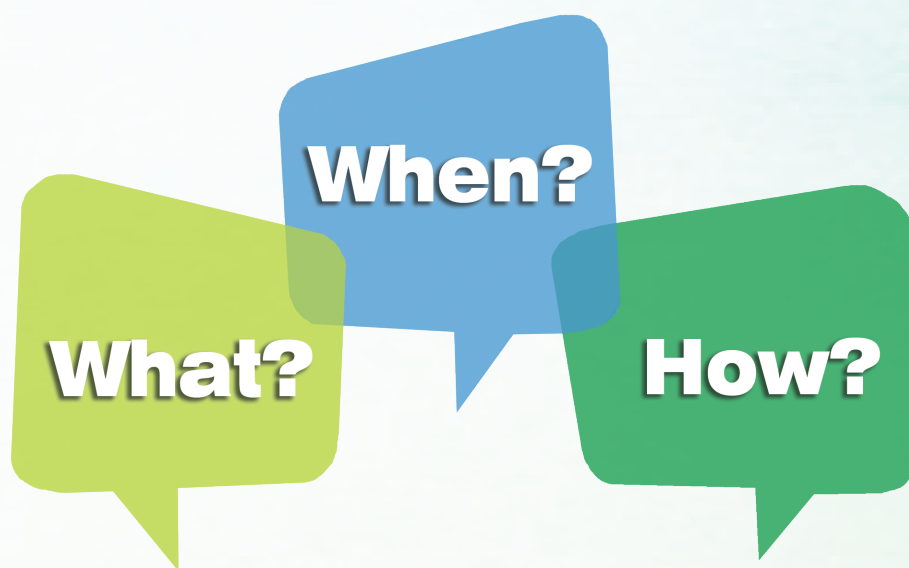


Social Security Benefits



Answer Key

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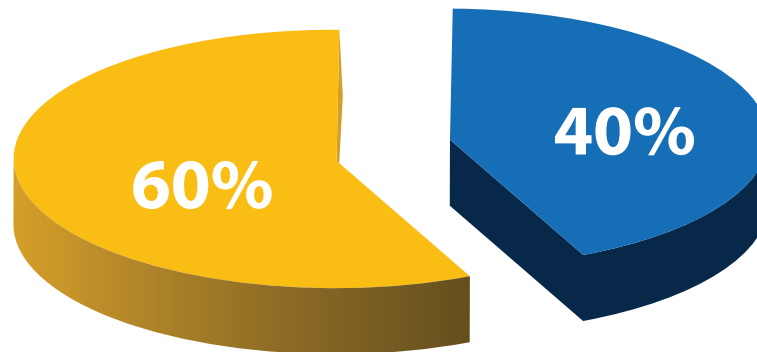
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STEP2SUCCESS Financial Marketing - Toll-free Phone: 800-579-9040 - Fax: 727-369-8818 - STEP2SUCCESSmarketing.com

For more information about Adult Financial Education Services and the Adult Financial Education Foundation, please contact:

Tom Jones, National Director, AFES
400 E. Diehl Road, Suite 400
Naperville, IL 60563
630-618-2789 Direct
888-804-2863 Fax
www.afes.org

Social Security Income



Income from other sources

An average earner will need 80%-90% of their pre-retirement income during their retirement years.

There are 7 Social Security strategies, 81 age combinations, and 567 sets of calculations to consider when determining how and when to apply for your Social Security benefits. The difference between the best and worst possible decision of when to start Social Security can be well over

\$ 100,000 !

The number one question retirees ask is,

“ Will I outlive my money ?”

59% of Americans are worried - or “very worried” - about not being able to maintain their current standard of living*... much less ENJOY their retirement. You shouldn't be one of them.

