

A photograph of an older couple with white hair, smiling and looking at each other. They are in the back of a car, with the man's arm around the woman. The background is bright and out of focus.

# Social Security and YOUR RETIREMENT

*Knowing the rules of the road*



Presented by:

**Truliant Credit Union,  
Mark Vaughan**

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# Workshop Objectives



- 1 Review the value of Social Security
- 2 Discuss the “rules of the road” for receiving Social Security benefits
- 3 Consider possible routes to take to maximize your benefits
- 4 Discuss the future of Social Security and the challenge of setting up a retirement income stream
- 5 Describe the retirement income planning process available through your financial institution
- 6 Review next steps

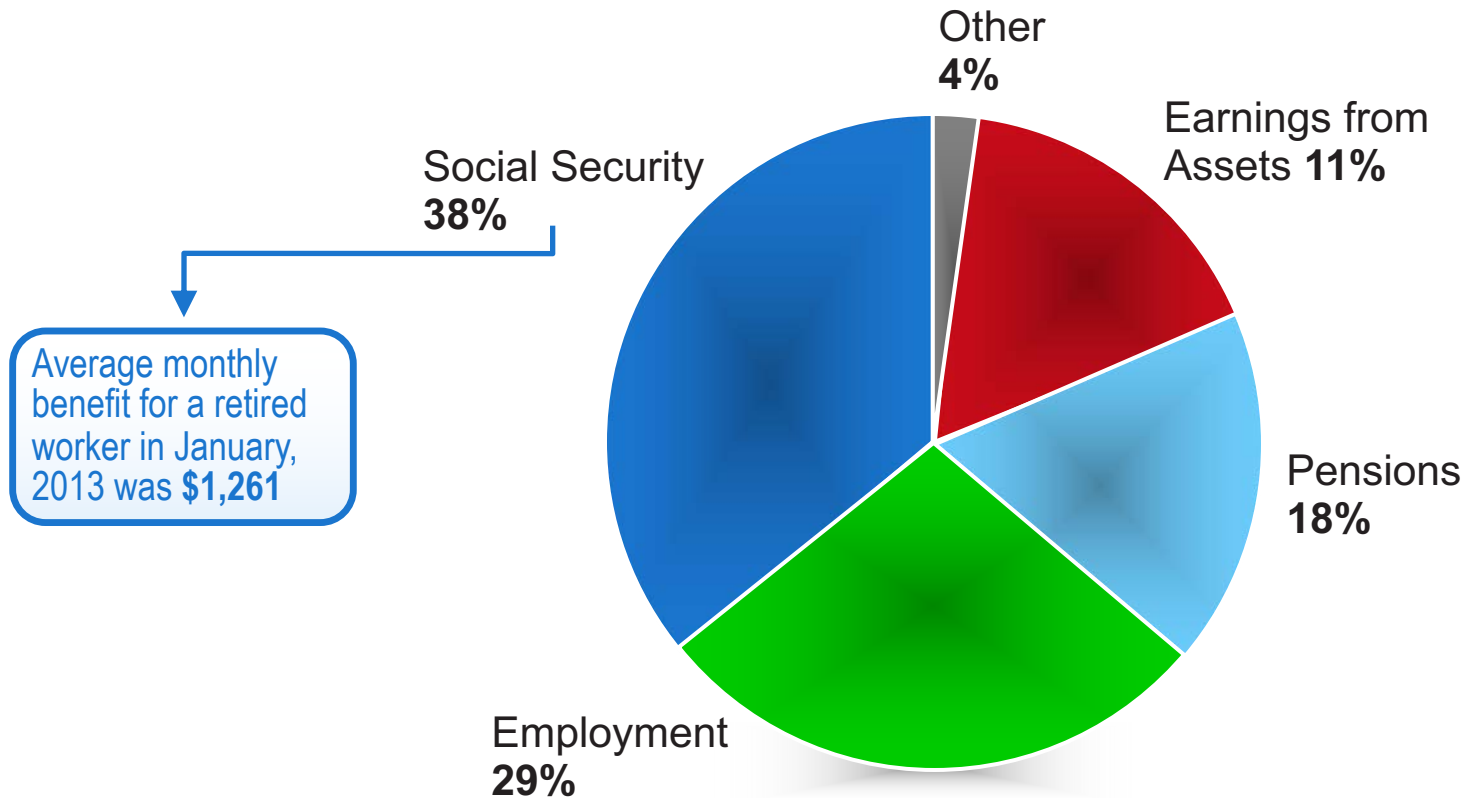
# The Beginning of Social Security



- Established in 1935 during the Great Depression
- Designed to help alleviate the problems of poverty for seniors



# Retirement Income Sources



# Need for a Better Understanding



- Roughly 70% of all retirees are receiving reduced Social Security benefits
- Only 66% of workers remember ever receiving or reviewing a Social Security statement
- Only about 33% of employees visit with a financial professional for help understanding the role of their Social Security benefits



# Value of Social Security



**Pre-determined  
steady income**

1

**Income you can't  
outlive**

2

**Annual inflation  
adjustments**

3

**Spousal and  
survivor benefits**

4

**Social Security  
Benefits**

# Income for Life



Chart assumes \$2,000  
monthly payments



# Inflation Adjustments



Assumes annual cost-of-living  
adjustments of 2.8%

**\$2,000**  
per  
month

**Start**

**\$2,636**  
per  
month

**10 years**

**\$3,474**  
per  
month

**20 years**

**\$4,580**  
per  
month

**30 years**

# 1. Eligibility



- You become eligible for Social Security benefits by working in a Social Security-covered job for a minimum of 10 years
- The typical threshold is that you must have **40 credits** to be eligible – you accumulate 4 credits a year by earning a minimum dollar amount at your job
- In general, once you have 40 credits you are insured under Social Security
- Remember that your benefit amount is not based on credits, though, but your earnings history

# Funding for Benefits

- *Where does the funding come from to pay out benefits?*



YOU!

