Social Security – New Tax Laws and Strategies to Consider

Strategies to Help Increase Client's Retirement Income

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Agenda

- Funding and Calculation of Benefits
- Commencing Benefits
- Social Security Maximization

Funding and Calculation of Benefits

Benefits are wage driven

- Employee and employer each pay
  - 6.2% for Social Security (OASDI)
  - 1.45% for Medicare Hospital Insurance (HI)

Maximum earnings taxable

- $110,100 for Social Security (2012 limit)
- No limit for Medicare

Tax Law Changes

- 2012: 2% employee payroll tax holiday
  - 2013: An additional 0.9% Medicare tax paid by employees
  - Couples with incomes exceeding $250,000 ($200,000 for single)

Funding and Calculation of Benefits

Becoming eligible

- 40 quarters (10 years) of wages that were subject to Social Security payroll taxes
- Quarters do not need to be consecutive
  - Quarters do not expire and will remain on Social Security record

Benefits calculated based on average of the 35 highest years of earnings

- $0 used in all years less than 35
- Will result in a lower benefit

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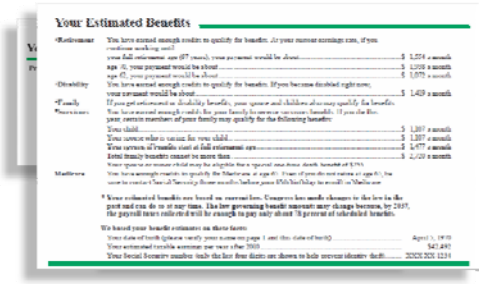
Funding and Calculation of Benefits


Your Estimated Benefits

Source: Social Security Administration, April 2, 2012

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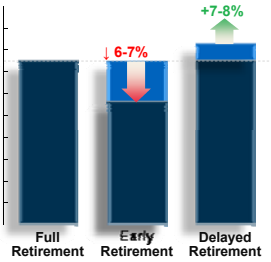
Commencing Benefits

- **Early Retirement**
- **Full Retirement Age (FRA)**
- **Delayed Retirement Credits (DRC)**



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Commencing Benefits

Year Born	Full Retirement Age
1937 and earlier: Add two months to each year after 1937 up to1943	65
1943 – 1954: Add two months to each year after 1954 up to 1960	66
1960 and later	67

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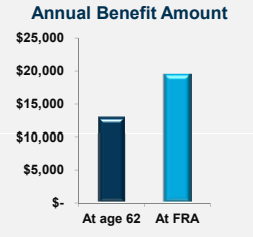
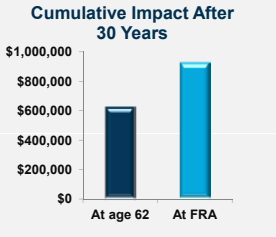
Commencing Benefits





Over $300,000 in lost income

Benefits are calculated assuming a $50,000 annual income up until commencement of Social Security Benefits. Also assumes a 3% COLA in Social Security benefits.

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Commencing Benefits

Married individuals can claim Social Security benefits based on

- Personal earnings record, or
- Spouse's earnings record

If electing based on spouse's earnings record

- Spousal benefit is up to 50% of their spouse's Full Retirement Age Social Security benefit
- Cannot claim spousal benefit until the spouse files for benefits

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Commencing Benefits

Survivor Benefits

- Widow receives the higher of own benefit or deceased spouse's benefit
  - Reduced if benefits are commenced prior to Full Retirement Age (FRA)

Divorce

- Spousal benefits available based on ex-spouse's earnings history if the marriage lasted 10 years and have not re-married

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Commencing Benefits

Expected life span of individuals and couples age 65*

50% are expected to live to age:

MEN	85
WOMEN	88
COUPLES (Surviving Spouse)	92

25% are expected to live to age:

MEN	92
WOMEN	94
COUPLES (Surviving Spouse)	97

*Source: U.S. Annuity 2000 Mortality table, Society of Actuaries

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Retirement Earnings Test

$1 For Every	You Earn Above	FRA
$2	$14,640/yr	In calendar years before FRA
$3	$3,240/month	In calendar year prior to FRA

Age	Monthly Benefit	Earned Wages
63	$1,000.00	$30,000.00

Income $15,360 over threshold

- Social Security benefit reduced by $7,680
- Reduction not pro-rated unless requested
  - No benefit check January thru July
    - Would receive $320 in August and full amount beginning in September