*Gallup poll, April 2014

Your Social Security Statement

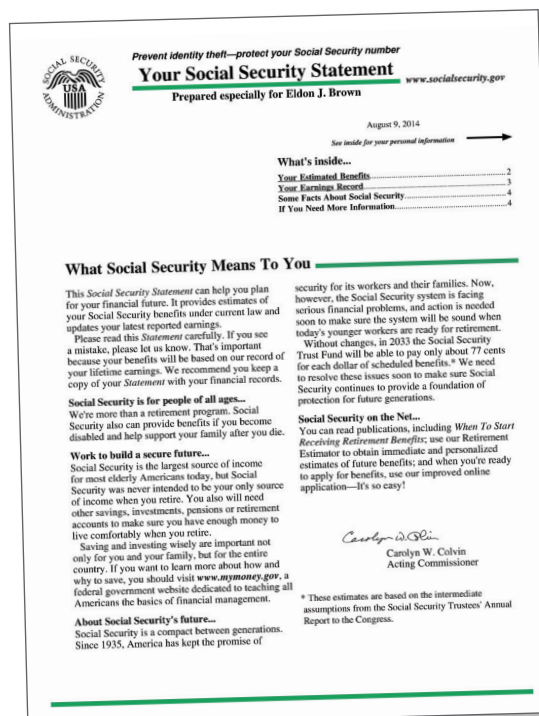
- Summarizes your earnings that were subject to payroll taxes
- Shows how much you and your employer(s) paid in Social Security and Medicare taxes
- Estimates your retirement benefits based on retiring at different ages

View your statement online at

www.ssa.gov/myaccount/

Create your own personal Social Security account to:

- Review your Social Security and Medicare benefits
- Update your address
- Change your direct deposit data



Noteworthy...

An eligible worker is one who has accumulated the minimum number of quarters of work for Social Security benefits and is at least 62 years old.

An entitled worker is one who has applied for benefits - whether or not they are receiving the benefits or have suspended them.

These terms are important because being entitled both allows and disallows various benefits.

WEP (Windfall Elimination Provision) reduces your benefit if you receive a pension from work where Social Security taxes were not taken out of your pay.

GPO (or Government Pension Offset) reduces your spouse's or widow's or widower's benefits if you receive a pension from a federal, state, or local government based on work where you did not pay Social Security taxes.

COLA

YEAR	COLA
2012	3.60%
2013	1.70%
2014	1.50%
2015	1.70%
2016	0.00%
2017	0.30%
2018	2.00%

Every year the IRS calculates the Cost of Living Adjustment, or COLA, based on the increase in the Consumer Price Index from the third quarter three years ago through the third quarter of the prior year. Historically, it has averaged to be about 4.2% each year. COLA, in effect, provides inflation protection by helping to maintain some of the purchasing power of this piece of your retirement income.

Claiming Age

AGE

62

66 or 67

(Full Retirement Age)

70

PROS

Receive benefits earlier

Higher monthly check
No penalty if employed

Highest monthly check
No penalty if employed

CONS

Smallest monthly check
Possible reduction
penalty if employed

No benefits age 62 to FRA

No benefits age 62 to 70

Claiming Age continued...

Claiming benefits at age 62 would allow you to receive your benefits earlier, but will PERMANENTLY reduce your lifetime benefits by 25%, depending on the year you were born. You may be subject to a reduction penalty if you are employed.

If you choose to wait until your full retirement age of either 66 or 67, you would receive 100% of your Primary Insurance Amount – your PIA - and would not be penalized if you work.

If you choose to wait to file until AFTER your FRA, your monthly benefits would increase by about 8% per year, until – at the latest age you can claim benefits, 70 – your monthly benefit would be about 132% of your PIA amount. There is NO advantage to waiting to claim benefits past age 70.

Definitions

Deemed filing

requires that a claimant filing for ANY benefit before their FRA must file for ALL benefits available to them at that time.

Restricted application

is available to workers who have reached FRA and allows them to restrict their application to just one of the benefits they are eligible for.

Voluntary suspension

is available to workers who have reached FRA, file for benefits, and simultaneously suspend the payments.

