Understanding Social Security Retirement Benefits

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February, 2016

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Agenda

- What's new for 2016?
- Social Security eligibility
- How much will you actually receive?
  - What is your benefit amount?
  - What if you work while receiving benefits?
  - How are the benefits taxed?
  - Other amounts deducted from SS payment
- Benefit planning strategies including NEW RULES
- Social Security Outlook

| 2

What's New for 2016

- 0% COLA
  - If Medicare Part B premiums are withheld from SS, no increase in those either
- Changes to spousal planning strategies
  - File & suspend and restricted applications being phased out

| 3

Social Security Eligibility

- Once you have 40 quarters of earnings history, you are eligible for benefits
  - For 2016, you earn one quarter for each $1,260 of earnings (max of 4 quarters per year)
  - Example:
    - Earn $3,000 for two months of work during the year
    - Earn 2 credits for that year
- Quarters of coverage do NOT impact eventual benefits

| 4

How Much Will You Actually Receive?

What is your benefit amount?
What if you work during retirement?
How are benefits taxed?
Medicare and income tax withholding

Calculating Your Benefit Amount

- Benefit is based on earnings over your 35 highest-earning years
  - If you only worked 30 years, you have five $0 years that lower your overall benefit
- Earnings over annual maximum don’t impact benefits
  - 2016 maximum - $118,500
  - Check your earnings history for accuracy
- Worker with maximum income each year would earn maximum benefit
  - $2,639/month for 2016 retiree at Full Retirement Age

| 6

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Worker's Benefit

Worker is eligible for standard retirement benefit at Full Retirement Age (FRA)

Year of Birth	Full Retirement Age
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 or later	67

| 7

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Taking Benefits Before FRA

- 6.7% annual decrease for up to 3 years early
- 5% annual decrease for more than 3 years early

Apply at age	If FRA = 66	If FRA = 67
62	75.0% *(100%*)*	70% *(100%*)*
63	80.0% *(107%*)*	75% *(107%*)*
64	86.7% *(116%*)*	80% *(114%*)*
65	93.3% *(124%*)*	86.7% *(124%*)*
66	100% *(133%*)*	93.3% *(133%*)*
67		100% *(143%)**

* As compared to age 62 benefit

| 8

Taking Benefits After FRA

- Delayed Retirement Credit (DRC) of 8% per year deferred, plus inflation adjustments

Apply at age	If FRA = 66	If FRA = 67
66	100% *(133%)**	93.3% *(133%)**
67	108% *(144%)**	100% *(143%)**
68	116% *(155%)**	108% *(154%)**
69	124% *(165%)**	116% *(166%)**
70	132% *(176%)**	124% *(177%)**

* As compared to age 62 benefit

| 9

When to Begin Taking Benefits

- So, when does it make sense to start taking benefits?
- Typically a function of Life Expectancy

| 10

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When to Begin Taking Benefits

- Example:
  - Worker retires at end of 2015 at age 62
  - Retiree could receive SS benefits at FRA (age 66) of $2,000/month
  - By starting at age 62, benefit would be reduced by 25% to $1,500/month
  - By deferring to age 70, benefit is increased by 32% to $2,640/month

| 11

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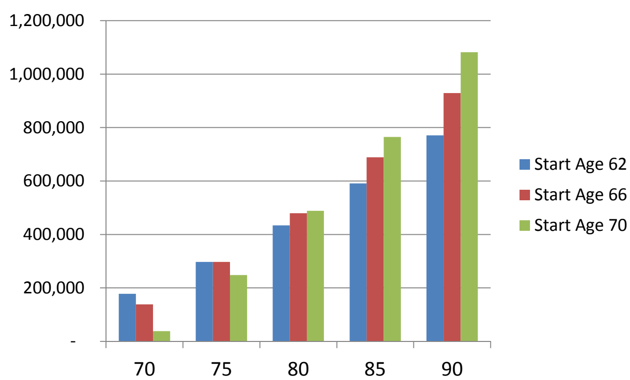
When to Begin Taking Benefits



| 12

What if You Work During Retirement?

- Once you reach Full Retirement Age (FRA), income you earn doesn't impact Social Security benefits
- Before FRA, however, benefits can be reduced
  - Earnings threshold for 2016 = $15,720
  - Benefits reduced by $1 for every $2 over that amount
- **Monthly** earnings test applies in the year of retirement
  - $15,720 / 12 = $1,310
- Higher earnings threshold in the year you reach FRA
  - $41,880 in 2016; benefit reduced by $1 for every $3 over threshold

| 13

What if You Work During Retirement?

