Will *You* Be Able To Count On Social Security?

Stop Guessing ... Get The Facts And Quit Worrying About *Your* Future!

Integrated Planning Strategies, LLC
1031 Raisher Drive, St. Louis, MO. 63130
(314) 489-4019
jhtobin.architect@gmail.com
www.IntegratedPlanningStrategiesLLC.com

INTEGRATED PLANNING STRATEGIES

Introduction

The most common question we hear about Social Security is, "I know I can't outlive my Social Security benefit, but will Social Security provide me with enough income when I stop working?" Here's a fact that may surprise (and possibly scare) you: Social Security may replace up to 57% of lower income workers' income; however, it may replace only 27% for higher income workers – less than one-third of their income! Ouch!

Now, if we have your attention, then please spend just a few minutes and read on. We'll come back to this first set of facts shortly.

Social Security: What Was It Originally Designed For?

Way back in the 1930s, the entire world began a slide down into economic calamity, commonly referred to as "The Great Depression." Here in the United States most historians point to the stock market crash in October, 1929, as the first very public signal that some very tough times were "a'comin'" very, very soon! And, man, were they right! No matter what date you use for the beginning of the worst economic depression ever, it lasted for most of the 1930s and, in some countries, well into the mid-1940s.

In our country, both rich and poor people were affected: family incomes, business profits, and, obviously, federal tax revenues dropped radically. So, Congress and the President developed a limited form of Social Security as a kind of "social insurance" to help senior citizens who had been hit extremely hard. In August 1935, President Roosevelt signed into law the Social Security Act. What's important to understand today, however, is that Social Security was never meant to be Americans' only source of retirement income; rather, it was designed as a "safety net" and remains as that now.

Here's another startling fact: Social Security pays out nearly two billion dollars in benefits each day! Most of that money is going to retirees and their qualified survivors; however, many people don't understand these benefits due to the complexity of the system and various characteristics of the programs.

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Assuming you've paid into the Social Security program throughout your working life, here are some more helpful facts:

1. You **cannot outlive your Social Security** income no matter how long you live.
2. You will receive **COLA (Cost of Living Adjustments)** automatically as Congress authorizes such adjustments.
3. You **don't have to be knowledgeable about investments** or make frequent financial decisions; everything happens pretty much automatically.

So, most folks – no matter which way they lean politically – believe that Social Security is an important and valuable program.

Is Social Security Hard To Qualify For?

After that first question from above ("Will Social Security provide me with enough income when I stop working?"), things get a little complicated! But stick with us, and we'll give you the facts in real, "human" language.

The Social Security system has evolved over the years and now uses a fairly simple method of determining how you qualify for benefits, beginning with the word "credits." **In order to receive your Social Security retirement benefits (payments), every American worker needs to build up forty (40) of these credits over his or her lifetime of working.** The most credits you can accrue in a single calendar year are four (4) credits. The Social Security department then computes your benefits on your highest thirty-five (35) years of earnings adjusted for inflation. If you don't earn any credits in a calendar year, however, that year counts as zero (0) and lowers your average career earnings and your monthly Social Security benefit. **So, paying into the system over the course of your lifetime of work is extremely important.** If you work for a company your entire career, your Social Security contributions are deducted automatically from your paycheck.

OK. So How Do My Social Security Benefits Really Work?

First of all, when you're getting ready to retire, the year in which you were born becomes very, very important … and there's nothing you can do about that!

Social Security has another important abbreviation – FRA – that stands for Full Retirement Age. If you were born, for example, between 1943 and 1954, your FRA is 66 years and 0 months (see the chart to the right for other birth years). So, if you "retire" sooner than your FRA and start drawing your Social Security benefits, you will receive LESS money than if you had waited until you reached your FRA. Conversely, if you "retire" later than your FRA, you will receive MORE money.

Year of Birth	Full Retirement 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 & Later	67

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Another important fact: You can start receiving your retirement benefits as early as age 62, and your spouse can also receive benefits based on the worker's earnings history. Furthermore, a spouse can get up to half (50%) of the worker's full retirement benefit, though it may be reduced if the spouse has not reached his or her FRA (full retirement age). But, and this is also very important, the spouse's worker must have filed for benefits.

Here's another rather "interesting" fact: if you are divorced, a spouse can get Social Security benefits even if his or her ex- has not retired! You must have been married for at least ten (10) years, not have remarried, and be at least 62 years of age. Your ex- must also be at least 62. Furthermore, any benefits you receive from your ex's Social Security do NOT impact the benefits your ex's new spouse!