The Effect of Employment on Benefits

AGE	2018 EARNED INCOME LIMITS	REDUCTION
62 to Full Retirement Age	<u>\$17,040</u>	For every \$ <u>2</u> over the limit, \$ <u>1</u> is withheld from your benefits
Full Retirement Age	<u>45,360</u>	For every \$ <u>3</u> over the limit, \$ <u>1</u> is withheld from your benefits
After Full Retirement Age	<u>no limit on earnings</u>	None

The Effect of Taxes on Benefits

Single Filing		Married Filing Jointly	
Provisional Income	Taxable Benefits	Provisional Income	Taxable Benefits
Under \$25,000	0%	Under \$32,000	0%
\$25,000 - \$34,000	up to 50%	\$32,000 - \$44,000	up to 50%
Over \$34,000	up to 85%	Over \$44,000	up to 85%

Reducing Tax Liability on Benefits

- Postpone receiving your Social Security benefits, either by waiting to file or by suspending your claim, for later years in which your other incomes are lower
- Reduce your other sources of income calculated in Provisional Income:

<u>wages</u>	<u>capital gains</u>
<u>401(k) distributions</u>	<u>pension payments</u>
<u>interest/dividend income</u>	<u>inheritance</u>

Spousal Benefit Options

- **Option 1: Individual Benefit**

Each spouse collects their individual benefit

- **Option 2: Spousal Benefit**

Lower-earning spouse collects up to 50% of the higher-earner's full benefit

- **Option 3: Survivor Benefit**

Widowed spouse collects up to 100% of the deceased spouse's benefit

Some important aspects to know about Spousal Benefits...

- ✓ In order to claim a Spousal Benefit, you must be at least 62 years old and have been married for at least 1 year.
- ✓ If you elect to receive a Spousal Benefit **before** you reach **your** full retirement age, your benefit will be **permanently reduced** unless you have a qualifying dependent child.
- ✓ If you start your own regular benefit early and switch to a Spousal Benefit when you reach full retirement age, you may not receive the full spousal amount: Social Security will subtract your full benefit amount from the Spousal Benefit and add the difference to your reduced benefit amount... the result could be less than 50% of your Spouse's benefit.

In the event of a divorce...

If you are divorced, you may be entitled to Spousal Social Security benefits if:

- You are at least 62 years old
- You were married for at least 10 years
- You are unmarried
- Your ex-spouse is entitled

You may be “independently entitled” without your ex-spouse being entitled if:

- Your ex-spouse is 62 or older
- Your divorce has been final for at least two years
- Your own worker benefits would be less than 50% of your ex’s Primary Insurance Amount

Survivor Benefit Options

If you are widowed or a widower, you are eligible to collect either your own benefits or 100% your deceased spouse’s benefits, whichever is greater.

- ✓ You are at least 60 years old
- ✓ You must have been married for at least 9 months (or 10 years, if divorced)
- ✓ You remain unmarried until after the age of 60

According to the 2010 Census, there were 54,956 centenarians in the United States alone. 81.2 % were women. While not all of us will celebrate our centennial birthday, statistically, women outlive men by 5 to 10 years.

How old is the oldest person you know?

A man turning 65 today can expect to live to age: 84

A woman turning 65 today can expect to live to age: 86

How long will YOU need to receive Social Security Income, what about your surviving spouse? What is your best estimate?

Case Study – 9 Different Options

Mike and Rebecca (Visited Livingto100.com)

