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### Social Security Planning\_ Preparing Your Client for Retirement

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# Social Security Planning: Preparing Your Client for Retirement

August 3, 2022

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*Feature Release 4.1*

August 2020

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# **SOCIAL SECURITY PLANNING: PREPARING YOUR CLIENT FOR RETIREMENT**

August 3, 2022

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**Social Security Planning:  
Preparing Your Client for Retirement**



## Description

Here, we will provide useful guidance that you can use when helping your clients plan for how Social Security will fit into their overall plans for retirement.

Coverage and examples will include:

- How retirement benefits are calculated
- Benefits for married couples and divorcees
- Calculation of the spousal benefit
- Coordination of benefits if both spouses paid into Social Security
- Survivor's benefits
- Taxes and your client's retirement plan

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August 3, 2022

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**David Ghormley, CFA**

MFS Investment Management, Indianapolis



*David Ghormley, CFA*, is Director at MFS Investment Management in Indianapolis.

MFS Investment Management is an active, global asset manager with a uniquely collaborative approach to build better insights for clients. Its investment approach has three core elements – integrated research, global collaboration, and active risk management. Through the combined application of these three principles, the firm works to deliver sustainable investment solutions for the individual and institutional investors it serves.



**Nicole C. McGoff, CDFIA®**

Merrill Lynch Wealth Management, Indianapolis



*Nicole McGoff, CDFIA® - Financial Advisor*

Nicole and her team are passionate about helping their clients live their best financial lives. Her process begins by listening to her clients' goals and needs to providing them with a thorough, educational, and transparent financial strategy.

Nicole began her financial services career in 2010 as a Financial Advisor working with successful families and business owners to build, protect, and transfer their wealth. Most recently, Nicole spent four years at Capital Group|American Funds where she educated Financial Advisors and research teams on investment processes and effective practice management. This experience has allowed her to better service the needs, wants, and wishes of her clients.

Nicole enjoys being an active member of the Assistance League of Indianapolis and other volunteer organizations within her community. She attended Western Michigan University where she played Division I Golf and earned her degree from Indiana University-Purdue University Indianapolis. Her greatest joy is spending time with her husband, Sean, two children, Colin and Maeve, and English Mastiff, Lily.

# Social Security

## Preparing for Retirement



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“Social Security benefits are not intended to be your only source of income when you retire”



Your payment would be about  
**\$1,971 a month**  
at full retirement age

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May 1, 2020

### Your Social Security Statement

This *Social Security Statement* tells you about how much you or your family would receive in disability, survivor, or retirement benefits. It also includes our record of your lifetime earnings. Check out your earnings history, and let us know right away if you find an error. This is important because we base your benefits on our record of your lifetime earnings.

Social Security benefits are not intended to be your only source of income when you retire. On average, Social Security will replace about 40 percent of your annual pre-retirement earnings. You will need other savings, investments, pensions, or retirement accounts to make sure you have enough money to live comfortably when you retire.




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To view your *Social Security Statement* online anytime create a **my Social Security** account today!



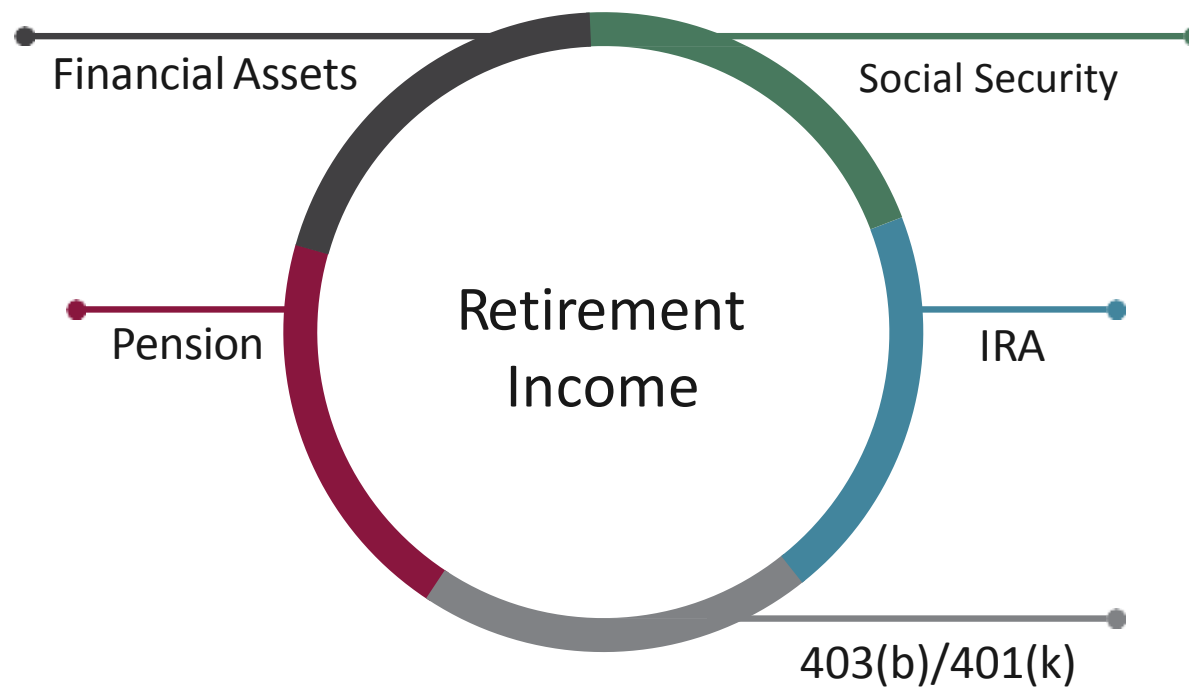
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*Social Security Administration*

