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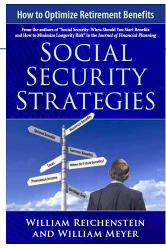
SOCIAL SECURITY STRATEGIES:

OPTIMIZING RETIREMENT BENEFITS



San Antonio
Financial Planning Association
April 19, 2012

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OUTLINE

I. Background
II. Strategies for Singles
III. Strategies for Couples
IV. Delaying Social Security can Lengthen a Financial Portfolio's Longevity
V. Nontraditional Situations and Detailed Rules

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I. BACKGROUND

- Potential Changes in Social Security Promises
- Primary Insurance Amount
- Full Retirement Age
- Calculation of PIA

Potential Changes in
Social Security Promises

Proposed reforms and reforms recommended by *Center for Retirement Research* and others suggest that changes to Social Security benefits from current promises will be, at most, minor for people age 55 or older. Our book and this presentation are best suited to this audience.

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.

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

Full Retirement Age (own & spousal ben)

Year of Birth*	Full Retirement Age (FRA)	Per Month Reduction Benefits If Benefits Begin Prior to Full Retirement Age	Age 62 Benefits as % of PIA	Per Month Delayed Retirement Credit	Age 70 Benefit as % of PIA
1943-54	66	5/9% for 36 mos. + 5/12%/mo.**	75%	2/3%	132%
1955	66 and 2 mos	5/9% for 36 mos. + 5/12%/mo.**	74 1/6%	2/3%	130 2/3%
1956	66 and 4 mos	5/9% for 36 mos. + 5/12%/mo.**	73 1/3%	2/3%	129 1/3%
1957	66 and 6 mos	5/9% for 36 mos. + 5/12%/mo.**	72 ½%	2/3%	128%
1958	66 and 8 mos	5/9% for 36 mos. + 5/12%/mo.**	71 2/3%	2/3%	126 2/3%
1959	66 and 10 mos	5/9% for 36 mos. + 5/12%/mo.**	70 5/6%	2/3%	125 1/3%
1960 or later	67	5/9% for 36 mos. + 5/12%/mo.**	70%	2/3%	124%

**Social Security considers people born on January 1 to have been born in the prior year.*
***The monthly reduction is 5/9% for the first 36 months prior to Full Retirement Age, and 5/12% for every month after the first 36 months.*

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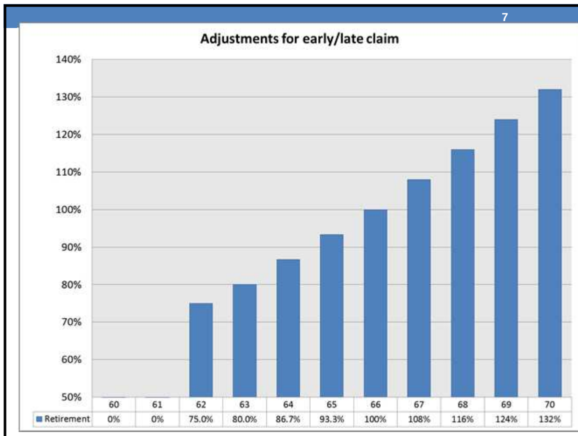

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Calculation of PIA

Primary Insurance Amount is a portion of the worker's **Average Indexed Monthly Earnings** (AIME) for the 35 years of highest earnings, where earnings for years before age 60 are indexed to reflect increases in U.S. workers' average wage level.

For someone born in 1948, PIA equals:

(90% of the first $761 of AIME)
+
(32% of the next $3,825 of AIME)
+
(15% of additional AIME)

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II. STRATEGIES FOR SINGLES

- Two Criteria for Selecting Claiming Strategies
- Key Lesson: Criterion 1
  - Breakeven Dates Refined
  - Maximizing Present Value of Lifetime Benefits
- Claiming Strategy Affects Portfolio Longevity

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Two Criteria for
Selecting Claiming Strategy

Criterion 1: Which starting date for singles or dates for couples will maximize expected cumulative lifetime benefits? (Also, which starting date(s) will maximize the present value of cumulative 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?

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Key Lesson: Criterion 1

Lesson 1: If a single individual lives to age 80, the cumulative lifetime benefits will be approximately the same whether benefits begin at 62, 63, 64, or any age through 70.

- Today, maximizing present value of benefits is essentially the same thing as maximizing cumulative benefits in today's dollars. But it is much easier to explain maximizing cumulative benefits in today's dollars to clients.