Mike

DOB: January 2, 1954

PIA **\$2,056** at age 66

Expected Death Age: **84.09**

Rebecca

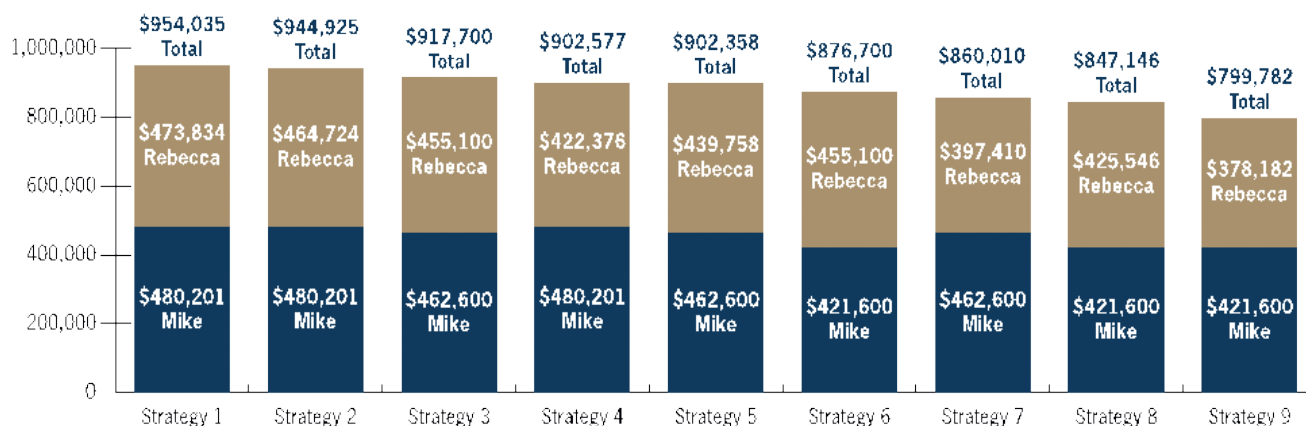
DOB: November 2, 1954

PIA **\$1,682** at age 66

Expected Death Age: **87.01**

The difference between the most maximized strategy and the least is

\$ 154,253 . Now, that may sound like a “No Brainer” but do we really know what Mike and Rebecca’s financial conditions are? Do they need to draw Social Security at 62, can they wait to FRA or even better can they wait till age 70.....



Do Over (or Reset) Strategy

- once in a lifetime
- Must be requested within one year of initial claim for benefits
- Must pay back all benefits received – for both the individual and the spouse, if applicable
- Form 521 “Request for Withdrawal of Application” available at

www.socialsecurity.gov

Start, Stop, Restart Strategy

- Must reach FRA or later to suspend benefits
- Can restart benefits at any time
- Suspended benefits grow by 8% a year to age 70
- If benefits are not restarted until age 70, monthly payments will be 32% higher than that at FRA for life
- There is no additional growth beyond age 70

Now What?

47 % of Baby Boomers and GenXers projected to lack adequate retirement income for their basic retirement expenses and uninsured health care costs.

Determining a strategy begins with asking:

1. What are my current income needs
_____?
2. What do I anticipate my income needs to be after I retire, realistically
_____?
3. How do I close the gap between the two
_____?

What Are Your Current Income Needs?

Cash Flow Worksheet

MONTHLY INCOME

Wages, Salaries & Tips \$ _____
 Commission \$ _____
 Bonus \$ _____
 Interest Income (Savings Accounts, Bonds, CDs, etc.) \$ _____
 Dividends (Stocks, Mutual Funds, etc.) \$ _____
 Gifts Received (Inheritance, Trust Funds, etc.) \$ _____
 Alimony and/or Child Support \$ _____
 Pension(s) \$ _____
 Social Security \$ _____
 IRA Distributions \$ _____
 Other \$ _____

TOTAL MONTHLY INCOME

\$ _____

MONTHLY EXPENSES

Mortgage/Rent \$ _____
 Vacation Home Mortgage/HELOC \$ _____
 Real Estate Tax(es) \$ _____
 Vehicle Loan(s) \$ _____
 Automotive Repairs/Gas \$ _____
 Other Loans(s) \$ _____
 Credit Card(s) \$ _____
 Federal Income Tax \$ _____
 State Income Tax \$ _____
 Utilities (Electric, Gas, Water, Phone, Cable, Internet) \$ _____
 Household Repairs/Maintenance \$ _____
 Major Household Repairs/Furnishings \$ _____
 Lawn/Garden \$ _____
 Professional Services \$ _____
 Charitable Contributions \$ _____

