



Social Security and Your Retirement

November, 2016

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ACI-957869

Social Security – Agenda

- The Basics
- How Social Security Works
- When Is the Best Time to Begin Taking Social Security?

What is Social Security?

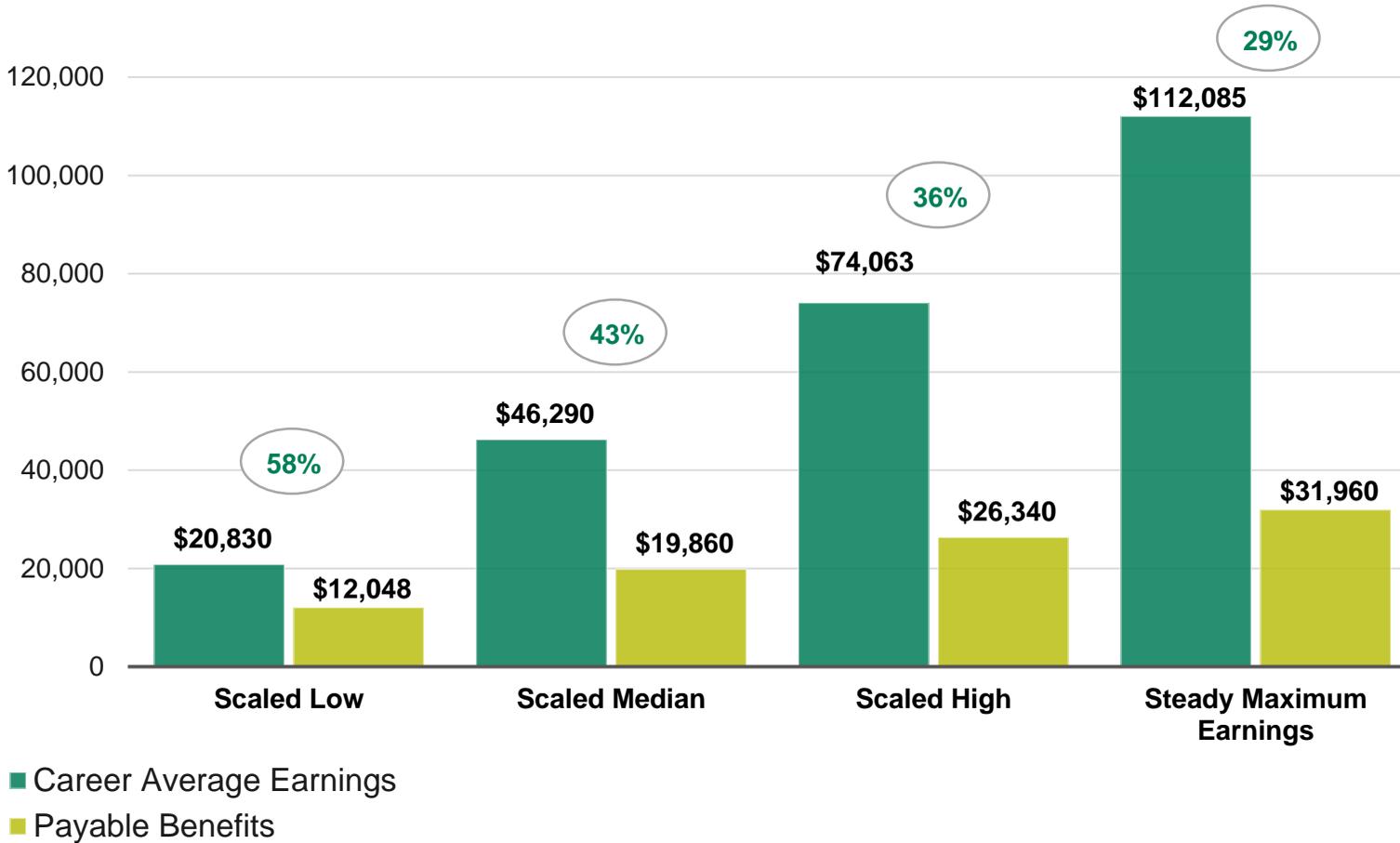
- Social Security is an entitlement granted by an act of congress in 1935
 - Life expectancy in 1935, Male – 59.9, Female – 63.9
- While considered a “retirement” program – social security also provides:
 - Disability benefits
 - Benefits to your survivors
- Provides for automatic cost of living adjustments annually
 - Average COLA since 2000 – 2.3%
 - No COLA increase for 2016

How Many People Receive Social Security?

- The largest source of retirement income for most elderly Americans
- 59 million people receive Social Security benefits, in one of three categories:
 - Retirement insurance
 - Disability insurance
 - Survivor insurance
- 1 in 5 Americans gets Social Security benefits
- About 1 in 4 households receives income from Social Security

How Do Benefits Compare to Earnings?