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Cumulative Benefits by Starting Age

Ages	70	75	80	85	90	95	100
62	**$144,000**	**$234,000**	$324,000	$414,000	$504,000	$594,000	$684,000
63	$134,400	$230,400	$326,400	$422,400	$518,400	$614,400	$710,400
64	$124,800	$228,801	$332,801	$436,802	$540,802	$644,802	$748,803
65	$112,000	$223,999	$335,999	$447,998	$559,998	$671,998	$783,997
66	$96,000	$216,000	$336,000	$456,000	$576,000	$696,000	$816,000
67	$77,760	$207,360	**$336,960**	$466,560	$596,160	$725,760	$855,360
68	$55,680	$194,880	$334,080	$473,280	$612,480	$751,680	$890,880
69	$29,760	$178,560	$327,360	**$476,160**	$624,960	$773,760	$922,560
70	$0	$158,400	$316,800	$475,200	**$633,600**	**$792,000**	**$950,400**

Primary Insurance Amount is $2,000 with Full Retirement Age of 66. The circled number in each column indicates the highest cumulative lifetime benefit for that age. The standard deviation of the column of numbers is lowest at age 80 (rounded to nearest whole year).

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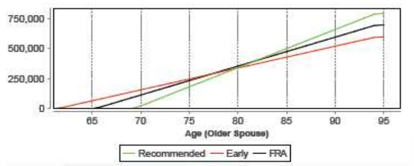
Cumulative Lifetime Benefits

if Begun at 62 (early), 66 (FRA) and 70 (Recommended)



In this example, the difference between early and recommended is **$198,000** based on a PIA of $2,000 with a life expectancy of 95.

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Male with 80 year longevity

Primary (Algorithm recommends)
At 69 he claims $2480=1.24 x 2000 where 1.24 reflects 3 years worth of delayed retirement credits.

Note that the retirement credits are not compound.

Custom (Manually entered "what if?")
At 62 he claims $1500=0.75 x 2000

Difference column reflects cumulative annual benefits from Custom Strategy minus Primary Strategy.

In this case, 69 vs. 62 is a wash.

Primary Strategy | Custom Strategy 1 | Compare | Summary

Compare: Primary Strategy vs. Custom Strategy 1 — Print Comparison

Go to Full Comparison Table

Joe's age	Primary Strategy Joe $2,000 PIA	Custom Strategy 1 Joe $2,000 PIA	Difference (PS vs CS1)
62	$0	$1,500	$18,000
63	$0	$1,500	$36,000
64	$0	$1,500	$54,000
65	$0	$1,500	$72,000
66	$0	$1,500	$90,000
67	$0	$1,500	$108,000
68	$0	$1,500	$126,000
69	$2,480	$1,500	$114,240
70	$2,480	$1,500	$102,480
71	$2,480	$1,500	$90,720
72	$2,480	$1,500	$78,960
73	$2,480	$1,500	$67,200
74	$2,480	$1,500	$55,440
75	$2,480	$1,500	$43,680
76	$2,480	$1,500	$31,920
77	$2,480	$1,500	$20,160
78	$2,480	$1,500	$8,400
79	$2,480	$1,500	-$3,360
80	$0	$0	-$3,360

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www.SSanalyzer.com
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Breakeven Dates Refined

Beginning Dates	Breakeven Ages
62 versus 63	78
63 versus 64	76
64 versus 65	78
65 versus 66	80
66 versus 67	79.5
67 versus 68	81.5
68 versus 69	83.5
69 versus 70	85.5
62 versus 66	78
66 versus 70	82.5
62 versus 70	80.5

The "62 versus 63" of 78 means that the breakeven age for delaying beginning benefits from age 62 to 63 is age 78. Therefore, if the individual lives past 78 then cumulative lifetime benefits will be higher by delaying benefits from age 62 to 63. The table assumes a Full Retirement Age of 66.

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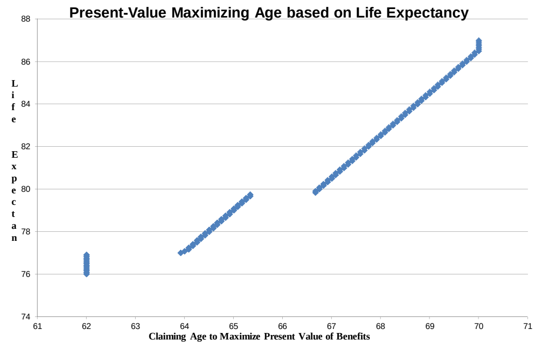
Maximizing Present Value of Benefits



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III. STRATEGIES FOR COUPLES

- **Rules Governing Spousal Benefits**
- **Rules Governing Survivor's Benefits**
- **Lessons 2 and 3**
- **Couple's Examples**

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Rules Governing Spousal Benefits