- Social Security benefits are funded by payroll taxes of 6.2% paid each year by employees and employers (employee rate was reduced to 4.2% for 2012)
- Taxes are paid on earnings up to the taxable wage base for 2013 of \$113,700
- 85 cents of every Social Security tax dollar goes to a trust fund that pays benefits to current retirees and their survivors and families – the other 15 cents pays benefits to those with disabilities

## 2. Your Insurance Amount

- Benefit formula first takes your 35 highest years of earnings and fills in any missing years with \$0
- It adjusts or “indexes” those earnings for inflation, and then divides by 35 to get an average
- It divides again by 12 to calculate your Average Indexed Monthly Earnings (AIME)
- Then a 3-part formula is applied to your AIME to determine your Primary Insurance Amount (PIA)



### 3. Full Retirement Age



Year of Birth	Full Retirement Age
1937 and prior	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
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

Those born on January 1 should use the full retirement age for the previous year.

## 4. Start Date

- ❖ Anyone can start receiving benefits as early as age 62
- ❖ But if you do start before your full retirement age, your benefit will be reduced
- ❖ And that **reduction** will continue for life ... your benefit won't go up once you reach full retirement age

Full benefits available if you wait until **full retirement age**



62

~~Early Retirement~~

# Early Retirement

- For example, if you were born between 1943 and 1954 your benefit would be reduced by less the closer you get to your full retirement age of 66
- Let's assume our \$2,320 PIA at full retirement age from the earlier example:

START AGE	PERCENTAGE APPLIED TO PIA	REDUCED LIFETIME BENEFIT
62	75.0%	\$1,740
63	80.0%	\$1,856
64	86.7%	\$2,011
65	93.3%	\$2,166
66	100.0%	\$2,320

# Delaying Retirement



- If you delay the onset of Social Security benefits past full retirement age, you earn **delayed credits**
- Delayed credits increase your benefit by 8% per year
- You can earn delayed credits up to age 70; after that no further credits can be earned

# Delayed Retirement Credits



- For example, if you were born between 1943 and 1954 your benefit would be increased more for each year you delay the start of benefits after full retirement age
- Let's again assume our \$2,320 PIA at full retirement age:

START AGE	PERCENTAGE APPLIED TO PIA	INCREASED LIFETIME BENEFIT
66	100%	\$2,320
67	108%	\$2,506
68	116%	\$2,691
69	124%	\$2,877
70	132%	\$3,062

# Estimating Your Benefit

Review your own annual Social Security statement

Go to [www.ssa.gov](http://www.ssa.gov) and click on “Estimate Your Retirement Benefits”

Or use one of the more detailed calculators on the [www.ssa.gov](http://www.ssa.gov) site for a more precise estimate



## 5. Spousal Benefits



- Your spouse is entitled to receive up to 50% of your benefit
- Your spouse would still claim their own benefit if it was higher than their spousal benefit

**\$2,000**  
per month

**\$400**  
per month

**\$800**  
per month

**\$1,000**  
per month

Ted's personal  
benefit

Ted's spousal benefit  
(50% of Sarah's benefit)

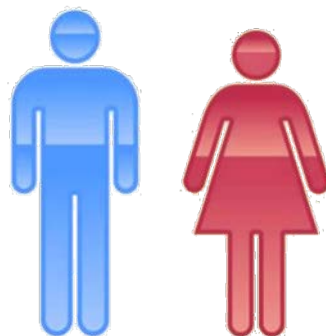
Sarah's personal  
benefit

Sarah's spousal benefit  
(50% of Ted's benefit)

# Rules for Spousal Benefits



- Spouse receives higher of own benefit or spousal benefit
- Primary worker must have applied for benefits before spouse can claim spousal benefits
  - > Primary worker can claim and then suspend if over full retirement age to allow spouse to receive spousal benefits
  - > If primary worker does claim and suspend, they can then earn delayed credits
- Same age rules apply when receiving spousal benefits – spouse must be at least 62 for reduced benefits or full retirement age for full benefits
- No opportunity for delayed retirement credits on a spousal benefit



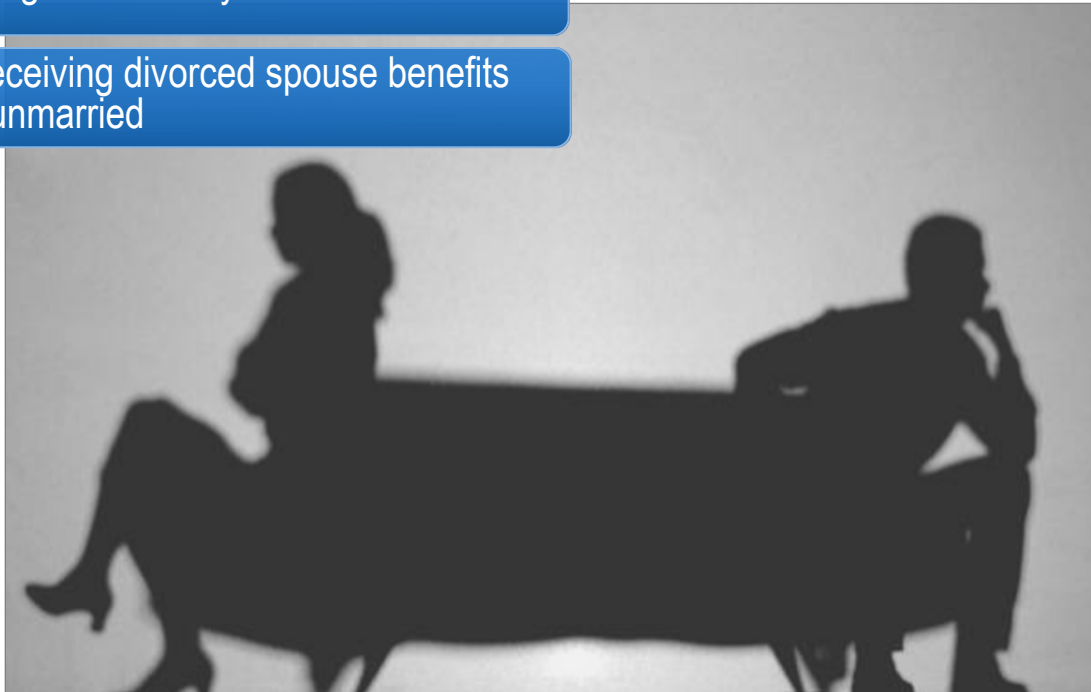
# Divorced Spouses



- Divorced spouses can also claim spousal benefits as long as:

• The marriage lasted 10 years or more

• Person receiving divorced spouse benefits remains unmarried



# Rules for Ex-Spouses

- Same spousal benefit calculations apply when determining benefits for an ex-spouse (note that worker isn't notified when an ex-spouse applies for benefits on their earnings record)
- An ex-spouse can claim benefits if divorced more than 2 years and both worker and ex-spouse are age 62+ ... even if the worker hasn't retired
- More than one ex-spouse can receive benefits on the same worker's record – benefits paid to one ex-spouse don't affect those paid to the worker, the current spouse or other ex-spouses
- Divorced spouse benefits stop once they remarry

Worker  
benefit  
\$2,000



Spousal  
benefit  
\$1,000



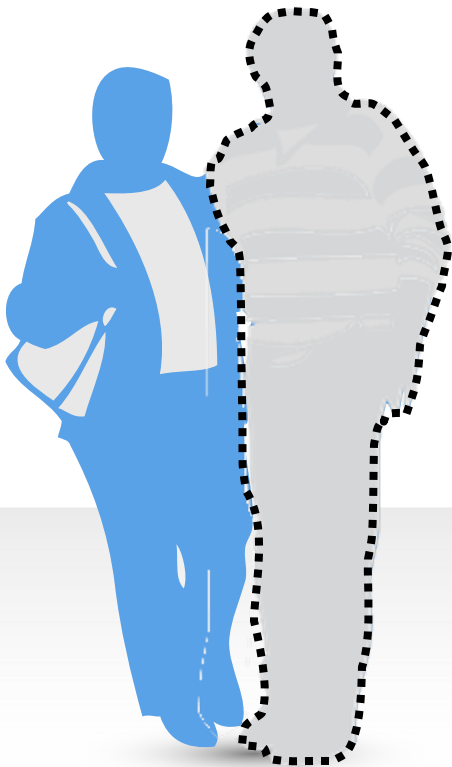
Ex-spouse  
benefit  
\$1,000



Ex-spouse  
benefit  
\$1,000



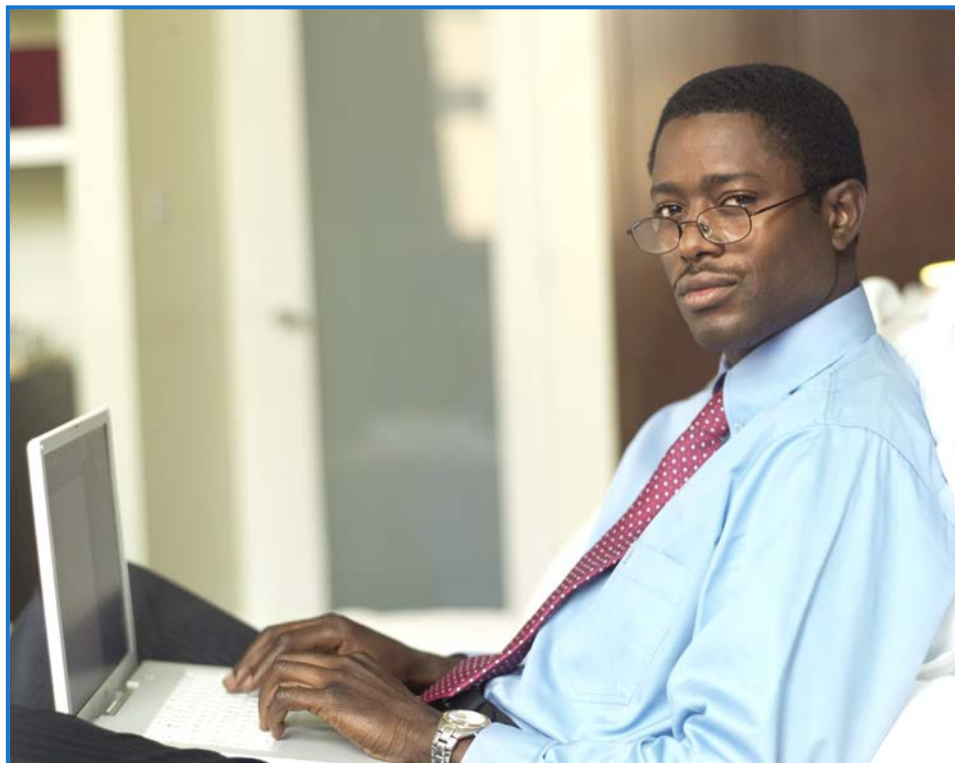
## 6. Survivor Benefits



- ❖ At death, survivor can switch and receive the benefit for the spouse who has passed if it's higher than their own
- ❖ Survivor must be at least age 60 for reduced benefits (50 if disabled)
- ❖ Survivor benefits are not available for same-sex couples
- ❖ Couple must have been married for at least 9 months before survivor benefits will be paid, except in case of accident
- ❖ Ex-spouse survivor benefits are also available if marriage lasted more than 10 years

# Continuing to Work

- Claiming and retiring are not the same thing – you can continue to work while you receive Social Security benefits



