

Savvy Social Security Planning: What You Need to Know to Maximize Retirement Income

Christi Powell, CFP®



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Speaker Bio



- **Christi Powell, CFP®**
 - Owner Falcon Financial of Oklahoma, LLC a state registered advisory firm.
 - President, Financial Planning Association of Central Oklahoma.
 - Director, Washita Capital, a private equity firm in Dallas.
 - Former BIVAB Director.
 - Assistant Region Manager – South Central Region of BI.
 - Heart of Oklahoma Volunteer since 2000, served as Treasurer & Education Chair.
 - 1 husband, 2 children, 2 in-law children, 5 grandchildren.
 - Hobbies: reading, hiking, photography, gardening.
 - NO personal financial planning advice is being given or offered. Examples are educational only.
 - I firmly believe consistent, disciplined investing is fundamental to financial security.
 - Be a humble and patient investor.



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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?

1935: Social Security Act signed into law



1939: Benefits for spouse, survivors, and minor children added



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:

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

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 average 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

Social Security Question #1

Will Social Security be there for me?



OASDI Trust Fund still growing

Trust fund balance on 12/31/14: \$2.789 trillion

2015 results

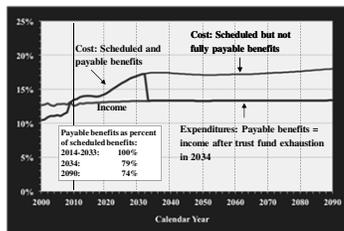
- Total income: \$920 billion
- Total expenditures: \$897 billion
- Net increase in assets: \$ 23 billion

Trust fund balance on 12/31/15: \$2.812 trillion

Source: Social Security Administration, Office of the Chief Actuary

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: 2016 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 \$127,200 in 2017)
- 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



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). *If benefit does not increase, Medicare premium does not increase for current beneficiaries, not those delaying.

Example of benefit formula

- Baby Boomer born in 1955
- Maximum Social Security earnings every year since age 22
- AIME = \$9,784

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- Maximum Social Security earnings every year since age 22
- AIME = \$9,784
- PIA formula:
 - $\$885 \times .90 = \796.50
 - $\$4,451 \times .32 = \$1,424.32$ (\$5,336 - \$885 = \$4,451)
 - $\$4,448 \times .15 = \667.20 (\$9,784 - \$5,336 = \$4,448)
 - Total = **\$2,888.02**

PIA = \$2,888.00

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%

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- If you work, \$1 in benefits will be withheld for every \$2 you earn over \$16,920.
- You will not be able to take advantage of savvy spousal strategies.
- **Your surviving spouse's survivor benefit will be lower.**

What if you apply after FRA?

You will earn 8% annual delayed credits

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

Impact of delaying benefits

PIA = \$2,400	Starting benefit	Cumulative benefits at 85 (today's dollars)	Monthly income at 85* with 2.6% annual COLAs	Cumulative benefits at 85 with 2.6% annual COLAs
Claim Social Security at 62	\$1,800	\$518,400	\$3,248	\$707,446
Claim Social Security at 70	\$3,168	\$608,256	\$5,717	\$911,814

* If primary wage earner dies before age 85, this approximate amount will transfer to surviving spouse

When To Apply for Social Security
Key Points To Remember

- If you apply early, your benefit starts lower and stays lower for life.

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- **Decision impacts survivor benefits as well: Higher-earning spouse should delay the start of benefits to increase income for surviving spouse.**

How to estimate your Social Security benefits

- Obtain your annual Social Security statement at www.socialsecurity.gov/mystatement
OR
- Go to 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

Spousal Benefits

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- “Entitled” means the worker is eligible for Social Security and has filed for benefits.
- **Example:**
 - **Jack and Jill are married; they are both 66.**
 - **Jack has paid into Social Security all his life; his primary insurance amount (PIA) is \$2,400.**
 - **Jill has never worked.**
 - **Once Jack files for Social Security benefits, Jill may file for her spousal benefit.**
 - **Jill’s spousal benefit will be 50% of Jack’s PIA, or \$1,200.**

Rules for spousal benefits

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- No delayed credits on spousal benefits after FRA.
- **Marriage requirement is one year.**

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- **Example:**
 - Jack and Jill are married. Jack is 66, Jill is 62. Jack's PIA is \$2,400. Jill's PIA is \$800.
 - Jack files for benefits at 66. Jill files for benefits at 62.
 - Jill will receive her own reduced benefit of \$600 (75% of \$800) + a spousal add-on of \$280 for a total benefit of \$880.
 - Spousal add-on formula: $[(\$2,400 \times .5) - \$800] \times .70 = \$280$. This is about 37% of Jack's PIA

If spouse applies before full retirement age, spousal benefit will be reduced

Age Spouse Applies for Spousal Benefit	% of Worker's PIA if born 1943-54	% of Worker's PIA if born 1960 or later
62	35.0	32.5
63	37.5	35.0
64	41.7	37.5
65	45.8	41.7
66	50.0	45.8
67	50.0	50.0
68	50.0	50.0
69	50.0	50.0

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)

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).



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



Thank you!

You may contact Christi with questions at:
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