1. Dual entitlement: She is entitled to the larger of benefits based on her earnings record or, if eligible, spousal benefits, which is up to 50% of her husband's Primary Insurance Amount.
2. Both spouses cannot receive spousal benefits at the same time.
3. In order for her to receive spousal benefits, her husband must have "filed for benefits based on his earnings record." For example, suppose she wants to file for spousal benefits based on his earnings record. For her to be eligible for spousal benefits, he must 1) already be receiving benefits based on his earnings record, or 2) once he reaches FRA, he can file for his own benefits and immediately suspend them – that is, he can **file and suspend**.
4. If she applies for benefits before attaining Full Retirement Age (FRA), she is "deemed" to be applying for both her own benefits, and if eligible, spousal benefits. Her own retirement benefits and spousal benefits are calculated separately and added together.
5. After attaining FRA or later, she can apply for spousal benefits only, if eligible, and later switch to her own benefits, or vice versa.
6. If she has attained FRA (and her husband has filed), then her spousal benefit is 50% of his PIA.
7. If she has not attained FRA (and her husband has filed), her spousal benefits are reduced by 25/36% for each of the first 36 months and by 5/12% for each additional month that benefits are begun before she attains FRA.

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Spousal Benefits

Jane's Age	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
62	$740		$600	$600		
63	740	$790	750	600		
64	740	790	750	600		
65	740	790	750	600		
66	740	790	750	800	$1,000	
67-69	740	790	750	800	1,000	$1,000
70	740	790	750	800	1,056	1,056

Jane is 62 with a Primary Insurance Amount of $800, while her husband is 65 with a PIA of $2,000. This table shows how her monthly benefits would vary depending upon when she begins benefits and, if not originally eligible for spousal benefits, when she applies for spousal benefits. Both have FRAs of 66.

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Spousal Cases

- **Case 1**: *If he has already begun benefits,* she can apply for benefits today. Since she is younger than FRA, she is "deemed" to be applying for both her own retirement benefits and spousal benefits. At 62, her retirement benefit is $600, [75%x$800], and her spousal benefit is $140, [70%x($1000-800)]. She receives $740 a month.
- **Case 2**: He has not already begun benefits. One year hence at his FRA, he files and suspends benefits based on his earnings record. If she files at age 63, she is "deemed" to be applying for both her own retirement benefits and spousal benefits. At 63, her retirement benefit is $640, [80%x$800], and her spousal benefit is $150, [75%x($1000-800)]. She receives $790 a month.
- **Case 3**: She files today at 62. Since he has not filed for benefits, she in not yet eligible for spousal benefits. Today, she begins her own benefits of $600 a month as explained in Case 1. In one year, he files and suspends, making her eligible for spousal benefits. She files for spousal benefits at age 63 and receives $750 = $600 her own benefits at 62 + 0.75($1000 - $800) additional spousal benefit at 63. The 0.75 is her spousal benefits fraction at 63.

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Continued

•**Case 4**: Like Case 3, she files today at 62. Since she in not yet eligible for spousal benefits, she begins benefits based on her earnings record of $600 a month. In one year, he files and suspends, making her eligible for spousal benefits. However, unlike in Case 3, she defers spousal benefits until she turns FRA. At FRA, she begins spousal benefits and receives $800 = $600 her own benefits at 62 + ($1,000 - $800) additional spousal benefits at FRA. In short, as in Case 3 she may switch to spousal benefits when he files and suspends his benefits, but as in Case 4 she may also delay the switch to spousal benefits until a later date, which would likely be at her FRA.
•**Case 5**: If she waits until she is FRA (66) (and he has filed), she can file a special application for spousal benefits only and receive $1,000 a month, [50% x $2,000]. At 70, she can switch to her own benefits of $1,056, [132%x$800].
•**Case 6**: If she waits until she is 67 (and he has filed), can file a special application for spousal benefits only and receive $1,000 a month, [50%x $2,000]; that is, spousal benefits do not receive delayed retirement credits. At 70, she can switch to her own benefits of $1,056, [132%x$800].

Rules Governing Survivor's Benefits

You are entitled to survivor's (a.k.a., widow(er)'s) benefit if

- You are age 60 or over
- You are not **entitled** to a retirement insurance benefit that is equal to or larger than the worker's primary insurance amount
- You did not remarry before age 60
- The worker died fully insured
- You were married to the deceased worker for at least the nine months just before the worker died
- You have filed an application for widow(er)'s insurance benefits (You must file to be **entitled** to benefits, but you may be eligible for benefits even if you have not filed for benefits.)

What is the widow(er)'s benefit rate?

- The widow(er)'s insurance benefit rate equals the monthly benefit amount that the decedent was receiving with a minimum of 82.5% of the decedent's PIA in those cases when an early claim by the decedent resulted in a benefit amount less than that.
  - Any increase to his/her benefit amount due to delayed retirement credits also accrues to the survivor.

Widow(er)'s benefit reduction for early claim

- The amount of the reduction for each month is derived by dividing 28.5% by the number of possible months of early retirement.
- A person whose FRA is age 66 could be entitled up to 72 months before FRA (at age 60). If FRA is 66 years and two months then the monthly reduction is 28.5% divided by 74.