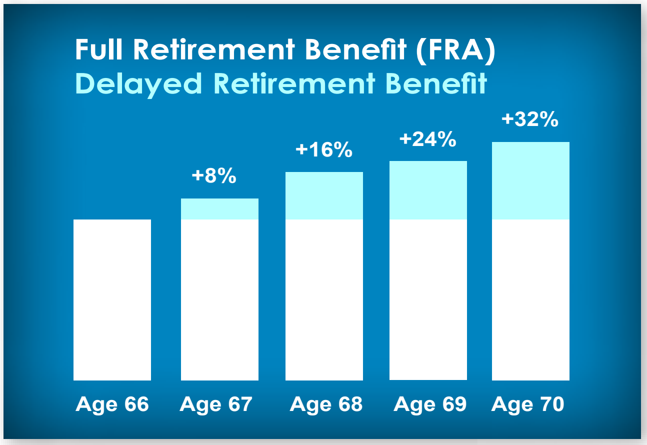
Now, here's one of those facts that most people don't know about: if you choose to retire early, you will experience a **PERMANENT reduction** in your Social Security benefits from that which you would have received at your FRA.

If you file for early retirement, the Social Security Administration will reduce your benefits by five ninths of one percent (5/9ths of 1%) each month for the first thirty-six (36) months PLUS five twelfths of one percent (5/12ths of 1%) for the remaining period until you reach that magical FRA! For example, at age 62, you would experience a PERMANENT reduction of benefits of 25%! That's another big ouch!

It's a little bit different for the spouse of a worker who files for early "spousal retirement benefits." The reduction in benefits is computed using twenty-five thirty-sixths of one percent (25/36ths of 1%) for the first thirty-six (36) months PLUS five twelfths of one percent (5/12ths of 1%) for the remaining period until the spouse reaches his or her FRA. A spouse filing for benefits at age 62 would receive 35% of the worker's full retirement benefit!

So Does Delaying My Retirement Increase My Monthly Benefits?

The simple answer is "yes," and the formula is also pretty easy. Your benefits are increased on a monthly basis at the rate of eight percent (8%) per year from your age 66 up to 70. However, there is a maximum increase of thirty-two percent (32%) over your FRA.



What If My Spouse Dies?

If you are NOT caring for an eligible child, you may receive what are called "survivor benefits" (also known as "widow's or widower's" benefit) as soon as you reach age 60. **In order for you to qualify for survivor benefits, however, the worker (your deceased spouse) must have accrued at least forty (40) of those "credits"** at the time of his or her death if he or she was 62 or older. Interestingly, the Social Security Administration reduces the accrued credits requirement "one by one" each year to a minimum of six (6) credits required if the deceased spouse was 28 years old or younger when he or she died.

It gets a little more confusing as we dig deeper into the rules!

The surviving spouse may receive Social Security benefits as early as age 60 with a reduction for benefits he or she received BEFORE he or she reaches FRA. Also, **a surviving spouse will NOT receive survivor benefits if he or she remarries BEFORE age 60.** However, if you remarry at age 60 or later, you will not be disqualified from your survivor benefits. Furthermore, a divorced spouse who was married for at least 10 years must follow the same rules. But keep in mind that the benefits a divorced spouse receives do NOT impact the benefits the surviving spouse receives.

Next, let's take a look at what is probably the most confusing part of these "survivor" rules. If a deceased worker dies on or before his or her FRA and the surviving spouse is at least his or her FRA, the surviving spouse will still receive one hundred percent (100%) of his or her deceased spouse's FRA benefit. However, if the deceased spouse earned "delayed retirement credits," his or her surviving spouse's benefit will be based on the HIGHER amount. Therefore, at age 60, for example, the minimum benefit would be seventy-one point five percent (71.5%) of the FRA benefit.

Lastly, in this category of rules, a worker does not have to be receiving his or her Social Security benefits in order for his or her survivors to be eligible to receive those benefits.

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What Taxes Might I Be Required To Pay On My Benefits?

Depending on your income and your tax filing status, it is possible that you will face paying some taxes on your benefits. At present, the percentage of your Social Security benefits that may be subject to taxation are at the most, eighty-five percent (85%), some at (50%), or none. The tax rate is based upon the "marginal income tax rate" of the person receiving the benefits. Again, the percentages we quote here are NOT the tax rate but rather are the percentage of the total benefit that MIGHT be subject to tax.

Is It Possible To Experience A Reduction Of My Benefits?

Again, the simple answer is "yes," but that's really not the full answer. Here we go: if you are younger than your FRA and if you earn more money than that which is listed on Social Security tables, you may experience a reduction in benefits. In general, here's how it works:

- You will lose $1 in benefits for every $2 you earn above an annual "earned income threshold" amount. For your year of FRA, full retirement age, you will lose $1 in benefits for every $3 you earn above a "higher threshold."
- Beginning in the month of your FRA, you can earn an unlimited amount with no reduction in your Social Security benefits.
- Now, there is an important distinction here: "earned income" is money you receive from working (your salary, wages, commission, etc.). Any money you receive in interest earnings, capital gains, pension, and annuity income, however, are considered "unearned" and will not cause a reduction of benefits.
- Benefits withheld BEFORE your full retirement age are recaptured starting at full retirement age, resulting in higher monthly benefits later.