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Source: ssa.gov, Sample Statement, 2020

# What's your retirement income picture?



# Agenda

- How retirement benefits are calculated
- Options for married couples and divorcees
- Taxes and your retirement plan

# How retirement benefits are calculated



# Full Retirement Age

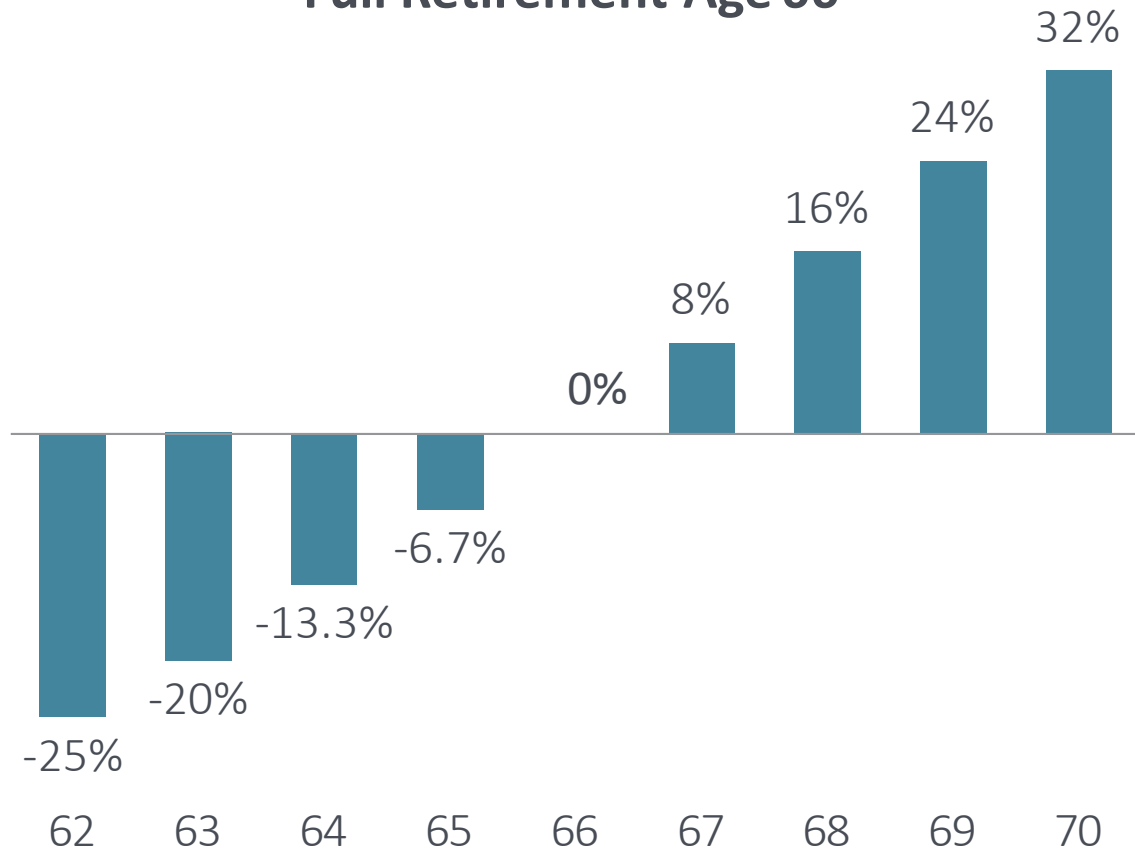
Social Security benefits are based on your Full Retirement Age.

Year of Birth	Full Retirement Age (FRA)
1943-1954	66 years
1955	66 years and two months
1956	66 years and four months
1957	66 years and six months
1958	66 years and eight months
1959	66 years and ten months
1960+	67 years