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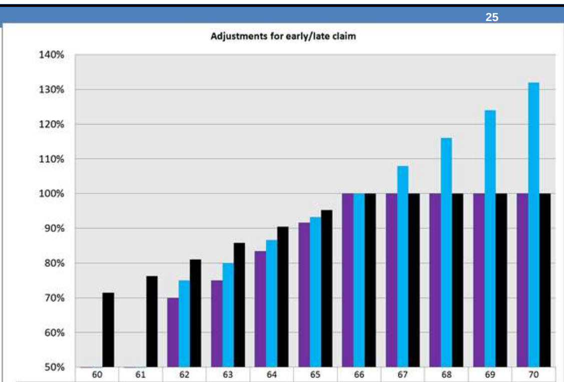

	60	61	62	63	64	65	66	67	68	69	70
Spousal	0%	0%	70%	75%	83%	92%	100%	100%	100%	100%	100%
Retirement	0%	0%	75.0%	80.0%	86.7%	93.3%	100%	108%	116%	124%	132%
Widow(er)	72%	76%	81%	86%	91%	95%	100%	100%	100%	100%	100%

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Lessons 2 and 3

Lesson 2: The relevant life expectancy for the decision of when the spouse with the higher PIA should begin benefits based on his 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 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 he delays benefits based on his record until age 70.

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Couple's Examples

Inputs for Couple's Example 1

- Frances is 58 with a Primary Insurance Amount of $1,600, while Mike, her husband, is 62 with a PIA of $2,000.
- Mike is expected to die at age 80 (i.e., in the month of his 80th birthday) and she is expected to die at age 95.
- For simplicity, we assumed they were each born on January 2 of their birth years, so their benefits will begin in January even if benefit begin at age 62.

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Couple's Example 1

Frances/Mike's Ages	Year	Strategy 1	Strategy 2	Difference (S2 – S1)	Wash	Gravy
58/62	1	$1500		-$1500	-$1500	
59/63	2	1500		-1500	-1500	
60/64	3	1500		-1500	-1500	
61/65	4	1500		-1500	-1500	
62/66	5	1200 + 1500	$1200 + 800	-700	-1500	$800
63/67	6	1200 + 1500	$1200 + 800	-700	-1500	$800
64/68	7	1200 + 1500	$1200 + 800	-700	-1500	$800
65/69	8	1200 + 1500	$1200 + 800	-700	-1500	$800
66/70	9	1200 + 1500	1200 + 2640	1140	1140	
67/71	10	1200 + 1500	1200 + 2640	1140	1140	
…	…	…	…	…	…	…
75/79	18	1200 + 1500	1200 + 2640	1140	1140	
76/	19	1650	2640	990		990
77/	20	1650	2640	990		990
78/	21	1650	2640	990		990
…	…	…	…	…	…	…
94/	37	1650	2640	990		9940
Cum Lifetime Benefits		$901,800	$1,158,720	$257,040	-$7,200	$264,240

Frances is 58 with a Primary Insurance Amount of $1,600 and Mike is 62 with a PIA of $2,000. He dies at age 80 (i.e., in the month of his 80th birthday) and she dies at 95. The Difference column reflects monthly benefits in Strategy 2 less monthly benefits in Strategy 1.

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Explanation of Benefit Amounts

- In Strategy 1, Mike begins his benefits at 62 of $1,500 a month. Four years later, Frances begins her benefits at $1,200 a month. After Mike's death, Frances receives $1,650 a month, which reflects a little-known rule that says Frances receives Mike's $1,500 or 82.5% of his PIA.
- In Strategy 2, Frances begins her benefits at 62 of $1,200 and Mike files a restricted application for spousal benefits only of $800, half of her PIA. At 70, Mike switches to his benefits of $2,400 a month. After Mike's death, Frances receives $2,640 a month.
- Strategy 2 is expected to provide $264,240 more in benefits.

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Lessons from Couples Ex. 1

- "Wash" Column reflects Lesson 1.
- "Gravy" Column represents the approximate additional cumulative lifetime benefits from Strategy 2 compared to Strategy 1.
- Mike's $800 a month in spousal benefits from his FRA through age 69 is called claim-now-and-more-later advantage.
- The additional $990 a month beginning when Mike dies until the second partner dies, in this case Frances, when she turns 95 is called the joint-lives advantage.
- This example illustrates Lessons 2 and 3.

Low Ratio Couple (Low PIA/High PIA)

Strategy: Since both are expected to live beyond mid 80's, Joe delays.

Primary (Algorithm recommends)
Joe earns 4 years of 8% DRCs and claims $2640=2000 x 1.32 at 70.

At 66 Sue claims a full spousal benefit of $1000=2000/2 (50% of Joe's PIA).