- Example:
  - Begin taking benefits at age 64
  - Earn $25,000 during the year, plus receives $12,000 in Social Security
  - Excess earnings = $9,280 ($25,000 – 15,720)
  - Lost benefits = $4,640 ($9,280 / 2)
  - Net benefit = $7,360 ($12,000 – 4,640)

| 14

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How Much of Your Net Benefit is Taxable?

- As Modified AGI goes up, more of your benefits become taxable

Married	Single	Amount Taxable
Less than $32,000	Less than $25,000	0%
$32,000-$44,000	$25,000-$34,000	50%
Over $44,000	Over $34,000	85%

| 15

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Tax Rules for Social Security

- Modified Adjusted Gross Income includes:
  - All sources of income
    - Investment income, capital gains, pensions, IRA withdrawals, etc.
  - Tax-exempt interest income
  - 50% of the Social Security benefit itself
- 13 states still tax benefits in some form*
  - CO, CT, KS, MN, MO, MT, ND, NE, NM, RI, UT, VT, WV
- 30 states exempt benefits from income tax (plus DC)*
- 7 states have no income tax
  - AK, FL, NV, SD, TX, WA, WY

* Kiplinger's State by State Guide to Tax on Retirees, updated November 2015
http://www.kiplinger.com/tool/retirement/T055-S001-state-by-state-guide-to-taxes-on-retirees/

| 16

Other amounts that can be deducted from Social Security

- Medicare premiums
  - Part B premium + IRMAA adjustment
    - Also invokes Hold Harmless provision, when needed
  - Part D
    - Can create admin hurdles when changes are made to plan
    - No Hold Harmless protection
    - IRMAA billed separately
- Income tax withholding
  - Federal
  - State

| 17

Spousal Planning Strategies

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One Worker, Multiple Beneficiaries

- One worker can provide benefits to many individuals:
  - Themselves
  - Spouse
  - Surviving spouse, minor children
  - Ex-spouse
  - Surviving ex-spouse
  - Parents

| 19

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Benefits for a Spouse

- Spouse is eligible for larger of:
  - Benefit based on their own work history
  - 50% of benefit based on spouse's work history (aka spousal benefit)
- **Can't claim spousal benefit until working spouse files for benefits**
- Surviving Spouse is eligible for larger of:
  - Benefit based on their own work history
  - 100% of benefit based on deceased spouse's work history

| 20

Spousal Benefit Planning

- Contradiction in planning:
  - Spouse can't get spousal benefit until worker files for benefits
  - Beginning at age 70 gives a larger lifetime benefit in most cases due to 8% DRC
- Dilemma:
  - How do we earn the 8% DRC while also maximizing the spousal benefit?
- **Answer**: File & Suspend and Restricted Application

| 21

File & Suspend

- Law change in 2000 allows working spouse to file for benefits, but then suspend receipt
  - Filing allows lower-benefit spouse opportunity to claim spousal benefit
  - Working spouse's benefit continues to earn Delayed Retirement Credits (8% per year plus inflation)

| 22

File & Suspend Technique

- **Can only file & suspend once you reach full retirement age (FRA)**
  - Filing before FRA locks you into taking benefits (unless you withdraw application within 12 months)
- Only one spouse can file & suspend
  - Can't each take a benefit on the other's work history

| 23

File & Suspend Technique

- When it applies:
  - Spouse #1 doesn't want to begin benefits themselves, but…
  - Spouse #2 wants to claim a benefit on Spouse #1's earnings history
- What happens:
  - Spouse #1 files for benefits, then immediately suspends receipt
    - Spouse #1 benefit grows 8% per year
  - Spouse #2 is able to begin a spousal benefit
  - Spouse #1 restarts benefits as late as age 70

| 24

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Filing a "Restricted Application"

- If filing for benefits before FRA:
  - Must take largest benefit available to you
  - Could be your own, could be your own plus spousal
- If filing for benefits at FRA or later:
  - Can take just your own benefit
  - Can take your own plus spousal (if available)
  - Can "restrict application" to spousal only
    - Allow your own benefit to grow via DRC, then switch to it later

| 25

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Restricted Application Technique