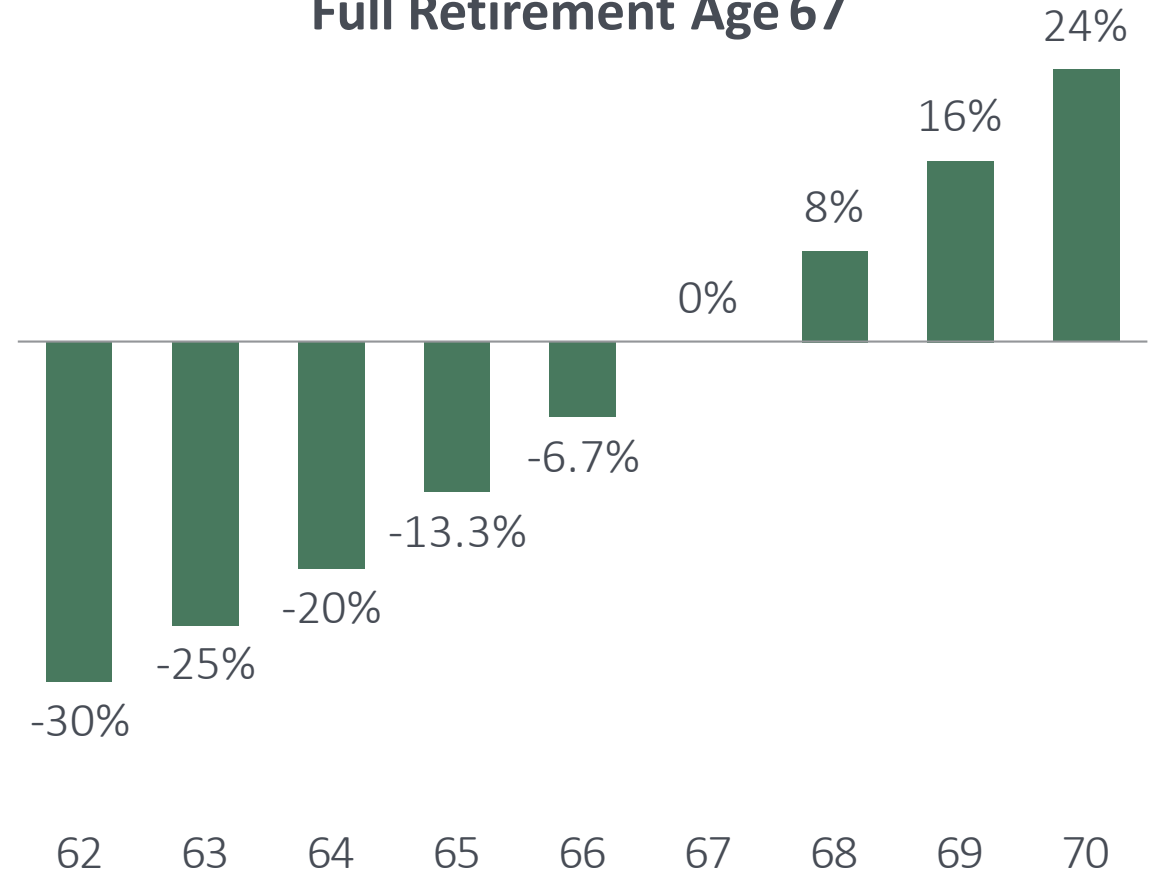
# Retirement benefits

40 quarters to qualify for Social Security retirement benefits; averaged over 35 highest years of earnings

### Full Retirement Age 66



### Full Retirement Age 67



Source: Social Security Administration

## Work and receive benefits

Earnings limit applies to all Social Security benefits (retirement, spousal, survivor, divorce)

	Through year before turning Full Retirement Age	In the year of turning Full Retirement Age	Month you turn Full Retirement Age and older
Earnings Limit (2021)	\$18,960 (\$1,580 per month)	\$50,520 (\$4,210 per month)	No restrictions
Amount of Withholding	\$1 of benefits withheld for every \$2 of earnings above limit	\$1 of benefits withheld for every \$3 of earnings above limit	No restrictions

- Earnings limit looks at wages only. Unearned income (pensions, IRAs, rental income, etc.) does not cause Social Security benefits to be withheld
- Earnings limit applies to wages received after starting Social Security