Do I Have To File For Social Security Or Is It Automatic?

Once again, the answer is "no, it is not automatic; you have to file for your Social Security benefits." Here are a few of the most important issues about when to file:

- If you are filing as a worker or as a spouse, you should file three (3) months before you want your benefits to start.
- If you are currently eligible to receive survivor benefits, you should file in the month of the death of the worker you are surviving.
- If you are currently ineligible to receive survivor benefits, you should file three (3) months before you turn age 60 or at your retirement, if later.

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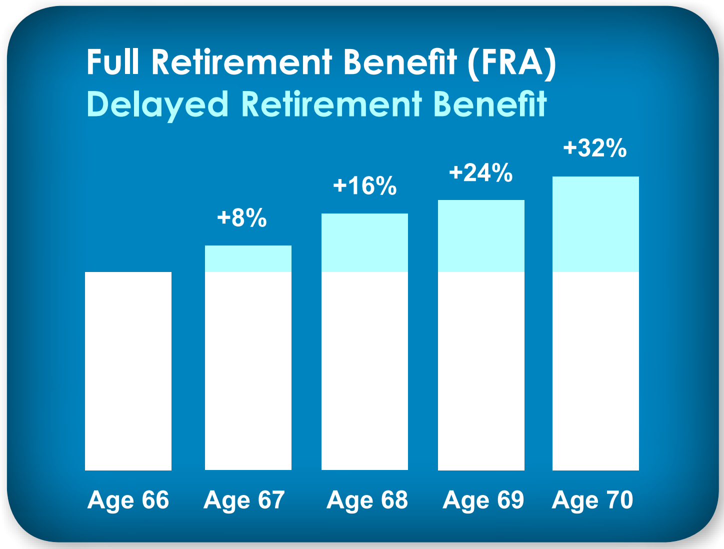
Strategies You Can Use For Claiming Your Benefits

This next section contains sort of a summary of the strategies you should be aware of to prepare for claiming your Social Security benefits. Thousands of words have been written on this subject and many of the folks we talk to find the whole idea of "strategies" to be confusing. But, please, don't skip this section!

How Do I Get The Maximum Amount Of Money In Benefits?

You will find a chart (to the right) that will show you how much more money you will receive simply by delaying your filing for benefits. Ideally, for maximum benefits, delay your filing until you reach age 70. Study the chart carefully and be prepared to be amazed!



If you are married and both of you are working, you may file at different times so that the spouse who earns less can take his or her Social Security benefits at age 62 while the other spouse (who is earning more) may continue to work until age 70.

If poor health is a factor in making your filing decision, you might consider filing early because having an income may be much more important to you than simply maxing out your benefits later. Again, the earliest you can file for retirement benefits is at age 62.

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Is There Any Way To Estimate How Much I Will Receive?

Of course you can estimate how much you will receive in Social Security benefits, especially given the advances in using the Internet. The Social Security Administration has been doing away with paper statements, so now you can access them at www.ssa.gov/estimator and click on "Estimate Your Full Retirement Benefits."

1. Enter your full name, Social Security Number, and your birth date; then enter your mother's maiden name and state where you were born. Hit "Submit." Enter your last year's wages, and hit "Submit" again. The Retirement Estimator will then compute your benefits based on your actual earnings history.
2. You can check the estimates for Reduced Benefits at age 62, your Full Benefits at normal retirement age, and your Maximum Benefits at age 70.

Valuable Social Security Online Resources

Social Security Administration Website: www.ssa.gov

- SSA Website Resources / Calculators
- Earnings Test Calculator
- Retirement Age Calculator
- Estimate Your Retirement Benefits
- Estimate Your Life Expectancy
- Other Benefits Calculators

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Important Age Milestones That Impact Your Social Security and Retirement Planning

(Gathered from public and governmental sources)

AGE 50

Earliest age a surviving spouse can receive a Social Security widow/widower benefit if disabled. Benefit typically is 71.5% of deceased spouse's full retirement age (FRA) benefit.

AGE 55

Age at which the 10% premature distribution penalty no longer applies for Qualified Employer-sponsored Retirement Plans if there is a separation from service in the year of age 55 or later. (This does not apply to IRAs.)

AGE 59

Age at which the 10% premature withdrawal penalty no longer applies for IRAs and Qualified Employer-sponsored Retirement Plans.

AGE 60

Earliest age a widow/widower can receive a Social Security survivor benefit. Benefit is typically 71.5% of deceased spouse's full retirement age (FRA) benefit.