# 7. Earnings Test



**\$15,120 in 2013**

From 62 to FRA

Give up \$1 for every \$2  
earned over \$15,120

In the year you turn FRA

Give up \$1 for every \$3  
earned over \$40,080

After your FRA

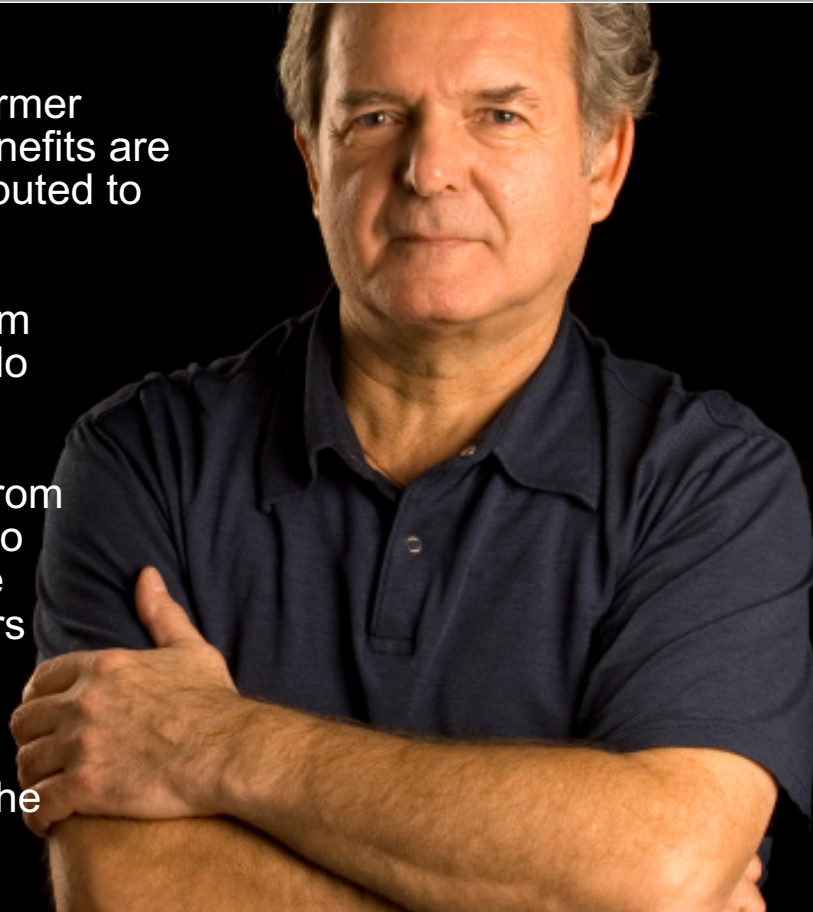
No benefits withheld

- » If you receive benefits before full retirement age and continue working, some of your benefits may be withheld
- » Maximum amount you can earn before benefits are withheld is called the **earnings test**, and the amount is adjusted each year for inflation
- » Up until the year you turn full retirement age, for every \$2 you earn over the earnings test, Uncle Sam will withhold \$1
- » At full retirement age, your benefit is increased to account for the months when benefits were withheld

## 8. Pension Income



- ❖ If you receive a pension from a former employer, your Social Security benefits are not affected as long as you contributed to Social Security while at that job
- ❖ Other income like distributions from your IRAs and 401(k) plans also do not affect Social Security
- ❖ But if you're receiving a pension from a job where you didn't contribute to Social Security (i.e., a civil service job) and then also worked 10 years or more in a job where you did contribute, your benefits may be reduced under what's called the Windfall Elimination Provision or the Government Pension Offset



# 9. Taxation

- Your Social Security benefits may be taxable, depending on how much other income you earn

## Single or head of household

- 50% taxable if you have \$25,000 combined income
- 85% taxable if you have \$34,000 combined income

## Married, filing jointly

- 50% taxable if you have \$32,000 combined income
- 85% taxable if you have \$44,000 combined income

This is not tax advice. Consult your tax advisor.



**Combined income** is defined as your adjusted gross income plus nontaxable interest plus 1/2 of your Social Security benefits

# 10. Inflation Adjustments



- Cost-of-living adjustments (COLAs) are announced each year in October for the following January
- COLA is based on increase in the Consumer Price Index (CPI) from the third quarter of one year to the next

- If there's negative inflation (deflation), your Social Security benefit will not decrease

# History of COLAs



Year	COLA
1976	8.0%
1977	6.4%
1978	5.9%
1979	6.5%
1980	9.9%
1981	14.3%
1982	11.2%
1983	7.4%
1984	3.5%
1985	3.5%

Year	COLA
1986	3.1%
1987	1.3%
1988	4.2%
1989	4.0%
1990	4.7%
1991	5.4%
1992	3.7%
1993	3.0%
1994	2.6%
1995	2.8%

Year	COLA
1996	2.6%
1997	2.9%
1998	2.1%
1999	1.3%
2000	2.5%
2001	3.5%
2002	2.6%
2003	1.4%
2004	2.1%
2005	2.7%

Year	COLA
2006	4.1%
2007	3.3%
2008	2.3%
2009	5.8%
2010	0.0%
2011	0.0%
2012	3.6%
2013	1.7%

# Improve Your Earnings Record



## INCREASE EARNINGS

If you have the option, you may want to look at ways to increase your earnings record and, therefore, your Social Security benefit amount



If you **work longer**, you may be able to increase your AIME by filling in any missing zeros in your 35-year earnings history or raising average earnings



And always **check your statement** of Social Security benefits, to ensure there are no discrepancies in your work record that might reduce your benefit



# Optimal Time to Start Benefits



- Applying for benefits at the “optimal time” can make a big difference
- ***But what is the “optimal time?”***

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“As you approach retirement, how long you work and when you claim will usually have a far greater impact on how much income you’ll have in retirement than how much you save or how you invest.”

– Social Security Claiming Guide, Center for Financial Literacy at Boston College, 2009.

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A large, glossy, green and blue sphere, resembling a bubble or a planet, with a bright reflection on its surface. It is positioned on the right side of the slide.

***When should I start  
my benefits?***

# Check Your Breakeven Age



No one knows the right time for certain, but checking the breakeven crossover point may be a start – there are calculators that can help you evaluate your breakeven age