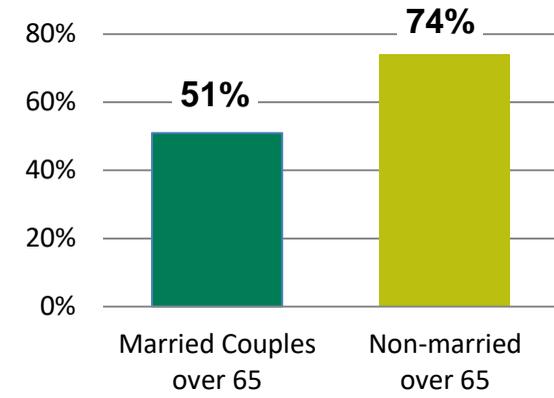
Replacement Rates for Retired Worker Age 66, 2016



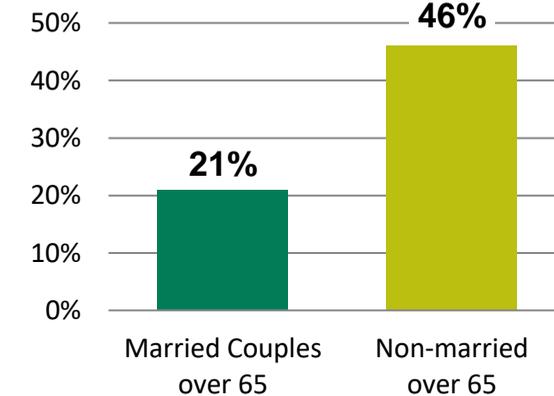
How Many People Rely on Social Security for Most of Their Income?

- In 2013, 85% of married couples and 84% of non-married persons aged 65 or older received Social Security benefits
 - Social Security was the major source of income (at least 50% of total income) for 51% of aged beneficiary couples and 74% of aged non-married beneficiaries
 - It was 90% or more of income for 21% of aged beneficiary couples and 46% of aged non-married beneficiaries

Major Source (50%)



Greater than 90%



NOTE: The unit of analysis is the aged unit, defined as a married couple living together or a non-married person, which also includes persons who are separated or married but not living together.

How Social Security Works – Estimated Average Benefits

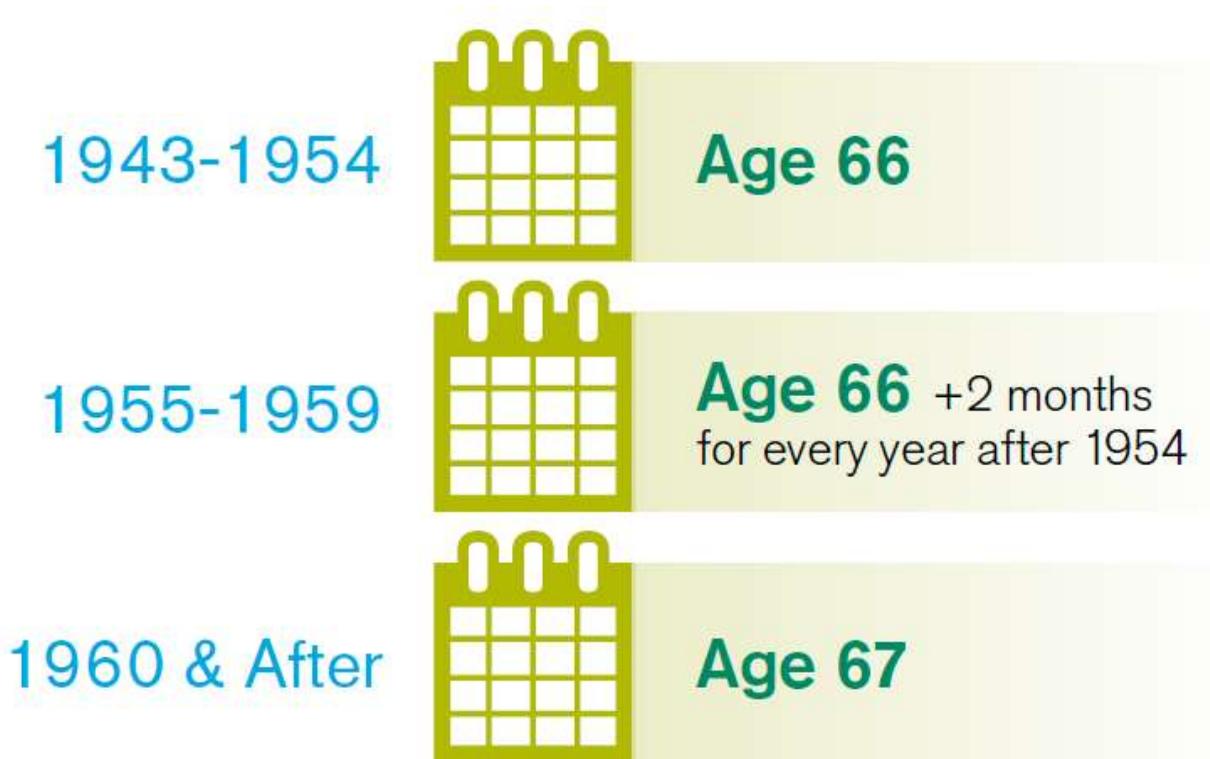
Type of Beneficiary	Average Monthly Benefit after COLA (January 2016)	Average Yearly Benefit
All retired workers	\$1,341	\$16,092
Aged widow(er), non-disabled	\$1,285	\$15,420
Aged couple, both receive benefits	\$2,212	\$26,544