# Options for married couples and divorcees

# Spousal benefits

Earnings test applies to spousal benefits until Full Retirement Age

## Availability

- Available even if you did not work

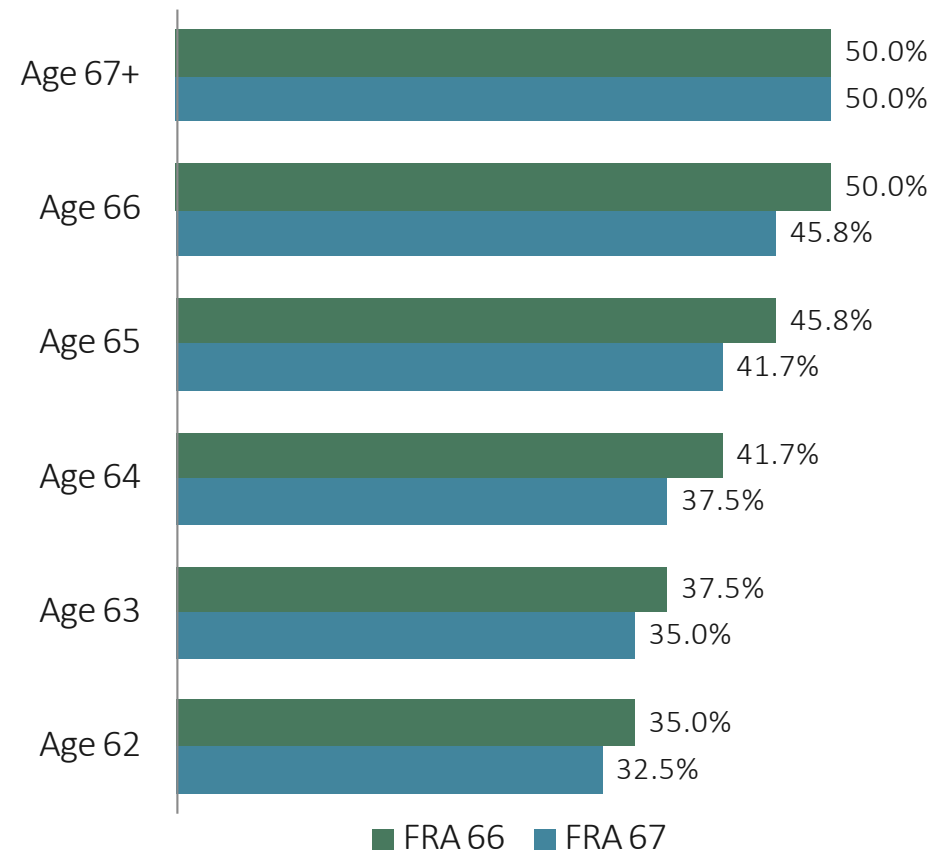
## Requirements

- Must be married to current spouse at least one year
- Your spouse must be receiving his or her retirement benefit

## If both spouses worked

- Generally receive greater of your retirement or spousal benefit\*
- Only one spouse at a time can receive a spousal benefit

Spousal Percent



\*Exception: Restricted application may be available if you were born on or before 1/1/1954  
Source: Social Security Administration

# Calculating spousal benefits

Spousal benefits based on higher earner's benefit at FRA

## Jack and Diane

- Jack is the higher earner
- Diane's retirement benefits are less than spousal benefits
- Jack's annual Social Security retirement benefits at
  - Age 62: \$7,500
  - Age 66: \$10,000
  - Age 70: \$13,200

What is Diane's maximum and minimum spousal benefit?

## Calculating spousal benefit

Jack claims retirement benefit at Full Retirement Age of 66



# Calculating spousal benefit

Maximum spousal benefit at age 66

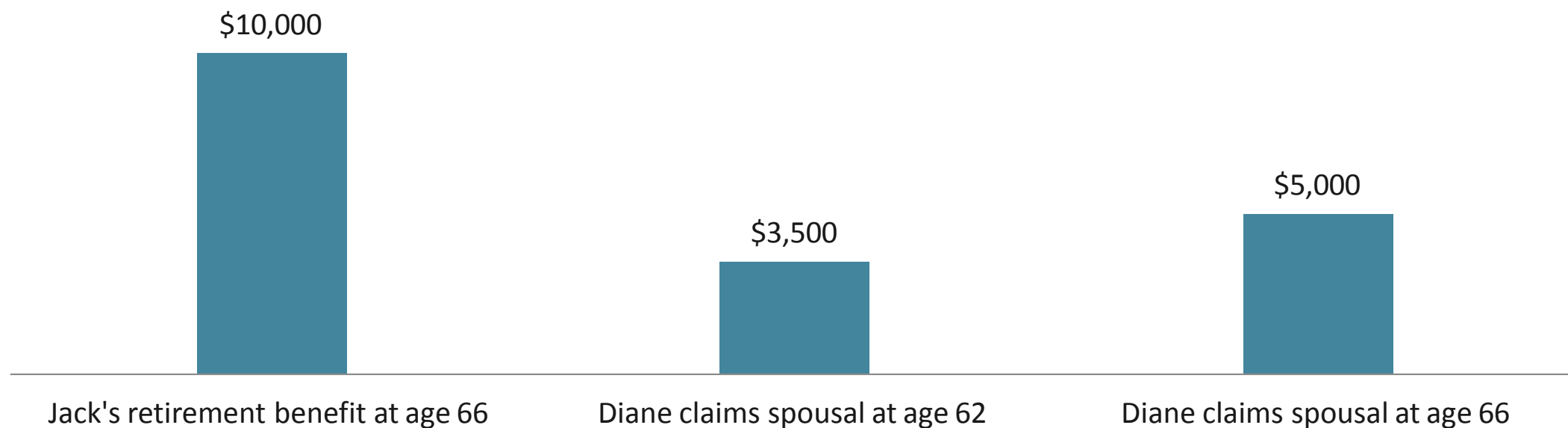


For illustrative purposes only. Based on Full Retirement Age (FRA) of 66. Calculations will vary if your FRA is different. Divorced spousal benefits are recalculated in the same manner.