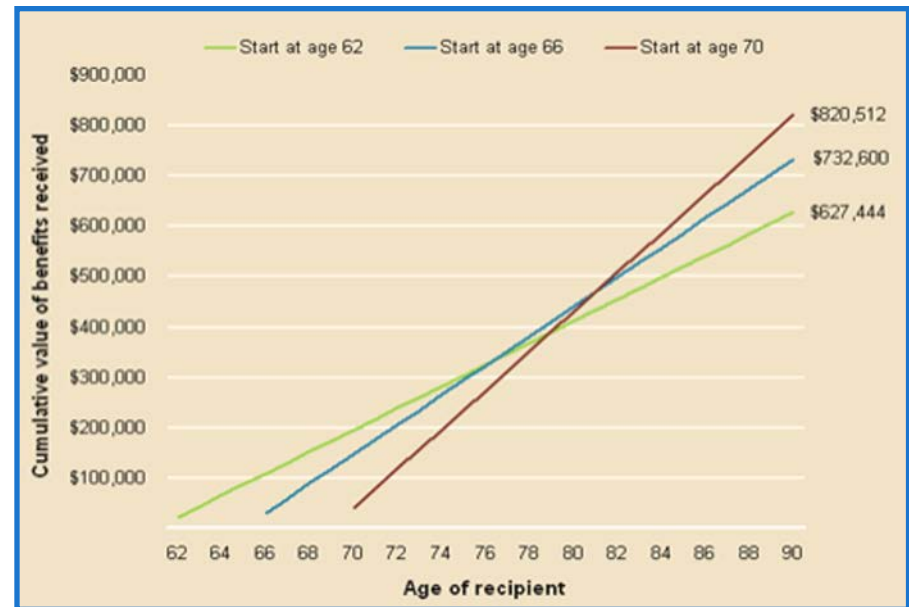
❖ Assumes top wage earner turning 62 this year with monthly benefits of:

- \$1,803 if starting at 62
- \$2,442 if starting at 66
- \$3,256 if starting at 70

❖ Comparing **62** to **66**, breakeven age is between ages 76 and 77

❖ Comparing **62** to **70**, breakeven age is between ages 78 and 79

❖ Comparing **66** to **70**, breakeven age is around 81



# Life Expectancy

- When you're deciding between two retirement ages, if you believe you're likely to live longer than the breakeven age, it might make sense to delay Social Security



• *Health status*

• *Family medical history*

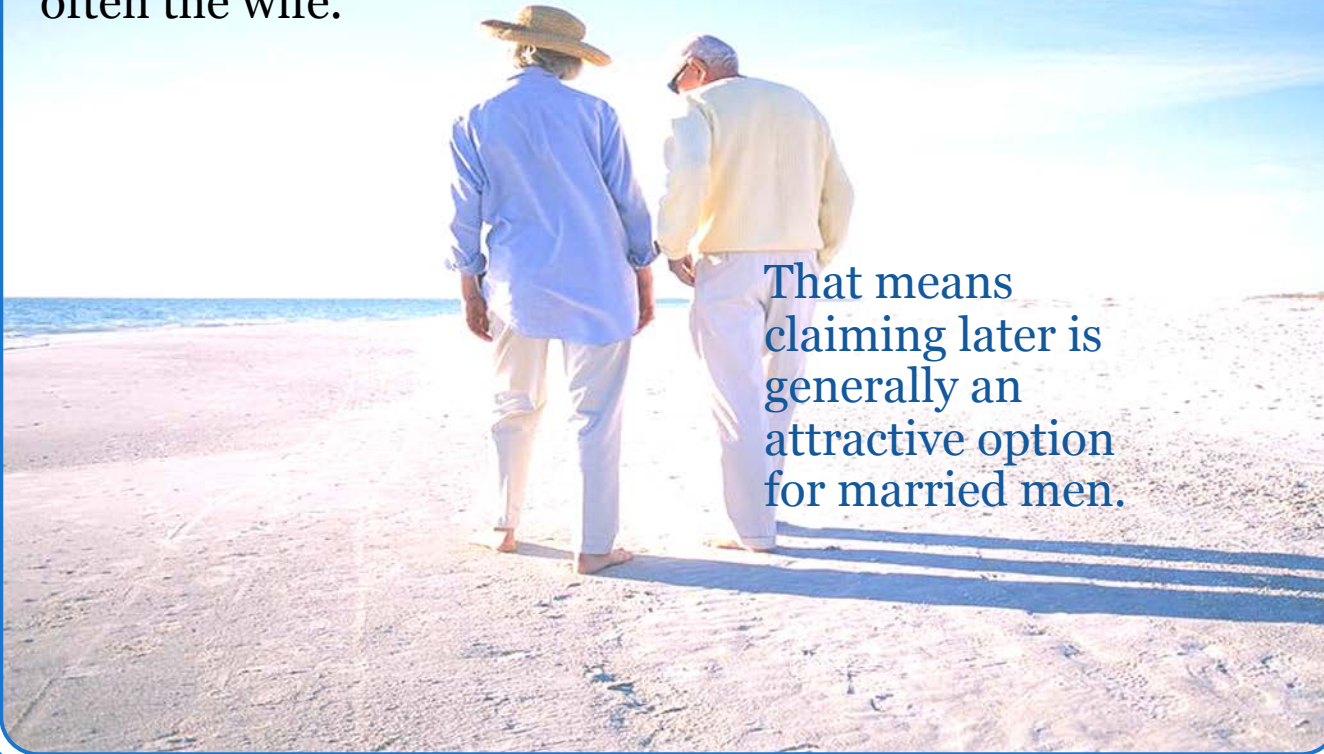
• *Lifestyle*

# Coordinate Benefits With Your Spouse



The rules for spousal and survivor benefits can help raise the benefits of the lower-earning spouse – most often the wife.

That means claiming later is generally an attractive option for married men.



# Coordinate Benefits With Your Spouse



- Since wives often make less and live longer than their husbands, as widows they generally move up to their husband's higher benefit

**That means a husband can often increase the monthly survivor benefit for his wife simply by claiming later:**

If he claims at 66  
rather than 62

By more than **20%**

If he claims at 70  
rather than 62

By more than **60%**

# Claim and Suspend



Higher-earning spouse has opportunity to claim benefits, but then suspend – this allows lower-earning spouse to start their spousal benefits while the higher earner continues to build delayed credits



- ❖ Claim and suspend may **not** be done before full retirement age
- ❖ Remember spousal benefits can't be claimed until age 62

# Bob and Betty, Both Age 66



## IF BOTH CLAIM AT 66



- ▶ Bob claims his full retirement age PIA of \$2,000 at 66



- ▶ Betty has her own PIA of \$800, but begins the higher \$1,000 spousal benefit at age 66 based on Bob's benefit



- ▶ At 66, Bob and Betty have a combined payment of \$3,000 – 20 years later at age 86, they will have received a total of \$720,000