How Social Security Works – Calculating Your Benefit

- Most individuals need 40 credits to qualify for benefits, In 2016 – you earn one credit for each \$1,260 in wages or self-employment income
- Your benefit amount is computed using “Average Indexed Monthly Earnings” (AIME)
 - 35 years of a worker’s indexed earnings
- For 2016, Primary insurance amount (PIA) equals
 - 90% of the first \$856 of AIME
 - plus 32% of AIME over \$856 through \$5,157
 - plus 15% of AIME over \$5,157
- Maximum Social Security benefit
 - \$2,639 per month for workers retiring at full retirement age in 2016

Age to Receive Full Social Security Benefits

Called "full retirement age" (FRA)



If you were born on January 1st of any year you should refer to the previous year. (If you were born on the 1st of the month, we figure your benefit (and your full retirement age) as if your birthday was in the previous month.)

How Social Security Works – Spousal Benefits

- Sam's spouse Kathy – may receive up to 50% of the primary worker's benefits
- Eligible for the higher of her own benefit or her spousal benefit:
 - Sam's benefit = \$2,000
 - Kathy's benefit = \$800
 - Kathy's spousal benefit = \$1,000
 - Kathy will receive \$1,000
- Can't apply for spousal benefit until spouse has filed for Social Security
- Sam and Kathy must have been married for at least 12 months

How Social Security Works – Surviving Spouse Benefits

- Surviving spouse – receives higher of either their own benefit or their deceased spouse’s benefit:
 - Sam’s benefit = \$2,000
 - Kathy’s benefit is \$1,400 (for this example)
 - Sam passes away
 - Kathy’s benefit – increased to \$2,000

How it works:

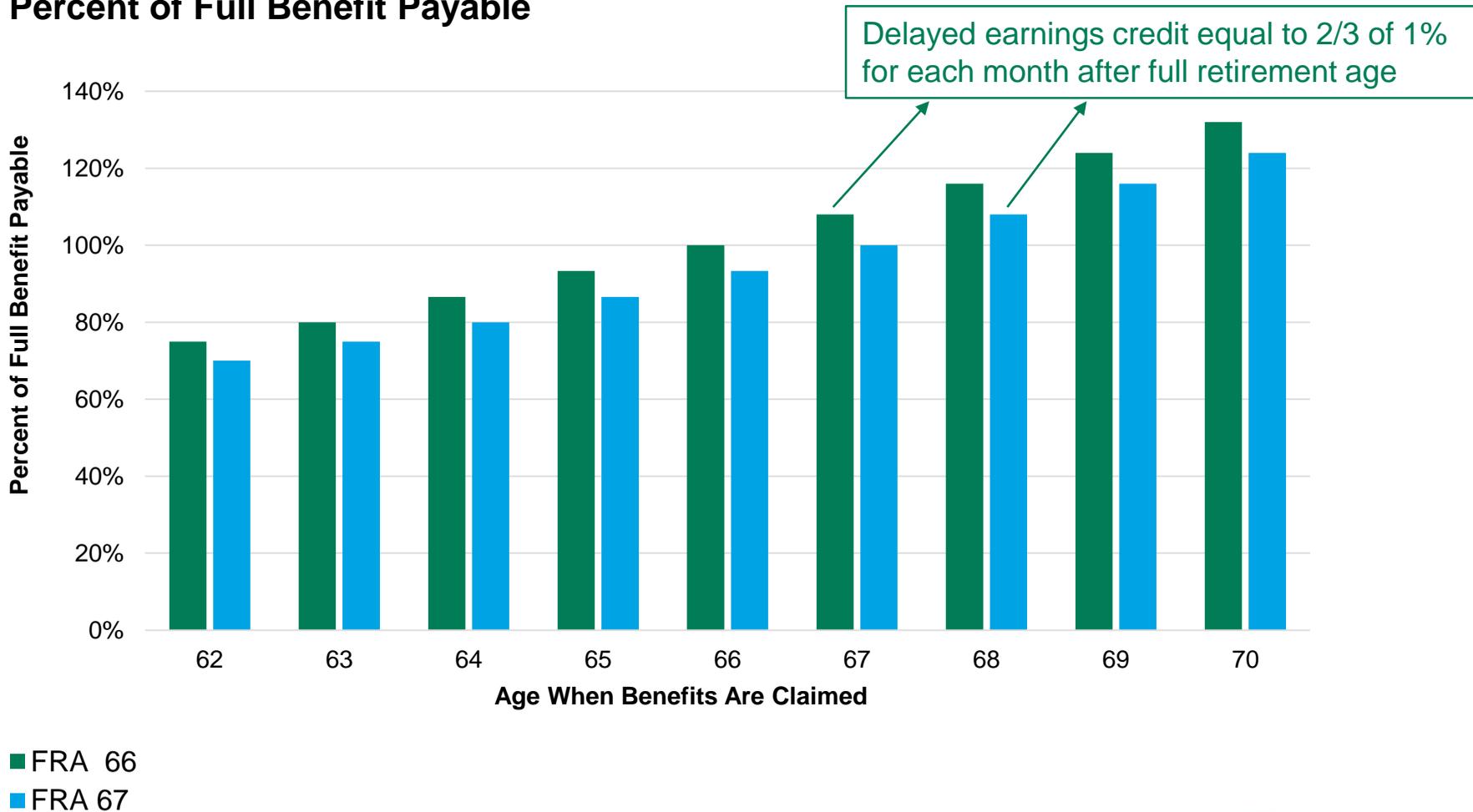
- Kathy must be at least 60 years old (50 years old if she is disabled)
- Sam and Kathy must have been married for at least 9 months prior to his death (with exception for accidents)