# Calculating spousal benefit

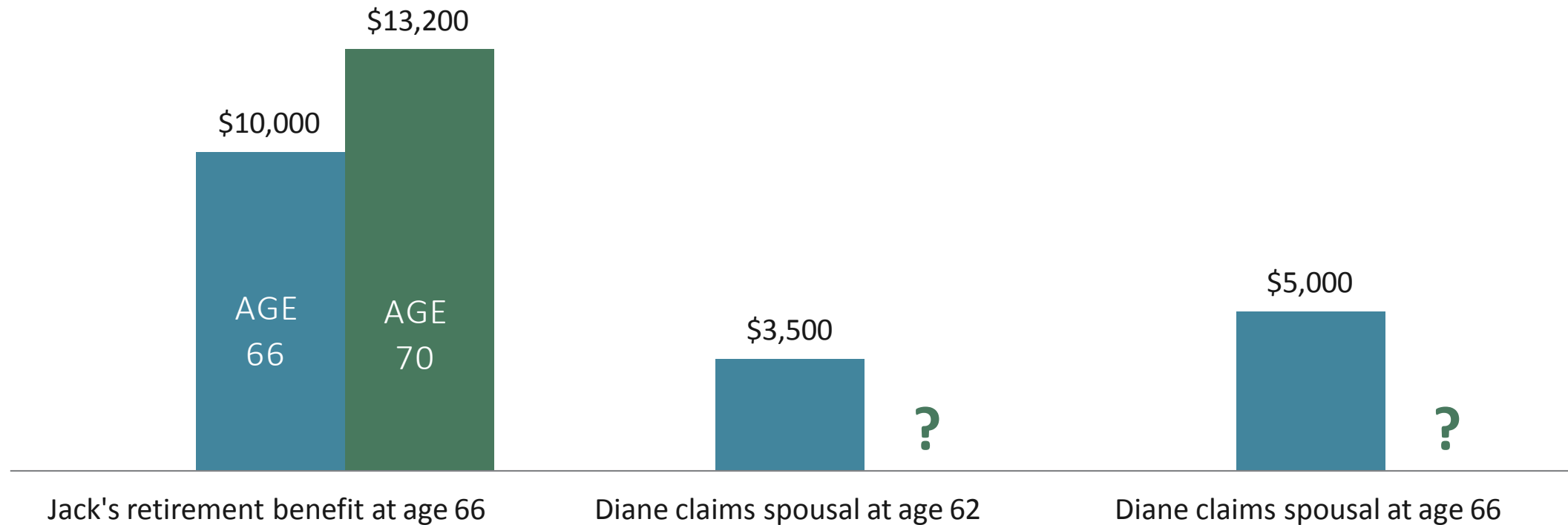
Minimum spousal benefit at age 62



For illustrative purposes only. Based on Full Retirement Age (FRA) of 66. Calculations will vary if your FRA is different. Divorced spousal benefits are recalculated in the same manner.

# Calculating spousal benefit

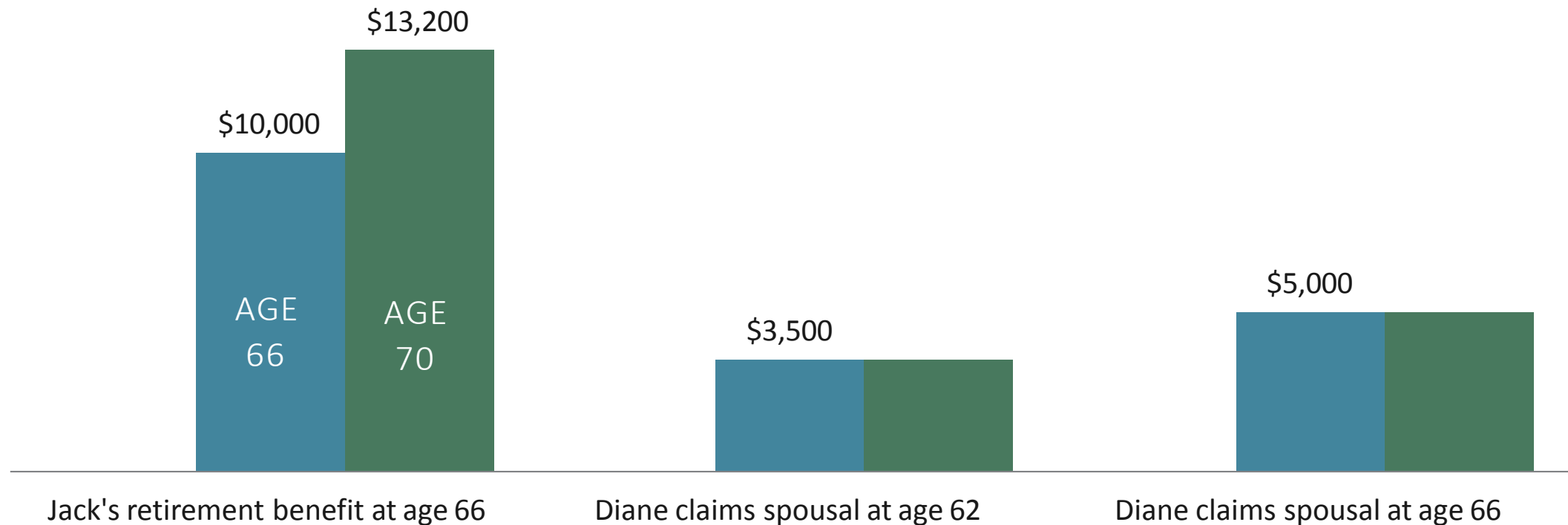
If Jack claims at age 70



For illustrative purposes only. Based on Full Retirement Age(FRA) of 66. Calculations will vary if your FRA is different. Divorced spousal benefits are recalculated in the same manner.

