

Social Security and Retirement Plans



Learning Objectives

- ✔ Understand the significance of Social Security as a source of retirement income
- ✔ Recognize the importance of planning when making decisions, including when to begin Social Security and when to draw on other retirement assets
- ✔ Explain the consequences of early retirement on Social Security benefits

History and Overview

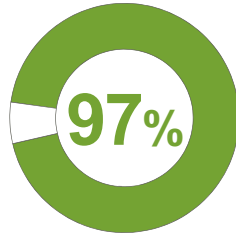
The **largest** source of income for most individuals **age 65 and over**



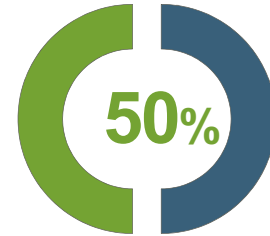
Intent was to **supplement** other sources of retirement income, such as pensions, other investments, and savings



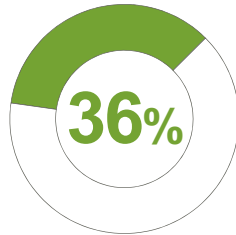
Current Scope and Importance



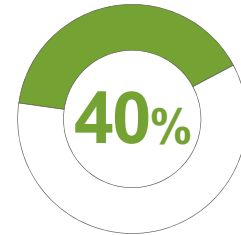
Elderly Americans who receive or will receive Social Security



Private industry workforce with no private pension



No savings set aside for retirement



Replaces pre-retirement income for average retiree

Sources: Policy Basics: Top Ten Facts About Social Security,” Center on Budget and Policy Priorities, August 14, 2018, <https://www.cbpp.org/research/social-security/policy-basics-top-ten-facts-about-social-security>.

“Social Security Fact Sheet,” Social Security Administration, <https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf>.

“Learn About Social Security Programs,” Social Security Administration, <https://www.ssa.gov/planners/retire/r&m6.html>.

Employment Taxes

Taxpayer	Social Security Tax (OASDI)	Medicare Tax (HI)	Total FICA Tax
Employee	6.2%	1.45%	7.65%
Employer	6.2%	1.45%	7.65%
Total	12.4%	2.9%	15.3%
Self-Employed	12.4%	2.9%	15.3%

2019 Taxable Wage Base = \$132,900 for Social Security

High income individuals have an additional .9% tax.

Social Security – How Much Will Someone Receive?

- Benefit is calculated on lifetime earnings indexed to account for changes in average wages
- The 35 years in which an individual earned the most are used to calculate the basic benefit
- Amounts earned above the taxable wage base will not increase the benefit (\$132,900 for 2019)
- Tools to determine expected benefits: Retirement Estimator and Social Security Statements www.socialsecurity.gov

Source: “Your Retirement Benefit: How It’s Figured,” Social Security Administration, 2019, <https://www.ssa.gov/pubs/EN-05-10070.pdf>.



Social Security Planning



Benefit is
approximately
25% less



Benefit
increases 8%
each year from full
retirement age

**Delaying Social Security retirement benefits does
not affect eligibility for Medicare at age 65.**

Delayed Retirement Credit Example

Betty was born in 1953 and has a full retirement age of 66.

Betty decides to delay her Social Security retirement benefits until age 70.

How much will her annual benefit increase over the 4-year period?

32% (8% x 4 years)



Social Security Full Retirement Age

Age to Receive Full Social Security Benefits	
Year of Birth	Age
1943–1954	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

Source: “Normal Retirement Age,” Social Security Administration, <http://www.ssa.gov/oact/progdata/nra.html>.

Spousal Benefits

If individual is receiving Social Security benefits, his spouse may receive benefits as early as age 62



A spouse who has not worked or has low benefits may receive up to 50% of a retired spouse's full benefit at her full retirement age



Spousal Benefits if Elected Before Full Retirement Age

Spousal Benefit Before Full Retirement Age is Reduced		
Spouse's Full Retirement Age (lower-earning spouse age)	Commencement Age	Percentage of Worker's Unreduced Benefit
65	62	37.5%
66	62	35%
67	62	32.5%

Source: "Benefits for Spouses," Social Security Administration, <https://www.ssa.gov/OACT/quickcalc/spouse.html#calculator>.

Spousal Benefit Example

In 2019, William, age 62, has not worked enough to qualify for Social Security.

His wife, Ida, is currently receiving Social Security benefits and her primary insurance amount is \$2,200 per month.

How much can William receive per month under the spousal benefit rules?

\$770 per month (35% x \$2,200)

How much would William be eligible to receive if he waited until age 66?

\$1,100 per month (50% x \$2,200)



Deemed Filing Strategy

Filing a “restricted application” for spousal benefits



Strategy was eliminated for those born on January 2, 1954, and later

An individual who has attained full retirement age, is married, and is eligible can claim on his spouse's record and then switch to his own benefit, if greater, in the future

Restricted Application Example

Martha, age 62, and her husband George, age 66, have decided to both retire this year.

At full retirement age, Martha's benefit is \$1,800 per month and George's benefit is \$2,000 per month.

George files for a restricted application. Here are the results.

1. George starts receiving \$900 per month (50% of Martha's primary insurance amount) + Martha starts receiving \$1,350 per month (75% of her primary insurance amount) = \$2,250 per month
2. George then switches and claims on his own record at age 70. His benefit increases to \$2,640 per month because his primary insurance amount increase of 8% per year.





Working While Receiving Benefits

Individuals younger than full retirement age who earn more than certain amounts will receive reduced benefits.