How Social Security Works – Additional Benefits

- Former spouses – if age 62 or older, unmarried, and if the marriage lasted 10+ years – can get a benefit based on ex-spouses social security
 - If divorced for at least 2 years and both ex-spouses are at least age 62, the ex-spouse can receive benefits even if you are still working
- Family members may be entitled to benefits as well
 - Children up to age 18 (or 19 if full-time high school student)
 - Disabled children – even if 18 or older
 - Generally – children’s benefits available only to unmarried children

Increase in Full-Retirement Age (FRA) Lowers Benefits at Any Age They Are Claimed

Percent of Full Benefit Payable



Social Security Online Benefit Calculators

Social Security Online
www.socialsecurity.gov

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Office of the Chief Actuary

[Benefit Calculators](#)
[Frequently Asked Questions](#)

 **Social Security Quick Calculator**

Benefit estimates depend on your date of birth and on your earnings history. For security, the "Quick Calculator" does *not* access your earnings record; instead, it will [estimate your earnings](#) based on information you provide. So benefit estimates made by the Quick Calculator are rough.

Although the "Quick Calculator" makes an initial assumption about your past earnings, you will have the opportunity to change the assumed earnings (click on "See the earnings we used" after you complete and submit the form below).

You must be at least [age 22](#) to use the form at right.

Lack of a substantial earnings history will cause retirement benefit estimates to be unreliable.

Enter your date of birth (month/day/year format) / /

Enter earnings in the current year: \$

Your annual earnings must be [earnings covered by Social Security](#).

If you entered 0, we assume you are now retired. Enter the last year in which you had covered earnings and the amount of such earnings.
Year: Earnings: \$



How Social Security Works – Potential Reductions in Benefits

- Applies to individuals receiving social security benefits and have not yet reached full retirement age
- The amount of the reduction will depend on Full Retirement Age (FRA) and the number of months until you attain FRA, 5/9 of 1% for 36 months and 5/12 of 1% additional months
- Example of benefit reductions before normal retirement age:

Full Retirement Age	Percent Reduction if 62
66	25%
67	30%

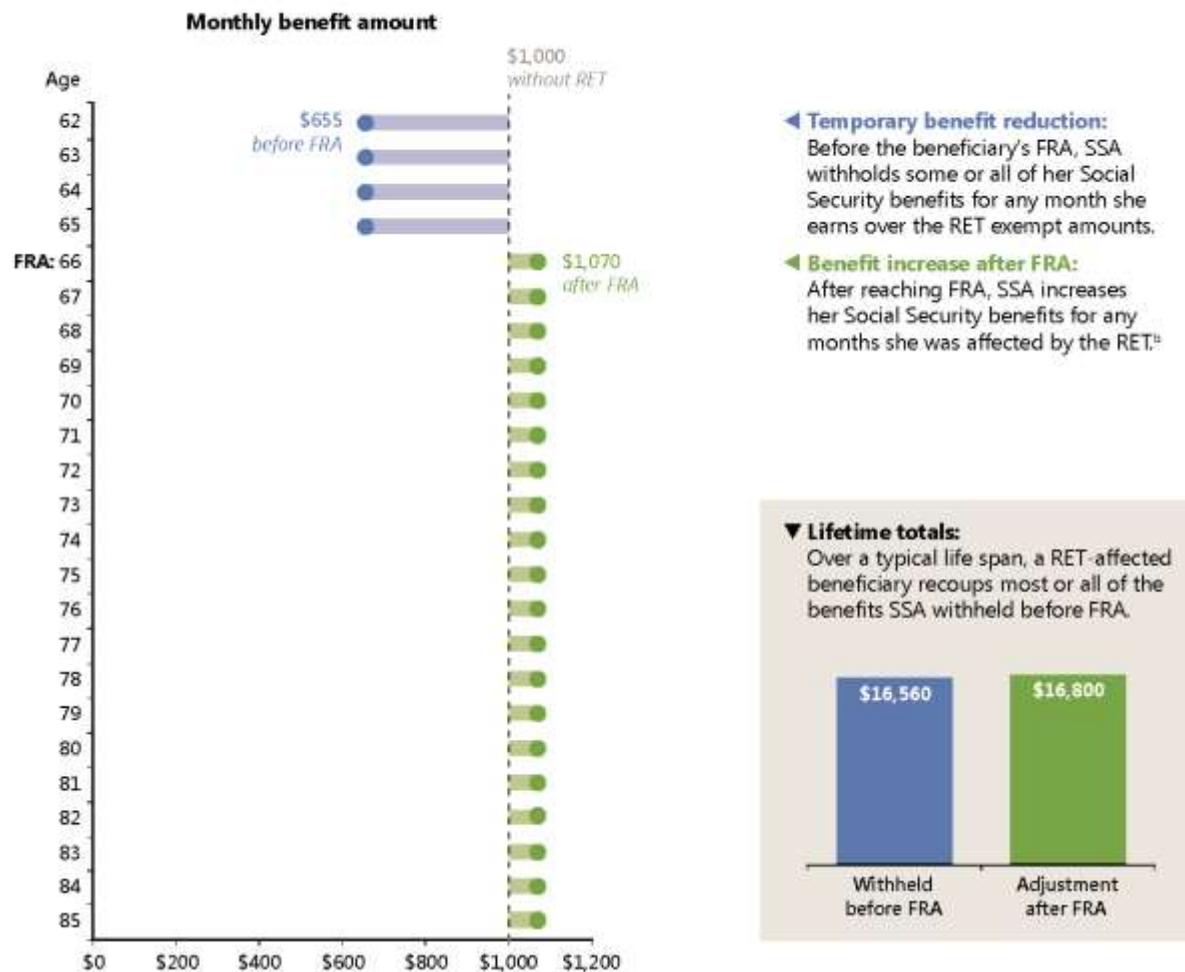
How Social Security Works – Potential Reductions in Benefits