# Calculating spousal benefit

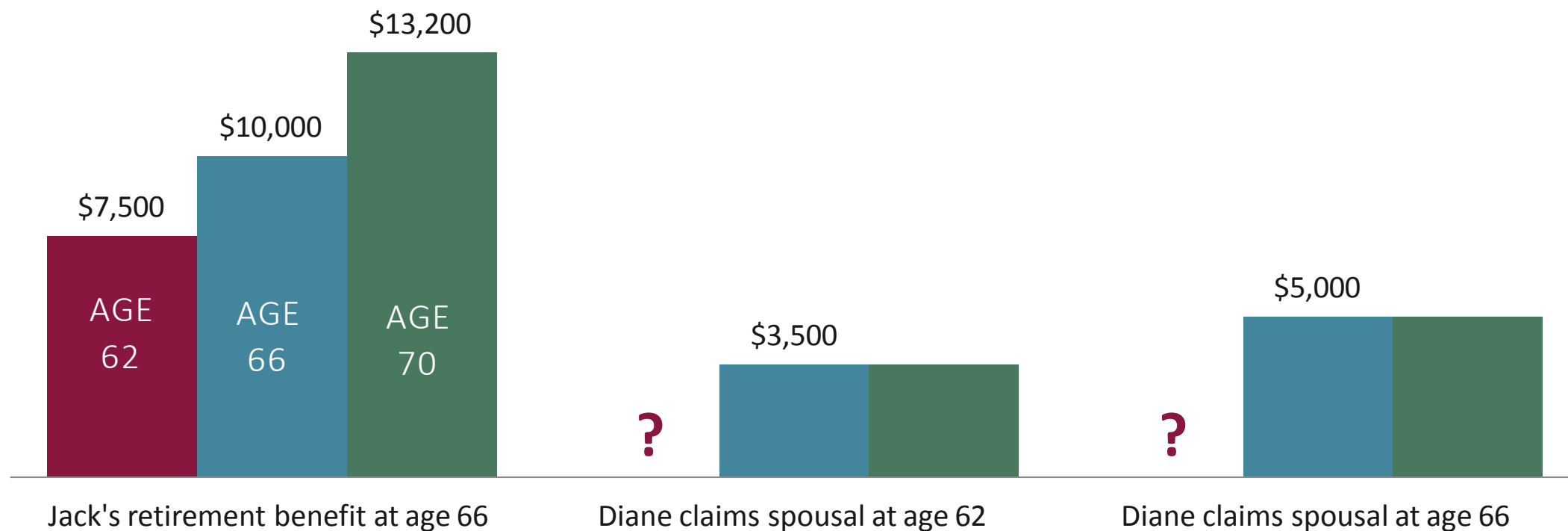
Spousal benefit based on Jack's benefit at his Full Retirement Age



For illustrative purposes only. Based on Full Retirement Age (FRA) of 66. Calculations will vary if your FRA is different. Divorced spousal benefits are recalculated in the same manner.

# Calculating spousal benefit

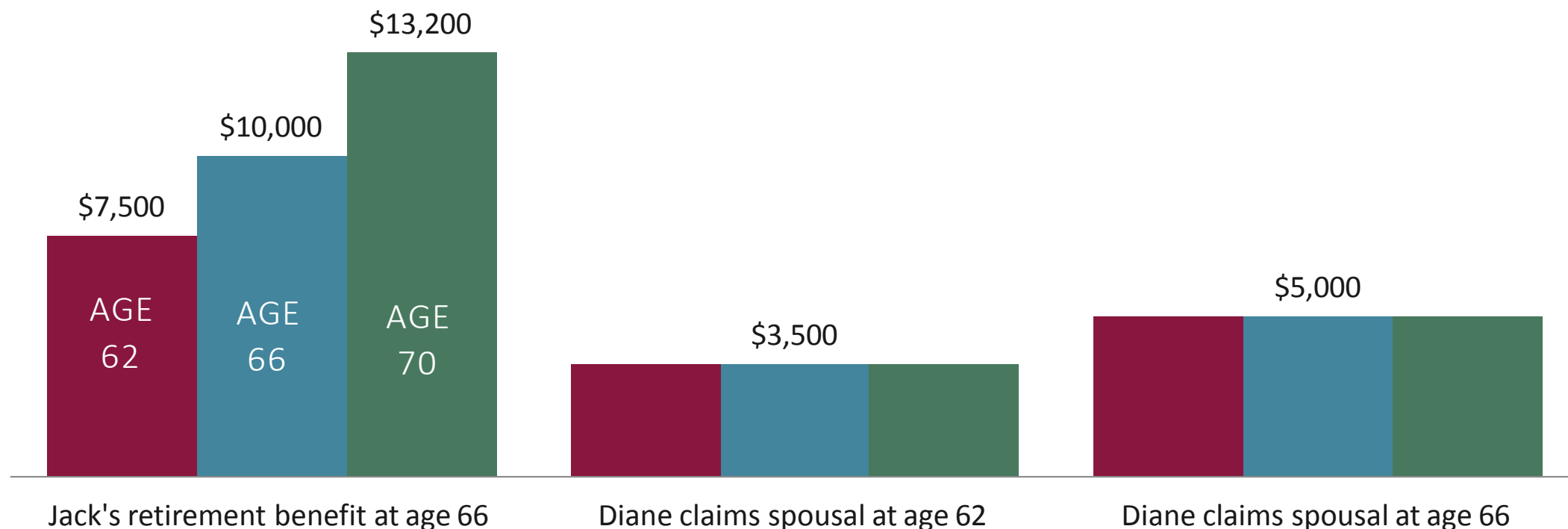
If Jack claims at age 62



For illustrative purposes only. Based on Full Retirement Age (FRA) of 66. Calculations will vary if your FRA is different. Divorced spousal benefits are recalculated in the same manner.