Working While Receiving Benefits

2019 Social Security Earnings Limit		
Age	Earnings Limit	Benefit Reduction
Full retirement age or older	No limit	No limit on earnings
The year full retirement age is reached	\$46,920	For every \$3 over the limit, \$1 is withheld from benefits until the month full retirement age is reached
Under full retirement age	\$17,640	For every \$2 over the limit, \$1 is withheld from benefits

Source: "OASDI and SSI Program Rates & Limits, 2019" Social Security Administration, October 2018, https://www.ssa.gov/policy/docs/quickfacts/prog_highlights/index.html

Working While Receiving Benefits



If beginning payments mid-year, no reduction in monthly benefits if monthly earnings are less than \$1,470 (1/12 of \$17,640)



Earnings after FRA can increase but never reduce monthly benefits

Social Security Benefit Taxation



A portion of Social Security benefits is taxable if “combined income” exceeds certain thresholds.

“Combined income” includes job earnings, taxable pension income, annuity income, investment income, and income from tax-exempt bonds.

“Combined income” does NOT include nontaxable distributions from accounts like Roth IRAs, Roth 401(k) plans, and HSAs.

Benefit Taxation

Single Filer Combined Income	Married Filing Joint Combined Income	Benefits Subject to Taxation
\$25,000 or Less	\$32,000 or Less	0%
Between \$25,000 and \$34,000	Between \$32,000 and \$44,000	Up to 50%
Greater than \$34,000	Greater than \$44,000	Up to 85%

Adjusted Gross Income
+ Nontaxable Interest
+ $\frac{1}{2}$ of Social Security benefits

Combined Income

Source: "Benefits Planner: Income Taxes and Your Social Security Benefit," Social Security Administration, <https://www.ssa.gov/planners/taxes.html>.

Benefit Taxation Example

Andy, who is single, has taken \$18,600 in taxable distributions from his Traditional IRA, \$9,400 from a part-time job, taxable interest of \$990, and \$5,980 in Social Security benefits.

Andy's combined income is \$31,980 ($\$28,990 + (\$5,980 \times 0.5)$), resulting in \$2,990 (50%) of his Social Security benefit being subject to tax.

If Andy had a Roth IRA instead of a Traditional IRA and took a tax-free qualified distribution of \$18,600 he would have combined income of \$13,380 and none of his Social Security benefit would be taxable.

Source: "IRS Publication 915, Social Security and Equivalent Railroad Retirement Benefits," Worksheet 1, <https://www.irs.gov/pub/irs-pdf/p915.pdf>.



Benefit Taxation



About 1/3 of Social Security recipients pay taxes on benefits



State taxation may vary

Widow and Widower Survivor Benefits

If death occurs before eligibility for benefits or entitled to benefits after reaching full retirement age (FRA)



Spousal benefit is 100% of primary insurance amount if spouse reached full retirement age



Reduction occurs if spouse had not reached full retirement age



May begin as early as age 60, or as early as age 50 if disabled

Widow and Widower Survivor Benefits

Death when individual retired before FRA and was receiving an amount less than her PIA amount

Spousal benefit is greater of:



What the deceased spouse was receiving

OR



82.5% of what the deceased spouse would have received at FRA (reduced if the surviving spouse begins before FRA)

Widow and Widower Survivor Benefits

Example 1



If receiving benefits based on own work record, individual should determine survivor benefit amount



If survivor benefit is more, benefit will be a combination of benefits that equals the higher amount

Widow and Widower Survivor Benefits

Example 2



Spouse began receiving retirement benefits at full retirement age



Surviving spouse entitled to a 100% survivor benefit (reduced if claimed before full retirement age)

Miscellaneous Considerations and Effect on Benefits



Financial need



Spousal survivor benefits



Retirement plan assets



Nonqualified assets



Part-time work



Health considerations



Longevity annuity contracts

Financial Need



Two different considerations

1

Retirement vs. Social Security start date

2

Financial need may dictate an early Social Security start date

Spousal Survivor Benefits



Important for determining
Social Security start date



Advantage of delaying Social
Security start date



Ages may come into play

Retirement Plan Assets



Optimize retirement
income



May be used to delay Social Security and increase future benefits



Tax efficiency considerations

Nonqualified Assets



Invest with after-tax contributions



Used to gain 8% per year increase in future Social Security benefits



Tax efficiency considerations

Part-Time Work



Won't affect Social Security benefits if working at full retirement age



May allow for delayed Social Security start date



May allow for increase in future spousal benefits



More likely if starting Social Security at age 62 was a financial necessity

Health Considerations



Individuals may not be able to work as long as they'd like



May dictate Social Security start date



Early start date considerations vs. future spousal benefits

Longevity Annuity Contracts



Avoid outliving savings



May allow for an earlier Social Security start date



Amount of Social Security survivor benefits may become less important

Divorced Spouse Benefits



May be eligible to claim
a **50%** spousal
benefit at full
retirement age

Must have attained
age **62**, been married
for at least **10** years,
and be currently
unmarried when an
individual files a claim

May file a claim if
ex-spouse is eligible for
benefits even if she has
not yet claimed retirement
benefits, if divorced for
at least **2** years

Divorced Spouse Benefits

May claim 100% of deceased spouse's retirement benefit even if another spouse is claiming on the same record

An individual who was born on January 2, 1954, or later and has worked is deemed to be filing on both her record and her ex-spouse's record. She would receive benefits based on her record first and additional amounts based on her ex-spouses work record.



Questions?

Thank you for attending

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