- Government Pension Offset
 - If covered under the civil retirement system rather than Social Security, spousal and/or survivor benefits will be reduced
 - Spousal benefits and survivor benefits will be reduced by $2/3$ of the amount of your pension

- Windfall Elimination Program (WEP)
 - If covered under the civil retirement system and also Social Security, your PIA will be reduced by through the WEP
 - PIA formula:
 - 90% of the first \$856 of AIME
 - 32% of AIME between \$856 and \$5,157
 - 15% of AIME over \$5,157
 - If WEP applies, reduce the 90% to 40%
 - WEP is phased out for individuals who have substantial earnings covered by Social Security between 20-30 years

Retirement Earnings Test

Monthly Benefits and Lifetime Totals for Hypothetical Beneficiary Affected by RET^a



- In 2016, if earnings exceed \$15,720
 - For every \$2 over the above limit - \$1 is withheld from social security benefit
- In the year that you reach full retirement age, the limit for that year goes to \$41,880
 - For every \$3 over the above limit, \$1 is withheld from benefit until the month you reach full retirement age
- The illustration shows how the RET works for a hypothetical female beneficiary who claims benefits at age 62, works until age 66 earning \$24,000 a year, and lives to age 86.^a

a. We assumed that the beneficiary received a monthly benefit of \$1,000 before the RET, which factors in the reduction for early retirement. Full calendar year benefits are assumed and annual adjustments for cost-of-living and RET exempt amounts are not shown.

b. At FRA, SSA recalculates a beneficiary's benefits to give him or her credit for any months in which benefits were withheld by adjusting the reduction factors that were used when first applying for benefits. SSA also checks working beneficiaries' records every year to see whether the additional earnings will increase monthly benefits.

Source: www.socialsecurity.gov/retirementpolicy

How Social Security Works – Taxation of your Benefits

- For Single filers (and a qualifying widow(er):
 - If “combined” income is between \$25,000 and \$34,000 – you may have to pay income tax on up to 50% of your benefits
 - If “combined” income exceeds \$34,000 – up to 85% of your benefits may be taxable