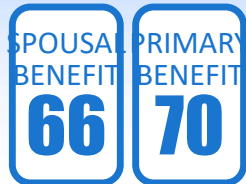
## IF BOB CLAIMS AND SUSPENDS TO 70

- ▶ Because Bob claimed his PIA of \$2,000 at 66 but suspended it until age 70, at 70 he's earned delayed credits that increase his PIA to \$2,640

- ▶ Because Bob claimed at age 66 but suspended, Betty could still begin her spousal benefit of \$1,000 at 66

- ▶ At 70, their combined payment is now \$3,640 – 20 years later Betty will have received \$240,000 and Bob \$506,880, for a total of \$746,880

# Claim Now and Later



At full retirement age, higher-earning spouse can claim spousal benefit only, letting their own benefit grow with delayed credits – then later at age 70 they can switch to claim their primary benefit



- ❖ Lower-earning spouse must have already started their own benefit
- ❖ Higher-earning spouse **cannot** do this until full retirement age
- ❖ Only one spouse may use this strategy
- ❖ Specific language is required – higher-earning spouse must say he or she is **“restricting”** their application to spousal benefits

# Slow Down Taxes



Consider ways to reduce taxes by reducing taxation on Social Security benefits, reducing overall income subject to taxation or delaying your benefits ... and therefore your taxes



Roth IRA distributions are non-taxable and not included in combined income for determining taxation of Social Security benefits (unlike non-taxable interest on municipal bonds)



Since distributions from a Roth IRA are non-taxable, rolling income-generating assets into a Roth could also help lower your overall income and keep you out of a higher tax bracket

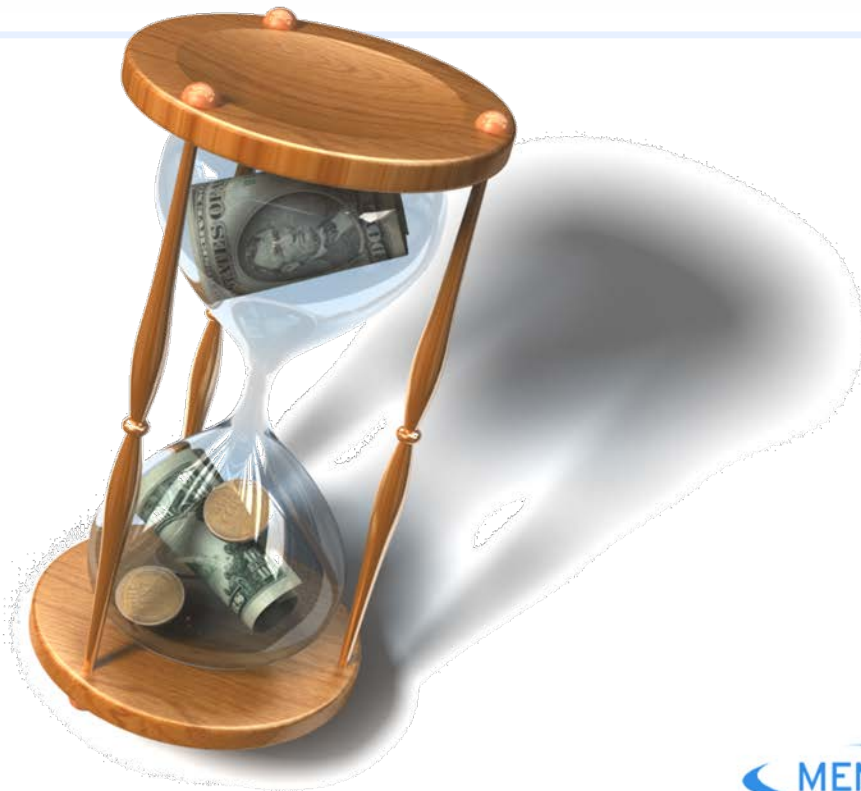


Generating income from other assets allows you to delay benefits — that gives benefits time to grow and delays potential taxes on those benefits

# Collect and Invest



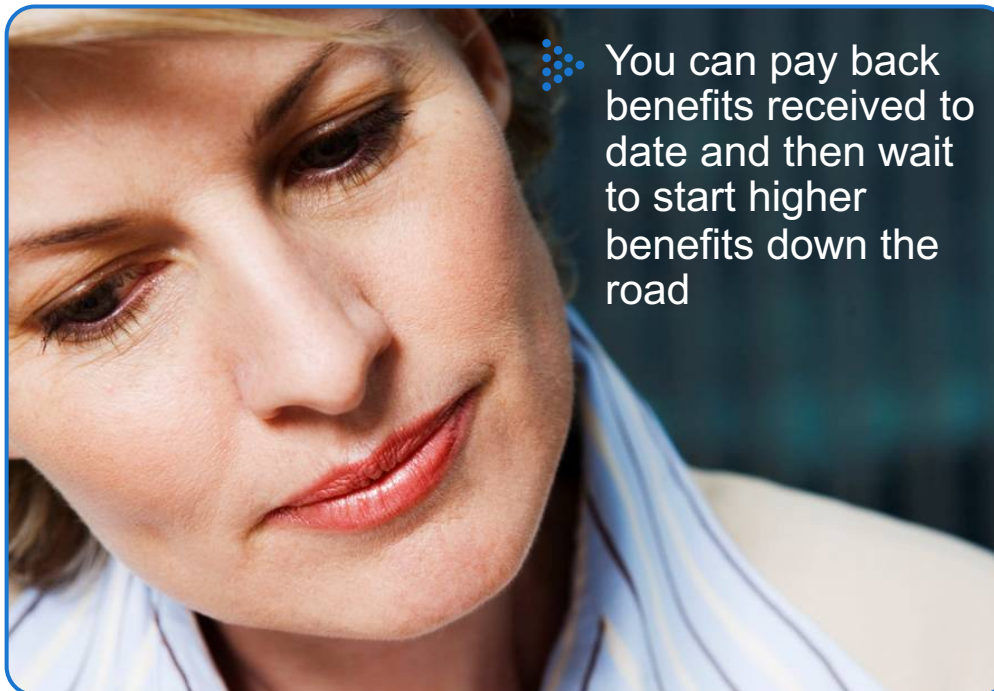
Even if you don't need income now, you can always start collecting Social Security and invest it – could be a strategy if you believe your life expectancy may be shorter than average