Custom (Manually entered what if?)
At 63 Joe claims a reduced benefit of $1600=2000x0.80

At 63 **Sue** is deemed to be filing for both her own retirement + a spousal. She receives 80% of her own + 75% of the spousal. $775=(0.80 x 500)+0.75 x ((2000/2)-500).

After Joe's death Sue receives the greater of Joe's benefit or 82.5% of his $2000 PIA. Since he was receiving 80% of his PIA she receives 82.5%.

The Primary Strategy provides $170K more. $71K is in the form of increased survivor benefits

Primary Strategy | Custom Strategy 1 | Compare | Summary 31

Compare: Primary Strategy vs. Custom Strategy 1 — Print Compariso

Go to Full Comparison Table

Joe's age	Sue's age	Primary Strategy: Joe $2,000 PIA	Primary Strategy: Sue $500 PIA	Custom Strategy 1: Joe $2,000 PIA	Custom Strategy 1: Sue $500 PIA	Difference (PS vs CS1)
62	59	$0	$0	$0	$0	$0
63	60	$0	$0	$1,600	$0	$19,200
64	61	$0	$0	$1,600	$0	$38,400
65	62	$0	$0	$1,600	$0	$57,600
66	63	$0	$0	$1,600	$775	$86,100
67	64	$0	$0	$1,600	$775	$114,600
68	65	$0	$0	$1,600	$775	$143,100
69	66	$0	$1,000	$1,600	$775	$159,600
70	67	$2,640	$1,000	$1,600	$775	$144,420
71	68	$2,640	$1,000	$1,600	$775	$129,240
72	69	$2,640	$1,000	$1,600	$775	$114,060
73	70	$2,640	$1,000	$1,600	$775	$98,880
74	71	$2,640	$1,000	$1,600	$775	$83,700
75	72	$2,640	$1,000	$1,600	$775	$68,520
86	83	$2,640	$1,000	$1,600	$775	-$98,460
87	84	$0	$2,640	$0	$1,650	-$110,340
88	85	$0	$2,640	$0	$1,650	-$122,220
89	86	$0	$2,640	$0	$1,650	-$134,100
90	87	$0	$2,640	$0	$1,650	-$145,980
91	88	$0	$2,640	$0	$1,650	-$157,860
92	89	$0	$2,640	$0	$1,650	-$169,740
93	90	$0	$0	$0	$0	-$169,740

Medium Ratio Couple (Low PIA/High PIA) Both have FRAs of 67

Strategy: Since both are expected to live beyond mid 80's, Joe delays.

Primary (Algorithm recommends)
Note that Sue can not grow her own benefit to exceed her spousal benefit. That is, 900>(700 x 1.24) where 1.24 reflects 3 years of DRCs.

In this case only Joe delays his claim

There are two options for Sue while growing Joe's retirement: 1) Sue can claim a spousal benefit of $900 or 2) she can claim her own benefit of $700 + Joe can claim a spousal of $350= 0.50 x $700. The second option provides $150/mo. more.

At 67 Sue claims her own retirement of $700

At 67 Joe files a restricted application for spousal benefits and receives $350=0.50 x 700

Joe earns 3 years of 8% DRCs and claims $2232=2000 x 1.24 at 70.

At 70 Sue claims her spousal benefit and receives $900= 0.50 x $1800

The Primary Strategy provides $70k more

Primary Strategy | Custom Strategy 1 | Compare | Summary 32

Compare: Primary Strategy vs. Custom Strategy 1 — Print Comparison

Go to Full Comparison Table

Joe's age	Sue's age	Primary Strategy: Joe $1,800 PIA	Primary Strategy: Sue $700 PIA	Custom Strategy 1: Joe $1,800 PIA	Custom Strategy 1: Sue $700 PIA	Difference (PS vs CS1)
62	62	$0	$0	$0	$0	$0
63	63	$0	$0	$0	$0	$0
64	64	$0	$0	$0	$0	$0
65	65	$0	$0	$0	$0	$0
66	66	$0	$0	$0	$0	$0
67	67	$350	$700	$1,800	$900	$6,750
68	68	$350	$700	$1,800	$900	$26,550
69	69	$350	$700	$1,800	$900	$46,350
70	70	$2,232	$900	$1,800	$900	$57,822
71	71	$2,232	$900	$1,800	$900	$52,638
72	72	$2,232	$900	$1,800	$900	$47,454
73	73	$2,232	$900	$1,800	$900	$42,270
74	74	$2,232	$900	$1,800	$900	$37,086
75	75	$2,232	$900	$1,800	$900	$31,902
89	89	$2,232	$900	$1,800	$900	-$40,674
90	90	$2,232	$900	$1,800	$900	-$45,858
91	91	$2,232	$900	$1,800	$900	-$51,042
92	92	$2,232	$900	$1,800	$900	-$56,226
93	93	$2,232	$900	$1,800	$900	-$61,410
94	94	$2,232	$900	$1,800	$900	-$66,594
95	95	$2,232	$2,232	$1,800	$1,800	-$70,482

Medium Ratio Couple (Low PIA/High PIA)

Joe is six years older than Sue. Since both are expected to live beyond age 80 Joe delays. Sue begins her benefits ASAP since her benefit will be replaced by a widow's benefit at age 79.