# Calculating spousal benefit

Spousal benefit based on Jack's benefit at his Full Retirement Age



For illustrative purposes only. Based on Full Retirement Age (FRA) of 66. Calculations may vary if client's FRA is different. Divorced spousal benefits are recalculated in the same manner.

## Case study: Spouse with lower Social Security benefit applies first

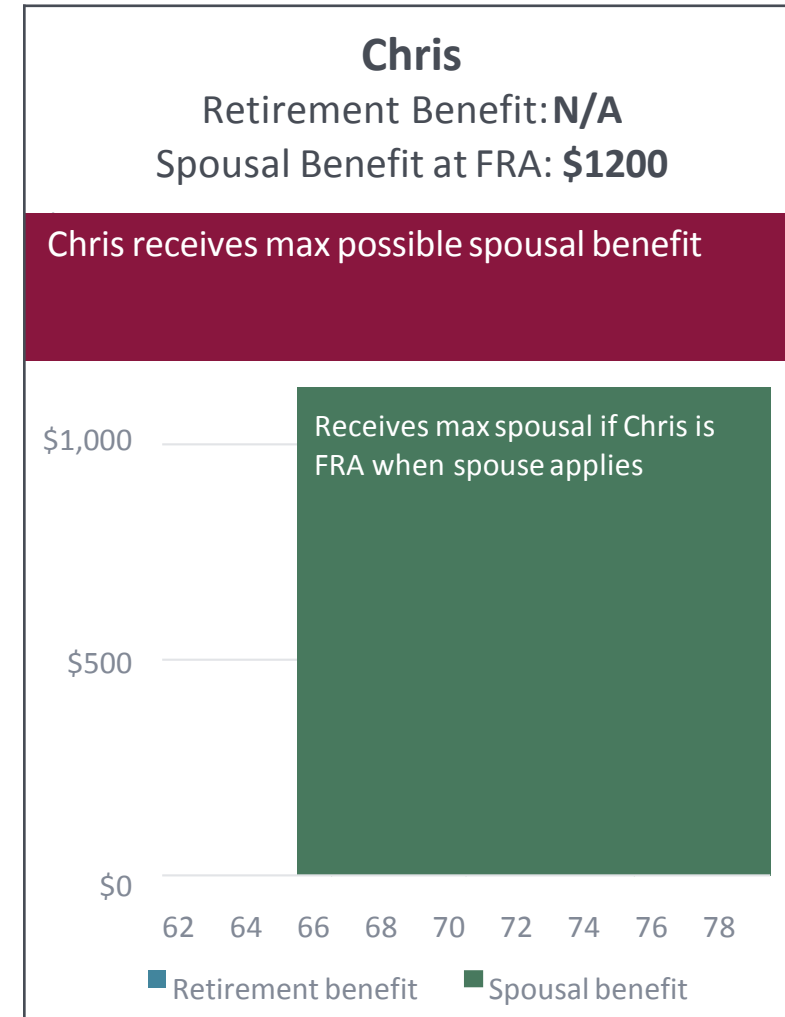
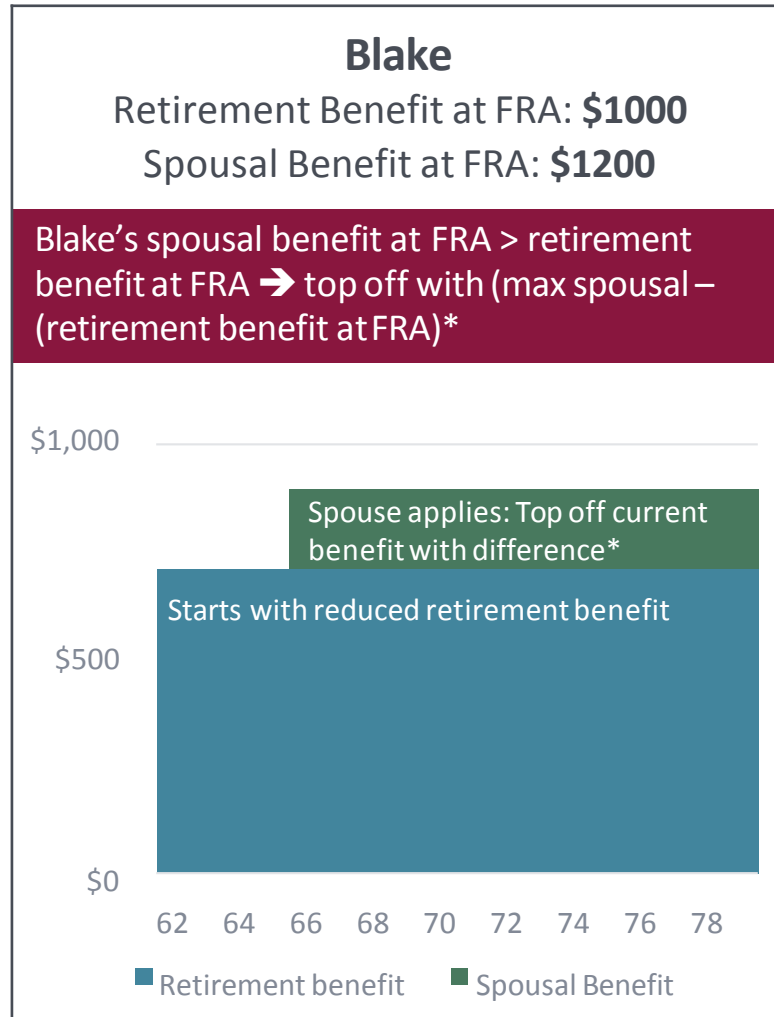
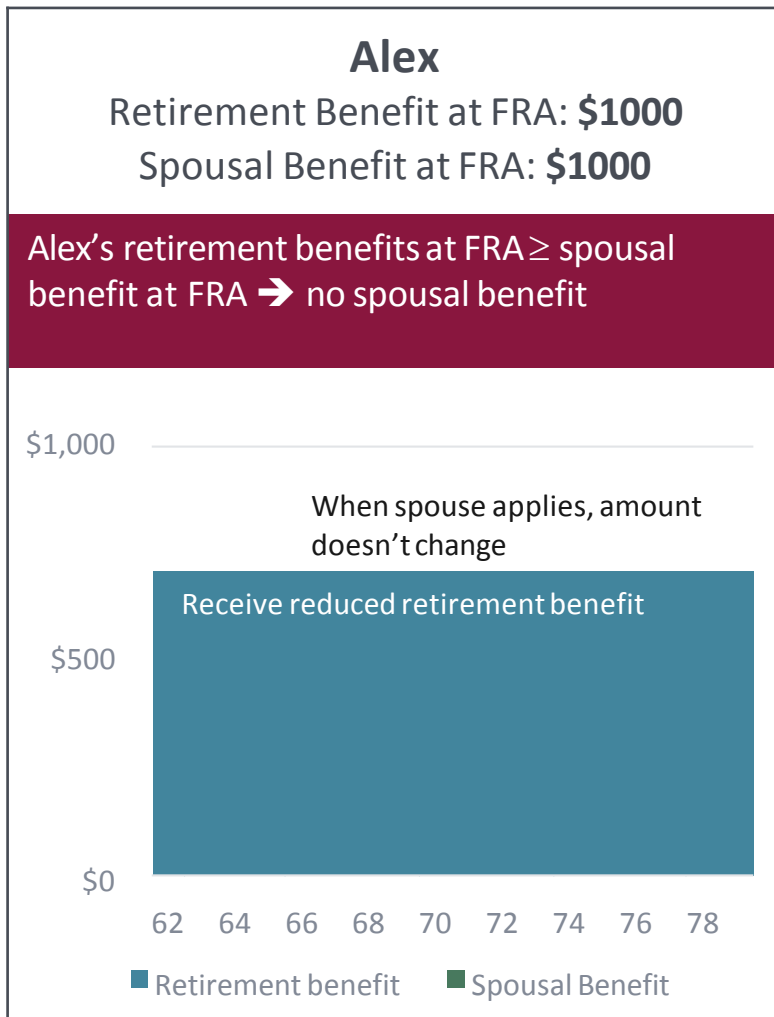
Will the amount increase after their spouse applies?