# Social Security “U-Turn”



Most aren't aware that even if you do begin reduced benefits at age 62, you can change your mind in the first year – allows you to make a “U-turn” if you decide you'd like to take a different route



• You can pay back benefits received to date and then wait to start higher benefits down the road

# Don't Start Early Because You're Worried



Slow down before you decide to start benefits early just because the Social Security Trust Fund has money problems – nearly all proposals to fix Social Security **would protect those 55 and older**

## Most prominent proposals:



Increase full retirement age



Freeze benefits



Cut benefits for high earners



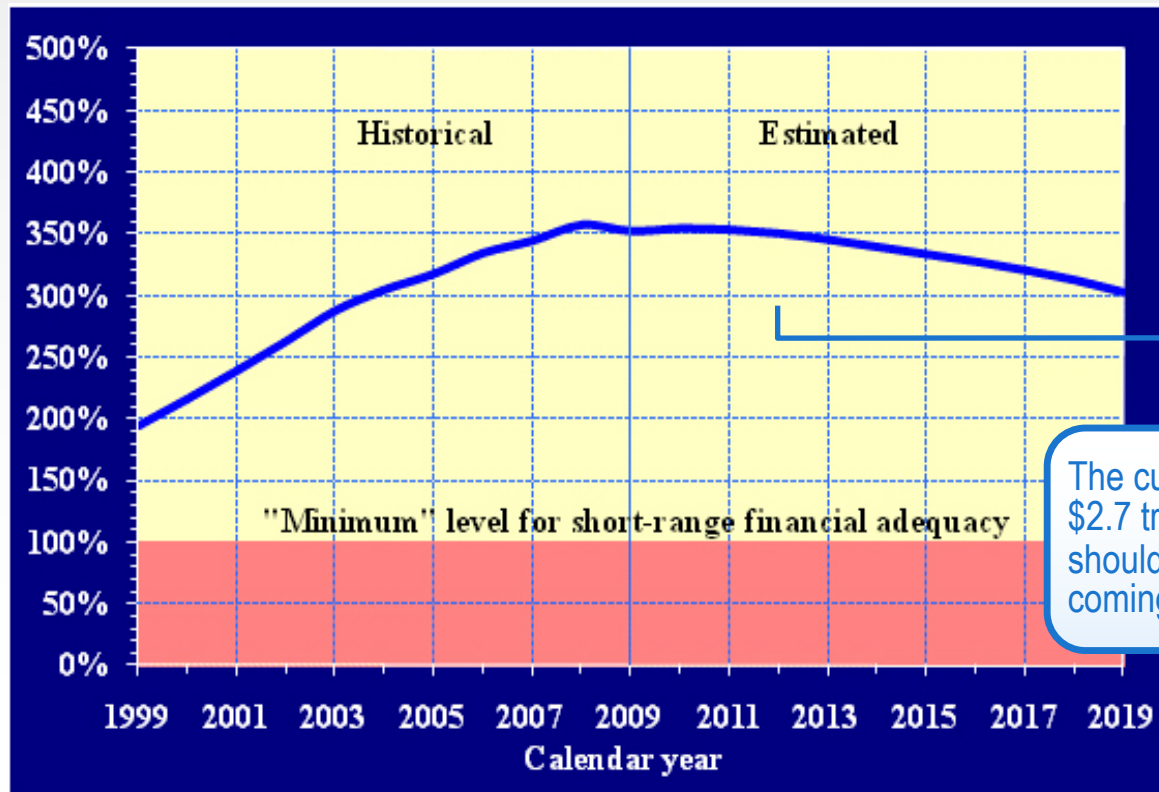
Raise taxes

# Will Social Security Be Around?



## Short Range Social Security Trust Fund

*Assets as a percentage of annual expenditures*



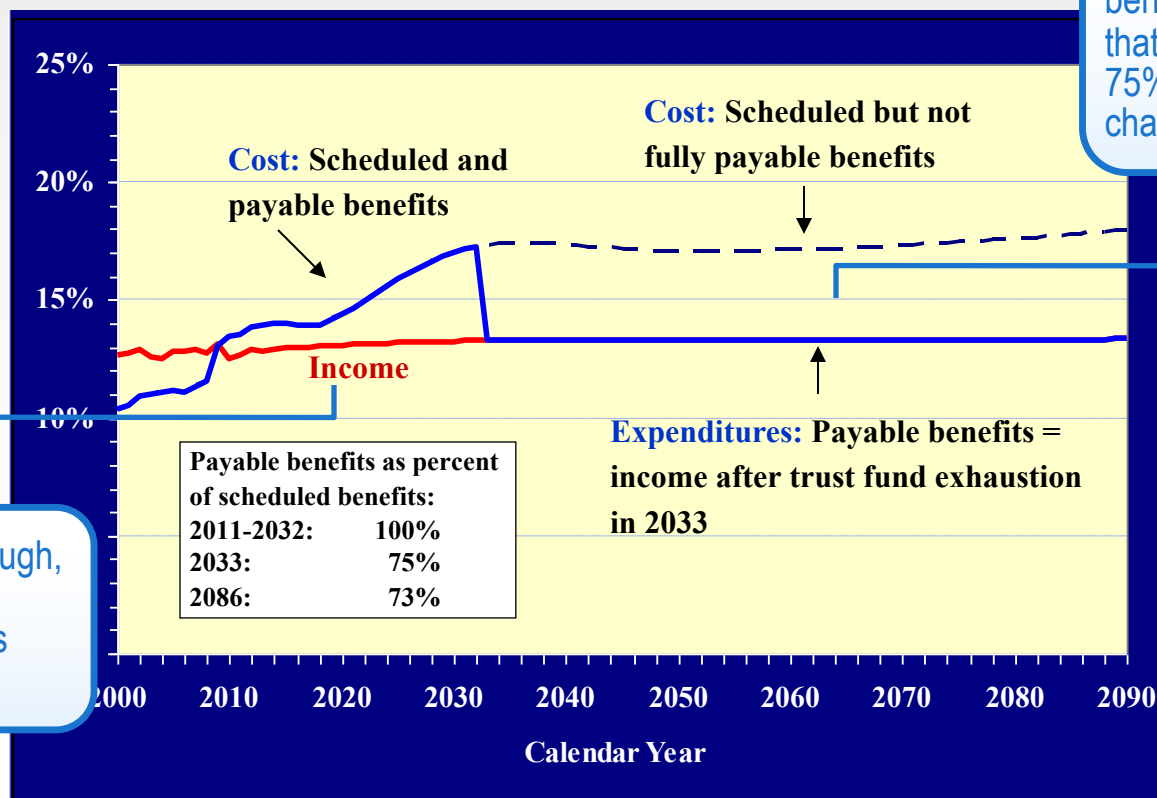
The current trust fund holds \$2.7 trillion in reserve, which should cover benefits in the coming years

