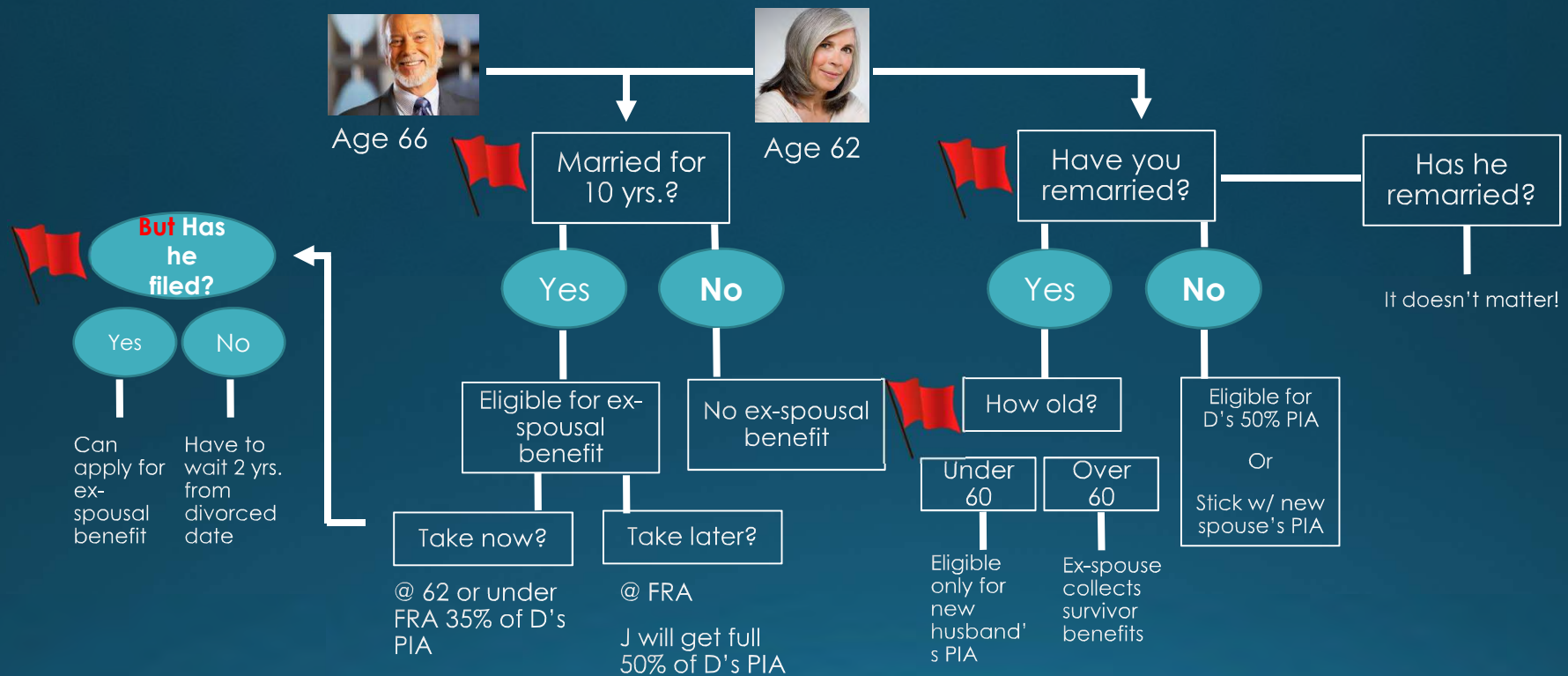


## Case # 3

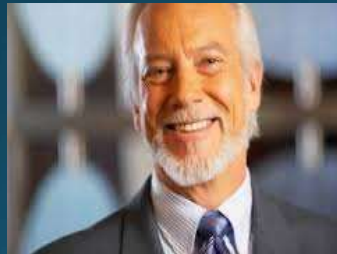


- Linda (age 62) and Peter (age 64)
- Two kids – age 25 and age 21
- Just ended their marriage of 25 years
- Linda was a stay at home mother for most of the marriage. Recently found a job at a non-profit org. as a marketing assistant.
- Peter has worked for his current employer – National Bank of Trust - for the past 30 years. PIA expected to be \$2400
- She was awarded half his 401K plan + liquid assets.