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Commencing Benefits

If benefits were reduced due to Retirement Earnings Test, benefits will be recalculated at FRA

- Receive credit for months in which benefits were reduced due to earnings
  - Benefit reductions due to Retirement Earnings Test viewed as if benefits were delayed
  - At FRA, benefit payments are actuarially adjusted so that total benefits are equal

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Social Security Post-Retirement

Taxation of Benefits

Sum of
- Wages
- Taxable Interest
- Tax-Exempt Interest
- Dividends
- Business Income
- Capital Gains
- IRA Distributions
- Taxable Refunds
- Annuity Withdrawals
- Pension Income
- Farm Income
- Rental Income
- Adoption Benefits
- Foreign Earned Income
- ½ of Social Security Benefits

Single or Head of Household
- $25,000 - $34,000: up to 50% taxable
- Above $34,000: up to 85% taxable

Married Filing Jointly
- $32,000 - $44,000: up to 50% taxable
- Above $44,000: up to 85% taxable

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Social Security Post-Retirement

Taxation of Benefits

Conventional Wisdom

$40,000 income **+** $10,000
(½ of Social Security Benefits) **=** $50,000

- 85% of benefits are taxable
- $20,000 x 85% = $17,000 taxable benefits

Actual Calculation

- IRS Publication 915
- Worksheet #1

19 Step worksheet determines that only $11,100 of benefits are taxable

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Strategies to Increase Benefits

- **Withdrawal of Application (within 12 months of filing)**
- **File and Suspend**
- **Restricted Application**

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File and Suspend

- **Increases benefits for couples who retire at different ages**
- **Things to remember**
  - Married couples are eligible for benefits based on their earnings history or their spouse's earnings history
  - You cannot collect on your spouse's earnings history until your spouse files for benefits
  - You can file for benefits and immediately suspend receiving those benefits
  - Spouse who suspends the benefits continues to receive DRC
  - "Suspending" spouse must have reached FRA

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File and Suspend

- **Husband**
  - Age 66
  - Worked entire life
- **Wife**
  - Age 62
  - Was a homemaker and has no earnings history

	Age 62	Age 66	Age 70
Husband's Benefit	$1,618	$2,157	$2,847
Wife's Benefit	$0	$0	$0
Spousal Benefit	**$755**	**$1,079**	**$1,079**

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File and Suspend

- **Husband (currently 66)**
  - Lives to age 85
  - Files and suspends benefits at 66, commences benefits at age 70
- **Wife (currently 62)**
  - Lives to age 90
  - Commences spousal benefits at age 62

	Both Collect at age 62	Both collect at FRA	Both collect at age 70	File and Suspend age 62
Husband's Benefits	$465,912	$517,680	$546,670	$546,670
Wife's Spousal Benefits	$181,188	$207,072	$155,304	$181,188
Wife's Survivor Benefit	$174,717	$232,956	$307,502	$307,502
Total	**$821,817**	**$957,708**	**$1,009,476**	**$1,035,360**

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Restricted Application

- **Increases benefits for couples with their own earnings history but may be retiring at different ages**
- **Things to remember**
  - Individuals can collect spousal benefits and allow their personal earnings history benefits to receive DRC
  - You cannot collect benefits on your spouse's earnings history until your spouse files for benefits

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Restricted Application

- **Husband**
  - Age 66, plans to work to age 70
- **Wife**
  - Age 66, is retiring

	Age 62	Age 66	Age 70
Husband's Benefit	$1,618	$2,157	$2,847
Wife's Benefit	$1,050	$1,400	$1,848
Spousal Benefit (For Husband)		**$700**	

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Restricted Application

- **Husband (currently 66)**
  - Lives to age 85
  - Files for spousal benefits at 66, switches to his benefits at age 70
- **Wife (currently 66)**
  - Lives to age 90
  - Files for benefits at FRA (age 66)

	Both Collect at age 62	Both collect at FRA	Both collect at age 70	Restricted Application
Husband's Benefits	$465,912	$517,680	$546,670	$580,270
Wife's Benefits	$302,400	$336,000	$354,816	$336,000
Wife's Survivor Benefit	$97,065	$129,420	$170,834	$170,834
Total	**$865,377**	**$983,100**	**$1,072,320**	**$1,087,104**

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Summary

- Monitor Social Security Statements
- Evaluate impact of commencement dates on retirement plan
- Review income sources to evaluate options and retirement income flexibility

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