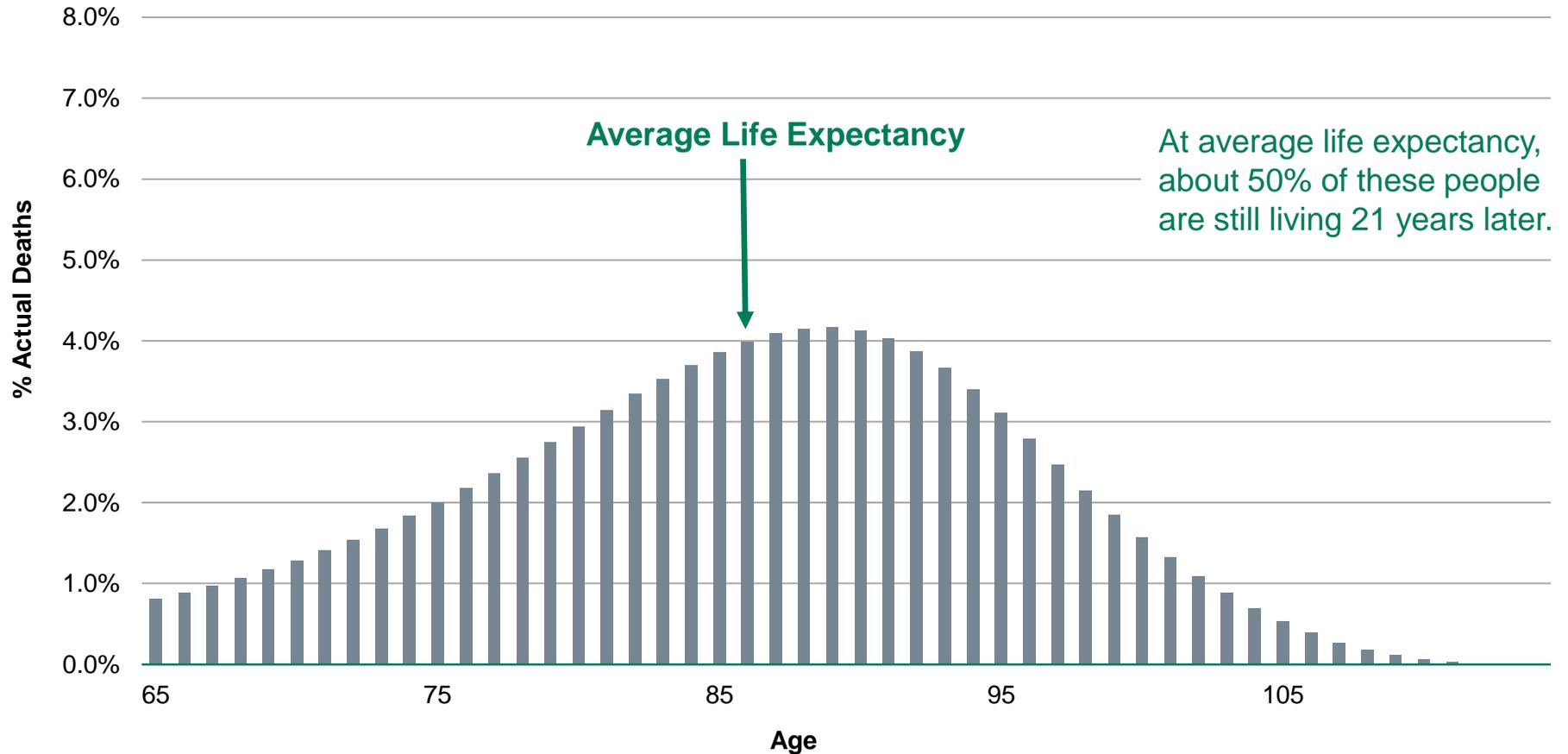
- For Joint filers:
 - If “combined” income is between \$32,000 and \$44,000, may have to pay income tax on up to 50% of your benefits
 - If “combine” income exceeds \$44,000 – up to 85% of your benefits may be taxable

- Combined income: Modified Adjusted gross income (MAGI)
 - + nontaxable interest income
 - + ½ of your social security benefits
 - = combined income

When Is the Best Time to Begin? – Depends on Longevity

Annual Percentage of Deaths

Population of 65 Year-Olds



When Is the Best Time to Begin Taking Social Security?

- Three key factors to consider
 - How long are you planning to work
 - Marital status
 - Health and family medical history

- Here are some general guidelines to consider
 - Married spouse with larger PIA, single men, and single women should claim benefits no earlier than their Full Retirement Age
 - Lower paid spouse, should start benefits early unless benefits would be lost to earnings test
 - Widowed, if your benefit is half that of spouses, claim at 62, widow benefit at 66. If your benefit is higher, claim widow benefit first, maximizing your benefit later
 - Divorced, higher paid than former spouse, claim early on former spouse's record to maximize your own benefit at 70. If lower, claim your own record first to maximize spousal benefit (assumes FRA)*

When Is the Best Time to Begin Taking Social Security?

- Collecting Social Security benefits **early** will decrease your monthly payment amount

Full Retirement Age	Percent Reduction if 62
66	25%
67	30%

- **Delaying** Social Security benefits can increase your monthly payment amount, FRA age 66
 - If you wait until age 66, your payments may be as much as **30 percent higher** than if you start claiming at 62
 - If you wait until age 70, the monthly payments are at least **75 percent more** than if you start claiming at 62

Social Security Changes Included in 2015 Budget Act

Deemed Application for All “Claim Now, Claim More Later” Restricted Application Strategies

- Deemed application rules will apply to *all* benefits regardless of age vs. currently only to prior to FRA for those who attain age 62 after 2015.