Primary (Algorithm recommends)
At 62 Sue claims an early retirement benefit and receives $440=0.75 x 600

At 66 Joe files a restricted application for a spousal benefit and receives $300=0.50 x 600

Joe earns 4 years of 8% DRCs and claims $2640=1.32 x 2000 at 70.

At 64 Sue adds a spousal benefit of $322=0.806 x ((2000/2)-600) to her $440 retirement benefit and receives $762

After Joe's death Sue receives his benefit of $2640

Custom (Manually entered what if?)
At 66 Joe claims his full retirement benefit of $2000

At 66 **Sue** claims a full spousal benefit of $1000

After Joe's death Sue receives $2000 as a widow's benefit.

The Primary Strategy provides $68,000 more. $46K is in the form of increased survivor benefits.

Primary Strategy | Custom Strategy 1 | Compare | Summary 3

Compare: Primary Strategy vs. Custom Strategy 1 — Print Comparison

Go to Full Comparison Table

Joe's age	Sue's age	Primary Strategy: Joe $2,000 PIA	Primary Strategy: Sue $600 PIA	Custom Strategy 1: Joe $2,000 PIA	Custom Strategy 1: Sue $600 PIA	Difference (PS vs CS1)
62	56	$0	$0	$0	$0	$0
63	57	$0	$0	$0	$0	$0
64	58	$0	$0	$0	$0	$0
65	59	$0	$0	$0	$0	$0
66	60	$0	$0	$2,000	$0	$24,000
67	61	$0	$0	$2,000	$0	$48,000
68	62	$300	$440	$2,000	$0	$63,120
69	63	$300	$440	$2,000	$0	$78,240
70	64	$2,640	$762	$2,000	$0	$61,416
71	65	$2,640	$762	$2,000	$0	$44,592
72	66	$2,640	$762	$2,000	$1,000	$35,768
73	67	$2,640	$762	$2,000	$1,000	$30,944
74	68	$2,640	$762	$2,000	$1,000	$26,120
75	69	$2,640	$762	$2,000	$1,000	$21,296
83	77	$2,640	$762	$2,000	$1,000	-$17,296
84	78	$2,640	$762	$2,000	$1,000	-$22,120
85	79	$0	$2,640	$0	$2,000	-$29,800
86	80	$0	$2,640	$0	$2,000	-$37,480
87	81	$0	$2,640	$0	$2,000	-$45,160
88	82	$0	$2,640	$0	$2,000	-$52,840
89	83	$0	$2,640	$0	$2,000	-$60,520
90	84	$0	$2,640	$0	$2,000	-$68,200
91	85	$0	$0	$0	$0	-$68,200

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Medium Ratio Couple (Low PIA/High PIA)

Strategy: Since both are expected to live beyond mid 80's, both delay. She grows her retirement benefit while claiming a spousal

Primary (Algorithm recommends)
Joe earns 4 years of 8% DRCs and claims $2640=1.32 x 2000 at 70.

At 66 Sue claims a full spousal benefit of $1000=2000/2 (50% of Joe's PIA).

At 70 Sue switches to her own retirement benefit of $1294=1.32 x 980

Custom (Manually entered what if?)
At 63 **Joe** claims a reduced benefit of $1600=0.80 x 2000

At 63 **Sue** is deemed to be filing for both her own retirement + a spousal. She receives 80% of her own + 75% of the spousal:
$799=(0.80 x 980)+0.75 x ((2000/2)-980).

After Joe's death Sue receives the greater of Joe's benefit or 82.5% of his $2000 PIA. Since he was receiving 80% of his PIA she receives 82.5%.

The Primary Strategy provides $213K more. One third of the increase is due to increased survivor benefits.