# Will Social Security Be Around?



## Long Range Social Security Trust Fund

*Income, costs and expenditures as a percentage of taxable payroll*



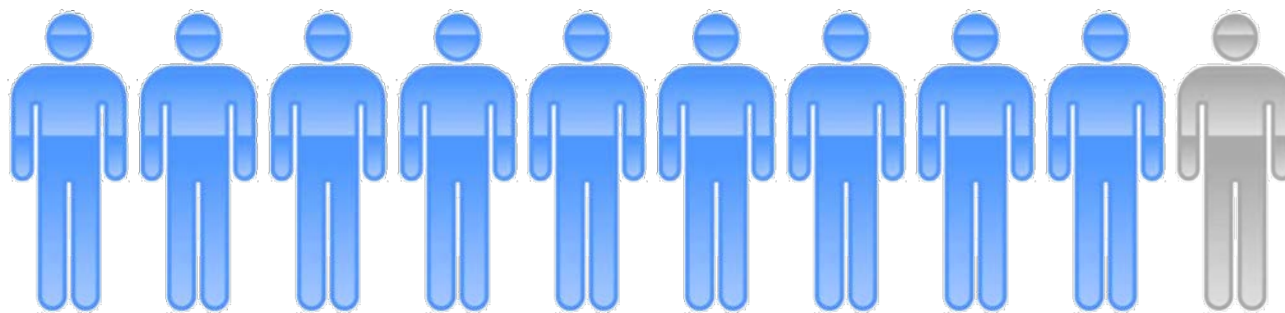
The fund can pay promised benefits **until 2033** – after that income will only cover 75% of benefits unless changes are made

In the long-term, though, the picture becomes more complicated as more boomers retire

# Will Social Security Be Enough?



Probably not.



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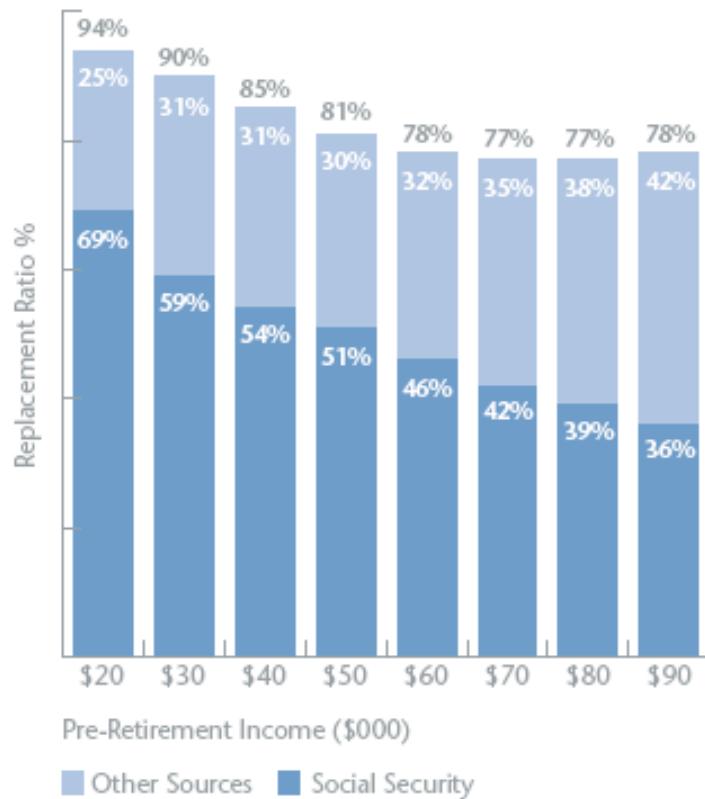
“More than 9 out of 10 people age 65 and older receive Social Security, and for more than one-third of these people, it makes up 90% or more of their income.”

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# Replacement Ratio



Required Replacement Ratios Broken Down by Social Security and Other Sources



- ❖ How much income you'll need in retirement to maintain your standard of living is referred to as your **replacement ratio**
- ❖ Replacement ratios vary by income, but are typically **around 78%**
- ❖ Social Security can be counted on to provide **less than half** of your needed dollars, particularly at higher income levels

# Your Retirement Income Plan



## We can help you develop an income plan for your personal situation that considers:

- ❖ Your plan for drawing Social Security benefits
- ❖ Income from your investments and any other income sources like a pension
- ❖ Potential use of annuities to guarantee retirement income for life

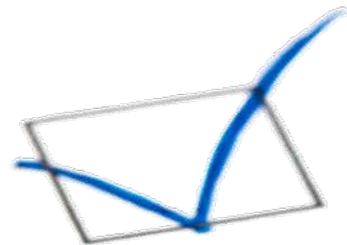
Annuities are long-term insurance products that can be used for a savings vehicle and to create a regular income stream for retirement purposes. Before you consider purchasing an annuity, you may wish to review a hypothetical illustration. And if purchasing a variable annuity, you should review a prospectus. Read it carefully before you invest or send money. Consider the investment objectives, risks, charges and expenses of the investment carefully before investing. The prospectus contains this and other information about the investment company. All annuity and insurance guarantees are based on the claims-paying ability of the issuer.

# Your Retirement Income Plan



**Confidence** and peace of mind on your road to retirement is the most important goal.

# Evaluation





Thank You!