Suspending All Benefits under File and Suspend

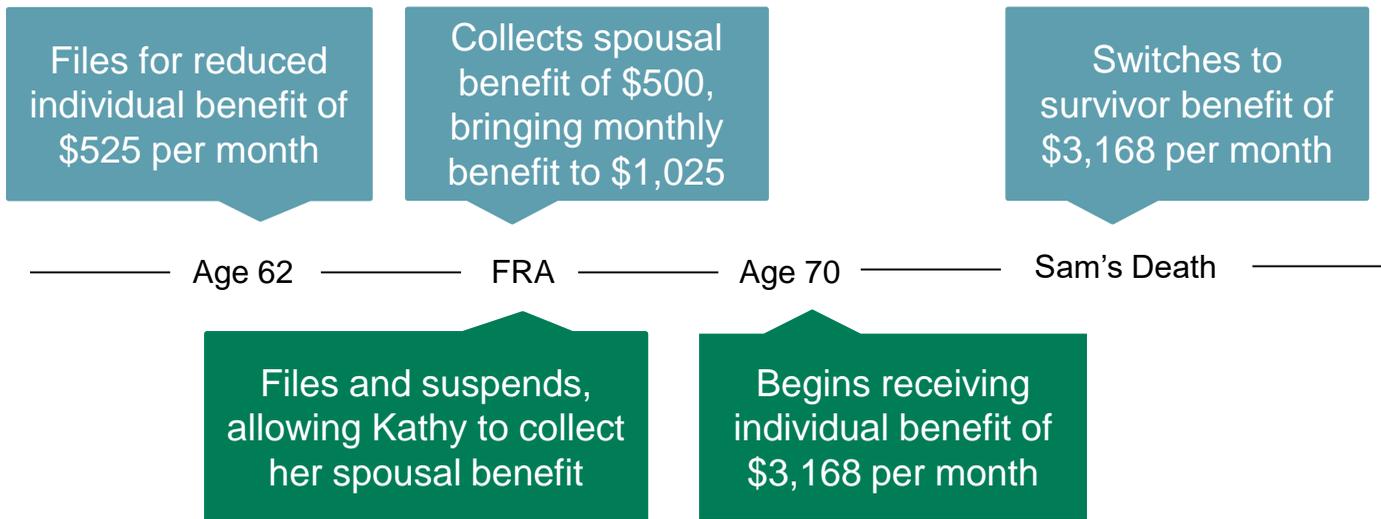
- After April 29th, all benefits payable to that individual will be suspended and also based on any other person’s earnings record (i.e., spousal benefits).
- No other individual will be eligible for benefits based on the earnings record of the person who voluntarily suspends benefits.
- No retroactive benefits shall be payable to such individual.



File and Suspend – Large Difference in Earned Income

(Available Until Approximately April 29)

Kathy, PIA = \$700, Full Retirement Age = 66



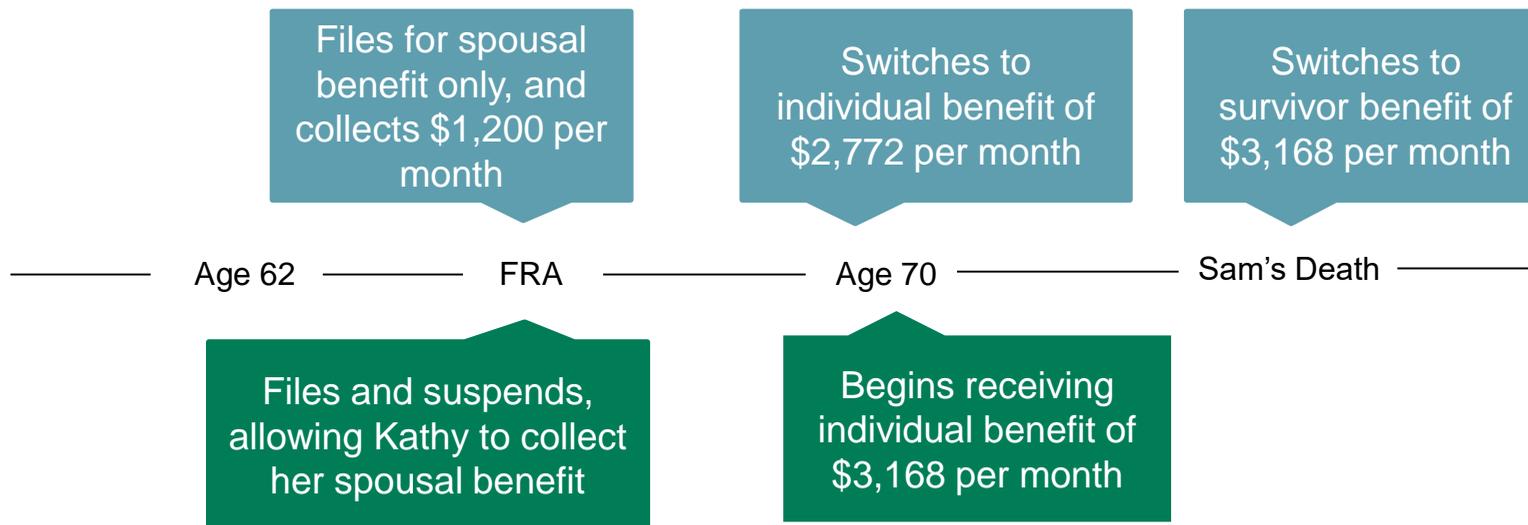
Sam, PIA = \$2,400, Full Retirement Age = 66



File and Suspend – Strategy Similar Earned Income

(Available Until Approximately April 29)