Primary Strategy | Custom Strategy 1 | Compare | Summary

Compare: Primary Strategy vs. Custom Strategy 1 | Print Compariso

Go to Full Comparison Table

Joe's age	Sue's age	Primary Strategy		Custom Strategy 1		Difference (PS vs CS1)
		Joe $2,000 PIA	Sue $980 PIA	Joe $2,000 PIA	Sue $980 PIA	
62	59	$0	$0	$0	$0	$0
63	60	$0	$0	$1,600	$0	$19,200
64	61	$0	$0	$1,600	$0	$38,400
65	62	$0	$0	$1,600	$0	$57,600
66	63	$0	$0	$1,600	$799	$86,388
67	64	$0	$0	$1,600	$799	$115,176
68	65	$0	$0	$1,600	$799	$143,964
69	66	$0	$1,000	$1,600	$799	$160,752
70	67	$2,640	$1,000	$1,600	$799	$145,860
71	68	$2,640	$1,000	$1,600	$799	$130,968
72	69	$2,640	$1,000	$1,600	$799	$116,076
73	70	$2,640	$1,294	$1,600	$799	$97,656
74	71	$2,640	$1,294	$1,600	$799	$79,236
75	72	$2,640	$1,294	$1,600	$799	$60,816
86	83	$2,640	$1,294	$1,600	$799	-$141,804
87	84	$0	$2,640	$0	$1,650	-$153,684
88	85	$0	$2,640	$0	$1,650	-$165,564
89	86	$0	$2,640	$0	$1,650	-$177,444
90	87	$0	$2,640	$0	$1,650	-$189,324
91	88	$0	$2,640	$0	$1,650	-$201,204
92	89	$0	$2,640	$0	$1,650	-$213,084
93	90	$0	$0	$0	$0	-$213,084

3

Sensitivity analysis

Same case. What if she claimed at 65 instead of 66?

Below FRA she can not file a restricted application for spousal benefits.

She can file for her own retirement , or he can file and suspend and she can claim her own retirement and a spousal benefit.

She loses the opportunity to grow her own retirement benefit.

Here he files and suspends and she files for her own retirement and a spousal and receives $933=(0.93 x 980)+0.916 x ((2000/2)-980).

Claiming one year early costs $53K over a lifetime.

Primary Strategy | Custom Strategy 1 | Compare | Summary

Compare: Primary Strategy vs. Custom Strategy 1 | Print Compariso

Go to Full Comparison Table

Joe's age	Sue's age	Primary Strategy		Custom Strategy 1		Difference (PS vs CS1)
		Joe $2,000 PIA	Sue $980 PIA	Joe $2,000 PIA	Sue $980 PIA	
62	59	$0	$0	$0	$0	$0
63	60	$0	$0	$0	$0	$0
64	61	$0	$0	$0	$0	$0
65	62	$0	$0	$0	$0	$0
66	63	$0	$0	$0	$0	$0
67	64	$0	$0	$0	$0	$0
68	65	$0	$0	$0	$933	$11,196
69	66	$0	$1,000	$0	$933	$10,392
70	67	$2,640	$1,000	$2,640	$933	$9,588
71	68	$2,640	$1,000	$2,640	$933	$8,784
72	69	$2,640	$1,000	$2,640	$933	$7,980
73	70	$2,640	$1,294	$2,640	$933	$3,648
74	71	$2,640	$1,294	$2,640	$933	-$684
75	72	$2,640	$1,294	$2,640	$933	-$5,016
85	82	$2,640	$1,294	$2,640	$933	-$48,336
86	83	$2,640	$1,294	$2,640	$933	-$52,668
87	84	$0	$2,640	$0	$2,640	-$52,668
88	85	$0	$2,640	$0	$2,640	-$52,668
89	86	$0	$2,640	$0	$2,640	-$52,668
90	87	$0	$2,640	$0	$2,640	-$52,668
91	88	$0	$2,640	$0	$2,640	-$52,668
92	89	$0	$2,640	$0	$2,640	-$52,668
93	90	$0	$0	$0	$0	-$52,668

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Sensitivity analysis

Same case. What if he claimed at 69 instead of 70?

He would receive $2480=1.24 x 2000. The 1.24 reflects 3 years of 8% DRCs.

Joe claiming one year early has much less effect on the outcome.

Primary Strategy | Custom Strategy 1 | Compare | Summary

Compare: Primary Strategy vs. Custom Strategy 1 | Print Compariso

Go to Full Comparison Table

Joe's age	Sue's age	Primary Strategy		Custom Strategy 1		Difference (PS vs CS1)
		Joe $2,000 PIA	Sue $980 PIA	Joe $2,000 PIA	Sue $980 PIA	
62	59	$0	$0	$0	$0	$0
63	60	$0	$0	$0	$0	$0
64	61	$0	$0	$0	$0	$0
65	62	$0	$0	$0	$0	$0
66	63	$0	$0	$0	$0	$0
67	64	$0	$0	$0	$0	$0
68	65	$0	$0	$0	$0	$0
69	66	$0	$1,000	$2,480	$1,000	$29,760
70	67	$2,640	$1,000	$2,480	$1,000	$27,840
71	68	$2,640	$1,000	$2,480	$1,000	$25,920
72	69	$2,640	$1,000	$2,480	$1,000	$24,000
73	70	$2,640	$1,294	$2,480	$1,294	$22,080
74	71	$2,640	$1,294	$2,480	$1,294	$20,160
75	72	$2,640	$1,294	$2,480	$1,294	$18,240
87	84	$0	$2,640	$0	$2,480	-$4,800
88	85	$0	$2,640	$0	$2,480	-$6,720
89	86	$0	$2,640	$0	$2,480	-$8,640
90	87	$0	$2,640	$0	$2,480	-$10,560
91	88	$0	$2,640	$0	$2,480	-$12,480
92	89	$0	$2,640	$0	$2,480	-$14,400
93	90	$0	$0	$0	$0	-$14,400