Groceries \$ _____
 Clothing/Laundry/Dry Cleaning \$ _____
 Education/Child Care \$ _____
 Entertainment/Dining Out \$ _____
 Recreation/Travel \$ _____
 Hobbies/Club Dues \$ _____
 Personal Services (Hair, Nails, Barber, etc.) \$ _____
 Homeowners Insurance \$ _____
 Automotive Insurance \$ _____
 Medical/Dental Insurance \$ _____
 Life Insurance \$ _____
 Disability/LTC Insurance \$ _____
 Unreimbursed Medical/Dental Expenses \$ _____
 Other \$ _____
 Other \$ _____

TOTAL MONTHLY EXPENSES

\$ _____

NET CASH FLOW

TOTAL MONTHLY INCOME \$ _____
minus TOTAL MONTHLY EXPENSES \$ _____
 DISCRETIONARY MONTHLY TOTAL \$ _____

What Do You Anticipate Your Retirement Income Needs Will Be?

Calculating all of your expenses will provide you with your current income need. Most retirees require anywhere from 80 - 90 % of their pre-retirement income after they stop working. Your Social Security Benefit will provide some of this income, typically 40 %.

How Can You Close the Gap Between the Income You Have and the Income You Need?

What other sources of income do you have to make up the difference? These might include pensions, retirement account distributions, dividend and interest income, and drawing off your savings responsibly.

Roth IRAs, IRAs, 401(k)s, 403(b)s, payments from pensions and defined benefit programs, dividend and interest income from brokerage accounts and mutual funds, savings, annuities, life insurance

Other Sources of Retirement Income - Advantages and Disadvantages

Retirement Accounts: Roth IRA, IRA, 401(k), 403(b)

Tax advantages in contributing and/or withdrawing; limit the investment options; require mandatory withdrawal at age 70½; principle is not protected; no guarantee of return or performance

Defined Benefit Pension Plans

Fully funded by the employer; limit employee to only one plan; employee has no say in how the money is invested; do not adjust future payouts to keep pace with inflation; distributions are fully taxable

Investments: Stocks, Bonds, Mutual Funds, and CDs

may be subject to market volatility and economic conditions; re-investment risk; little or limited principle protection; no guarantee of future returns; often the earnings are taxable

Annuities – Deferred or Immediate: Variable, Indexed, Fixed and Immediate

protection from lower interest rates; tax-deferral on earnings; no mandatory distributions; guaranteed income for life; not FDIC insured; include mortality and expense charges, account and management fees, and administrative fees; surrender charges possible

Permanent Life Insurance

Accumulated cash values within a policy generally income tax-free loans and withdrawals, as long as the policy is not a Modified Endowment Contract (MEC); withdrawals are income tax free up to the cost basis; no penalties for early access; no required minimum distributions (RMDs)

Documents and Information

Please have the following documents for your consultation:

- Your *Social Security: What? When? How?* Workbook and notes
- Your Current Social Security Statement
- A current pay stub, if you are working
- Recent Bank/Brokerage Statements
- Income Tax Returns — Previous Three Years
- IRA, 401(k), and any other Retirement Plan Account Statements
- Life and Disability Insurance Policies
- Annuity Contracts
- Wills and trust documents
- Other items that may be relevant:

Notes:

**You've worked hard your whole life...
and have paid into the Social Security system
for years. Now it will soon be your turn to collect.
Advance planning is essential, and the decisions you
make now can have a tremendous impact on the
total amount of benefits you stand to receive over
your lifetime.**

One of the most important decisions you need to make before you retire is when to claim Social Security benefits. About half of retirees apply for Social Security as soon as they become eligible at age 62, but by doing so, they may significantly and permanently reduce the benefits that they — and possibly their spouses — could receive over a lifetime.

Whether you're single, married, divorced, or widowed, there may be ways to maximize the lifetime Social Security benefits you receive.



Adult Financial Education Foundation, a non-profit corporation, is devoted to helping improve the financial literacy of adults 50 and over who are concerned about their retirement savings and how to ensure a safe, secure future.

We develop courses of study that educate students about financial terms, concepts, and strategies in a classroom setting giving them tools they need to make smart decisions about their financial future.

See more at: www.afes.org