Kathy, PIA = \$2,100, Full Retirement Age = 66



Sam, PIA = \$2,400, Full Retirement Age = 66



Survivor Benefits Are Unique from Other Retirement Benefits

Kathy, PIA = \$2,000, Full Retirement Age = 66



Sam, PIA = \$2,000, Full Retirement Age = 66



Can You Reset Social Security Benefit? Do-Over Option

- Original option allowed individuals to collect benefits at 62, and pay back benefits at any time up to age 70
 - The do-over allows an individual to **repay benefits received** and restart monthly benefits at the higher amount
 - Effective December 2010, a withdrawal decision must be made within 12 months of the original election and each individual is only granted one withdrawal per lifetime

Social Security – Filing for Benefits



How to File

- Via the Internet at www.socialsecurity.gov
- In the office or over the telephone
- For an appointment, call 1-800-772-1213

When to Contact Social Security

- Up to 3 months before you retire or attain age 62
- If over age 62, review your benefit options to determine when to start



Social Security Planning Worksheet

Social Security Information

- 1) What is your current age? _____
- 2) What is your spouse's current age? _____
- 3) Are you planning to work until your Full Retirement Age? Yes No Maybe
- 4) Is your spouse planning to work until Full Retirement Age? Yes No Maybe
- 5) Are you considering delaying Social Security benefits past Full Retirement Age? Yes No Maybe
- 6) Will you continue working in retirement? Yes No Maybe
- 7) Do you have sufficient financial resources outside of Social Security to meet your income needs? Yes No
- 8) Are you planning for survivor benefits? Yes No
- 9) Do you have any health concerns or concerns about a shorter life expectancy? Yes No

Financial Information

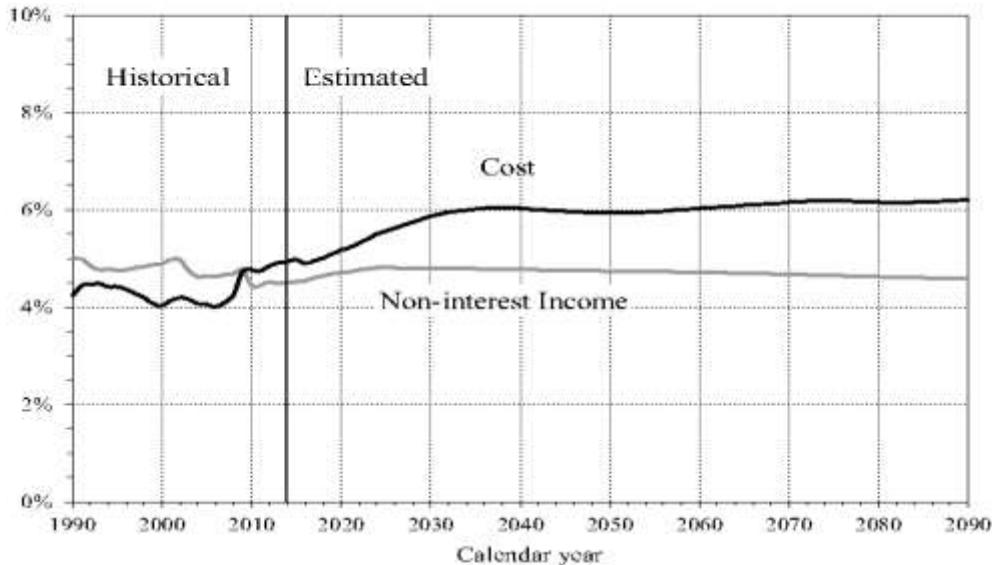
Do you/your spouse have:

	You		Your Spouse	
	Yes	No	Yes	No
A 401(k) plan with current or previous employer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Assets in IRA accounts?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other assets?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Any fixed or variable annuities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



Social Security Cost as a Percentage of GDP

Figure I.D.5.—OASDI Cost and Non-interest Income as a Percentage of GDP



- 2015 Trustee's Report states that Social Security is fiscally unsustainable.
- In 2034 the Social Security trust funds will be depleted.
- Estimated tax receipts will be sufficient to pay approximately 79% of benefits.

Unlikely that Social Security benefits for current retirees will be substantially affected by reform proposals that might emerge.

Final Notes – the Future of Entitlements

Main categories for closing the gap – increase taxes, or reduce benefits, both difficult to achieve

Possible options:

- Increase taxes
 - Apply Social Security tax to all wages
 - Increase payroll tax to 15.02% from the current 12.4%
- Retirement age - gradually raise the full retirement age to 68 in 2033, 69 in 2039, and 70 in 2063
- Cost-of-living adjustments – adopt new inflation index called the chained CPI
- Adjust Benefits
 - Immediate and permanent reduction of 16.4%
 - change the calculation for initial benefits for those with lifetime wages above national average

Summary

- The Basics
 - Social Security benefits can be an integral part an overall retirement planning strategy
- How Social Security Works
 - Understand eligibility and how benefits are determined
 - Understand how working in retirement may affect benefits
- When Is the Best Time to Begin Taking Social Security?
 - Evaluate social security and how to integrate benefits into a financial plan for retirement years including when to begin
 - Consider options to maximize benefits while reducing potential tax liability



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