# Matrix (Divorced)

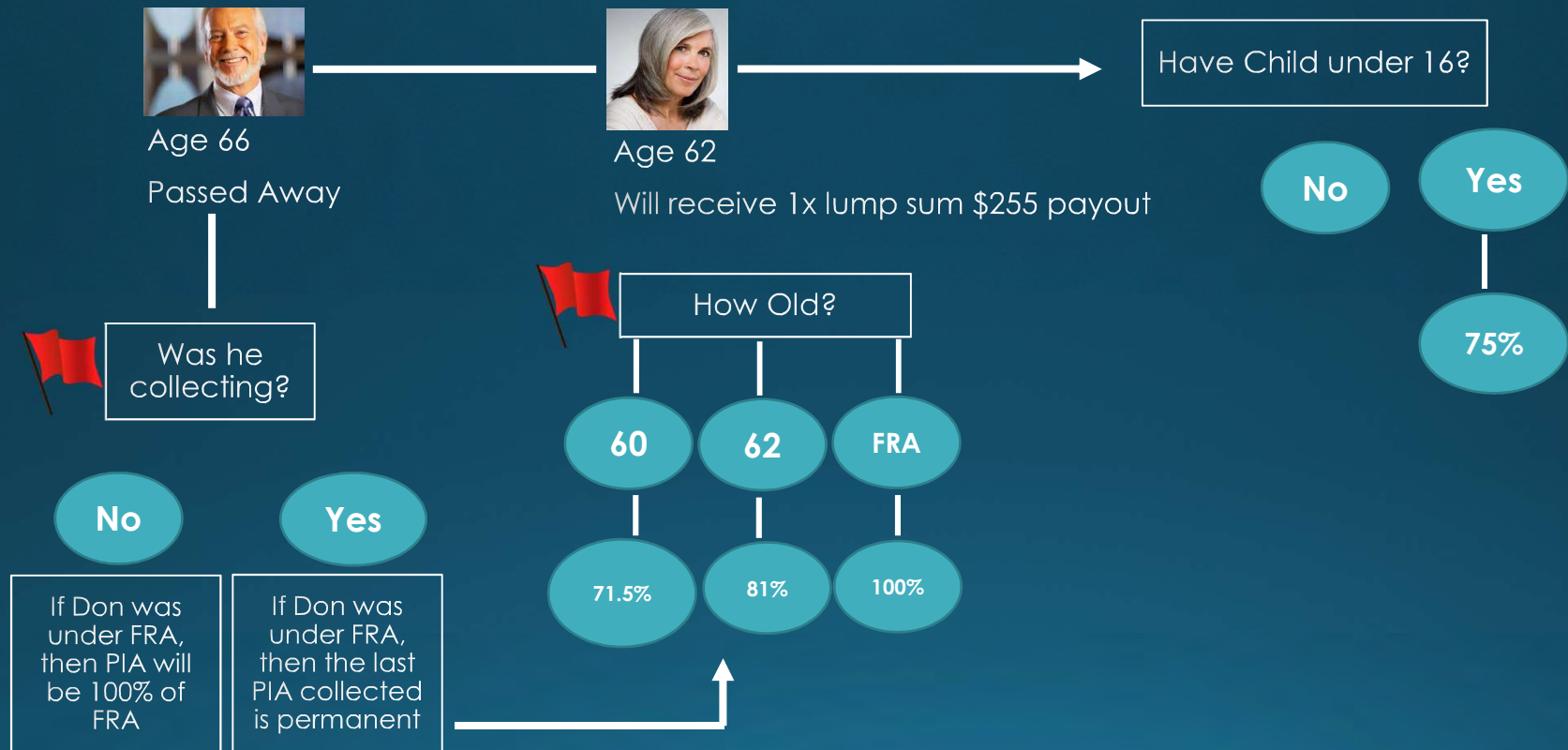


## Case # 4



- Rose (age 68) and David (age 75)
- Just celebrated their 40<sup>th</sup> wedding anniversary
- Rose recently retired as a defense attorney who had worked in the legal industry for 35 years
- David retired when he turned 66. He chose to delay his benefits until he turned 70.
- He passed away this year.

# Matrix (Survivors)



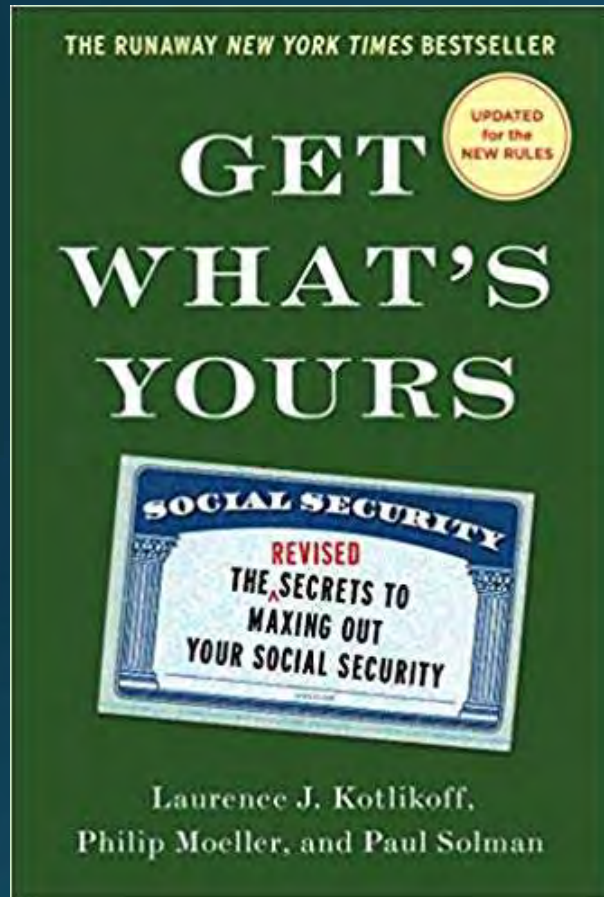
# Questions?

John Pak  
Ofium Advisory Group

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## Looking for extra tips?



- Author: Larry Kotlikoff, Phillip Moeller, and Paul Solman