AGE 62

Earliest age a worker can receive a Social Security retirement benefit. Benefit is 75% of full retirement age (FRA) benefit. For workers born 1955 and later, early retirement benefit is less than 75%. Minimum is 70%.

AGE 62

Earliest age a spouse can receive a Social Security spousal benefit based on worker's earnings history. Benefit typically is 35% of worker's full retirement age (FRA) benefit. For those born in 1955 and later, spousal benefit is less than 35%. Minimum is 32.5%.

AGE 65

Age at which Medicare becomes effective.

AGE 66

Full retirement age for Social Security purposes for workers born 1943 – 1954. Each year thereafter, full retirement age (FRA) increases by two months up to age 67.

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Important Age Milestones That Impact Your Social Security and Retirement Planning

(Gathered from public and governmental sources)

AGE 66

Age at which spouse can receive the maximum 50% of Social Security spousal retirement benefit.

AGE 66

Age at which filing for a restricted benefit from Social Security is available. This permits the higher earning spouse to receive the lower earning spouse's retirement benefit (restricting benefit to just the spousal benefit) while earning delayed retirement credits on his/her own record. The benefit is 50% of the lower earning spouse's full retirement benefit. The lower earning spouse can be receiving his/her own retirement benefits before, at, or after full retirement age.

AGE 66

Age at which reduction in Social Security benefits no longer applies due to excess earnings.

AGE 70

Age in year by which required minimum distributions from Employer-sponsored Retirement Plans and traditional IRAs must begin. Distribution from current Employer-sponsored Plan can be delayed (except for a 5% or over owner) to the later of April 1 following the attainment of age 70 or the year in which the worker retires.

AGE 66

Age at which surviving spouse can receive 100% of deceased spouse's Social Security retirement benefit, including any delayed retirement credits.

AGE 66

Age at which surviving spouse can receive 100% of deceased spouse's Social Security retirement benefit, including any delayed retirement credits.

AGE 67

Full retirement age (FRA) for Social Security purposes for workers born 1960 and later.

AGE 70

Age of maximum Social Security retirement benefit, except for cost-of-living adjustments.

*** **For specific Social Security benefit amounts, please contact the Social Security Administration.**

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Social Security: Filing Early VS. Filing Later

Costs of Collecting Benefits BEFORE Full Retirement Age

Age	Full Retirement Age 66	Full Retirement Age 67
62	25% Reduction	30% Reduction
63	20% Reduction	25% Reduction
64	13.3% Reduction	20% Reduction
65	6.7% Reduction	13.3% Reduction
66	Full Benefits	6.7% Reduction
67		Full Benefits

Reduction Of Benefits According To Your Income

Under Full Retirement Age (FRA)	In the year you reach FRA
Give up $1 in benefits for every $2 you earn above a $15,120 limit	Give up $1 in benefits for every $3 you earn above a $40,080 limit

Benefits of Collecting Benefits AFTER Full Retirement Age

Full Retirement Age 66		Full Retirement Age 67	
Age	Income Amount	Age	Income Amount
66	100%	67	100%
67	108%	68	108%
68	116%	69	116%
69	124%	70	124%
70	132%		

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Now we get to the second, and perhaps, most important part of this paper: Social Security Benefits – in most cases – will not be enough!

As we mentioned at the beginning of this essay, Social Security was not designed to be a complete retirement income, but rather it was created to provide a safety net to help those people who truly need some help during hard times. So, most Americans today should understand that they will need money from other sources in addition to their Social Security benefits to live in the style to which they have become accustomed.

Most people need some combination of other income sources, such as a pension, savings, retirement plans, and/or employment. You might consider IRAs and non-qualified annuities, both deferred and immediate, for lifetime needs. Or, you could consider life insurance to make life easier and more comfortable for your survivors. Your Safe Money Places™ Agent has the knowledge about to help you maximize your Social Security benefits. Also, you should consider building your own Personal Pension Plan so that you will have more retirement income.

Call Integrated Planning Strategies, LLC at (314) 489-4019 for more Social Security facts and for a customized Personal Pension Plan proposal.

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Disclaimer, Sources, and Resources

Sources:

Social Security Administration and Internal Revenue Code, Jan. 2014.

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Valuable Social Security Online Resources

Social Security Administration Website: www.ssa.gov

- SSA Website Resources / Calculators
- Earnings Test Calculator
- Retirement Age Calculator
- Estimate Your Retirement Benefits
- Estimate Your Life Expectancy
- Other Benefits Calculators

Jordan Tobin
Integrated Planning Strategies, LLC
1031 Raisher Drive, St. Louis, MO. 63130
(314) 489-4019
jhtobin.architect@gmail.com
www.IntegratedPlanningStrategiesLLC.com

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