- When it applies:
  - A spouse doesn't want to begin their own benefit but could take a spousal benefit
    - Usually means delaying a larger benefit into the future for a smaller benefit now
- What happens:
  - Filing spouse applies for spousal benefit only (½ the FRA benefit of their spouse)
  - Filing spouse's own benefit continues growing at 8%/year
  - Filing spouse switches to their own benefit at age 70

| 26

Combining Techniques

- Typical scenario:
  - Higher earning and/or older spouse files and suspends
  - Lower earning and/or younger spouse files restricted application
- Created strategy that was clearly superior at most life expectancy combinations beyond mid-late 70s

| 27

Recent Changes in Spousal Planning Options

- Bipartisan Budget Bill of 2015
  - To help pay for spending increases, changes to Social Security claiming strategies were made

| 28

Recent Changes in Spousal Planning Options

- File and Suspend
  - Those who file and suspend within 6 months of the date that the legislation is enacted will be grandfathered
  - No longer available 6 months after legislation is enacted
    - **April 29, 2016** is the last day to use the file & suspend technique
  - Can still suspend, **but**:
    - All benefits payable to that individual will be suspended (whether their own or someone else's)
    - No other individual will be eligible for benefits on their earnings record

| 29

Recent Changes in Spousal Planning Options

- Restricted Application
  - Will only be available to those 62 or older at the end of 2015 (born in 1953 or before)
  - Deemed filing rule
    - When you file for benefits, you file for all benefits you are entitled to at that time (own plus spousal)
    - Previously only applied up to full retirement age
    - Budget Bill states that deemed filing now applies regardless of when you apply (beyond FRA)
    - Effectively eliminates ability to file restricted application

| 30

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Additional Impact from Changes to Deemed Filing Rules

- For those subject to new rules:
  - Spousal benefit is automatically added at time of filing, if worker has already filed
  - Spousal benefit is automatically added if spouse is receiving own benefit and worker files
    - Benefit – If spouse didn't know about spousal benefit, they won't miss out on it
    - Drawback – Spouse can no longer wait until FRA to claim maximum spousal amount if they filed for own benefit prior to FRA
  - Same rules for divorced spouses
    - Ex-spouses may be contacted proactively to add spousal benefits when appropriate

| 31

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Other Considerations

- **Life Expectancy** – Key determinant, great unknown.
- **Personal Savings** – Enough in investments to provide income in place of Social Security?
- **Legacy Goals** – Someone with substantial legacy goals may wish to begin Social Security earlier to preserve their personal assets.

| 32

Other Considerations

- **Continuing to work** – Social Security can be reduced by employment income
- **Health considerations** – Take Social Security earlier, while healthier and better able to enjoy the extra income
- **Medicare implications**
  - Automatic enrollment
  - HSA considerations

| 33

The Outlook for Social Security

2015 Board of Trustees Annual Report

- Short term outlook (2015-2024)
  - OASI funds (retirement benefits) will be "adequate"
  - DI (disability benefits) failed the short-term test starting 2014
    - DI fund will be completely exhausted in 4th Quarter of 2016
    - Future tax collections projected to cover 75% of scheduled benefits
    - Bipartisan Budget Bill solved shortfall through 2017

Source: 2015 OASDI Trustees Report | 35

Key Dates for the OASDI Trust Funds

	2009 Report	2010 Report	2011 Report	2012 Report	2013 Report	2014 Report	2015 Report
First year outgo exceeds income excluding interest	2016	2015	Now	Now	Now	Now	Now
First year outgo exceeds income including interest			2023	2021	2021	2020	2020
Year trust funds are exhausted	2037	2037	2036	2033	2033	2033	2034

Beyond 2034, ongoing tax revenue will cover 79% of projected retirement benefits, 73% by 2089

Source: 2009-2015 OASDI Trustees Report | 36

Possible Solutions

- Increase the payroll tax rate or income base
- Extend the retirement age (currently max = 67)
- Increase the amount of benefits that are taxable (current max = 85%)
- Private accounts
- Chained CPI (reduced inflation increases)
- Reduce annual benefit amount
- Means testing for benefits

| 37

Helpful Resources

- Social Security Administration website – www.ssa.gov
- IRS Publication 554, Tax Guide for Seniors – available at www.irs.gov

| 38

Questions

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| 40

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