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IV. DELAYING SOCIAL SECURITY CAN LENGTHEN A PORTFOLIO'S LONGEVITY

- If we begin with an above-average investment horizon (e.g., 30 years) then delaying Social Security benefits would lengthen the portfolio's longevity.
- For clients with modest financial wealth, the additional longevity can be substantial (e.g., over 10 years in some cases). For clients with substantial financial wealth, the additional longevity is much smaller (e.g., perhaps 1 year for someone with $3 million in financial assets).

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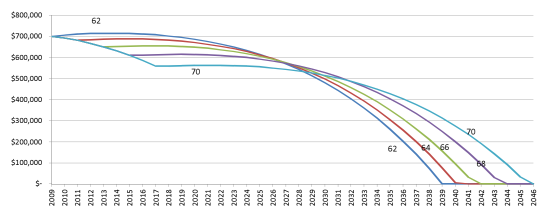
Claiming Strategy
Affects Portfolio's Longevity



The larger the Social Security benefit, the less that must be withdrawn from financial portfolio and the longer the portfolio will last.
From Meyer and Reichenstein, "Social Security: When to Start Benefits and How to Minimize Longevity Risk," *Journal of Financial Planning*, March 2010.

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NONTRADITIONAL SITUATIONS AND DETAILED RULES YOU SHOULD KNOW

- Children's Benefits
- Strategies for a Divorced Spouse
- Strategies when One Spouse Receives a Pension from Work not Covered by Social Security
- Strategies when One Spouse Started Benefits Early
- Earnings Test
- Taxation of Social Security Benefits
- Timing Issues Affecting Eligibility for and Timing of Payments

Brief Discussion

Prior discussion assumed nontraditional situations did not apply. There were:

- No children's benefits
- No divorced spouse's benefits
- No pension from job not covered by SS
- Neither spouse has begun benefits
- Earnings test does not apply
- No disability benefits

These nontraditional situations can affect the optimal claiming strategy.

Pension from Job not Covered by SS

- Individuals who receive a pension from work not covered by Social Security will have their Social Security benefits reduced. These individuals include police officers, firefighters, teachers as well as employees of federal, state, or local government agencies.
- The **Windfall Elimination Provision** applies to *benefits based on the worker's earnings record* when he or she also receives pension benefits from an employer that does not withhold Social Security taxes.
- The **Government Pension Offset** applies to *spousal benefits or survivor's benefits* for widows and widowers.
- The estimate of Social Security benefits from SSA calculator may substantially overstate an affected worker's projected Social Security benefits in these circumstances.

Earnings Tests

- In years before reaching FRA, Social Security benefits are reduced by $1 for every $2 of earned income above $14,640 (in 2012).
- In the year someone reaches FRA, benefits may be reduced by $1 for every $3 of earned income above $38,880 (in 2012).
- After reaching FRA, individuals can receive full benefits with no limit on earnings.
- At FRA, SSA adjusts reduction from PIA by eliminating from reduction period months the retiree received no or reduced benefits before attaining FRA.

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Summary

Two Criteria: Individuals and couples should consider two criteria when deciding when to begin Social Security benefits. They want to 1) maximize expected cumulative lifetime benefits and 2) minimize longevity risk.

Lesson 1: If a single individual lives to age 80, the cumulative lifetime benefits will be approximately the same whether benefits begin at 62, 63, 64, or any age through 70.

Lesson 2:The relevant life expectancy for the decision of when the spouse with the higher PIA should begin benefits based on his 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 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 he delays benefits based on his record until age 70.

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Summary

- Delaying Social Security benefits can extend the longevity of the financial portfolio. In general, the larger the taxpayer's financial wealth the smaller is the longevity gain from delaying benefits. That is, two criteria are important when deciding on a claiming strategy.
- The complex rules governing spousal and survivor's benefits can change a couple's optimal claiming strategy.
- It is important to learn nontraditional situations affecting divorcee's benefits; how pensions from work not covered by Social Security affect benefits; when one spouse already began benefits. These and other nontraditional situations are not unusual.
- Earnings test can affect Social Security benefits received before someone attains Full Retirement Age.

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- *Contact Bill Meyer - (913) 766-7083 or wmeyer@socialsecuritysolutions.com*