- Three best friends who are all age 62 (born in 1959)
- They are all married, retired and want to take Social Security.
- What will they each receive
  - Now
  - When their spouse applies.
    - Alex and Blake apply at 62 for their retirement benefits
    - Alex, Blake and Chris are age 66 when their spouses apply.

	Alex	Blake	Chris
Retirement benefit at FRA	\$1000	\$1000	\$0 Cared for family
Spousal benefit at FRA	\$1000	\$1200	\$1200

# Spousal benefit available if spousal at FRA > retirement benefit at FRA

If you're receiving a reduced retirement benefit, the total amount after your spouse applies is also reduced



Alex: Starts with reduced retirement benefit; does not step up to spousal because retirement benefit at FRA is greater than spousal benefit at FRA. Blake: Starts with reduced retirement benefit (can not receive spousal benefit until spouse applies); after spouse applies, the SSA tops off the existing benefit with an *excess spousal benefit*; the excess spousal benefit = (max spousal) – (your retirement benefit at FRA). Chris: Can not receive anything at 62 because Chris does not qualify for his or her own retirement benefit; Chris must wait for spouse to apply in order for Chris to receive a Social Security benefit.

\*Reduced if Blake is < FRA when spouse applies.

# Survivors benefits is available at 60 (50 if you are disabled)

Max survivors benefit is 100% of deceased current benefit; max spousal is 50% of your spouse's FRA benefit

## Calculation

- Amount based on when deceased claimed their retirement benefit
- Percent based on when you apply for survivors benefit

## Surviving spouse worked

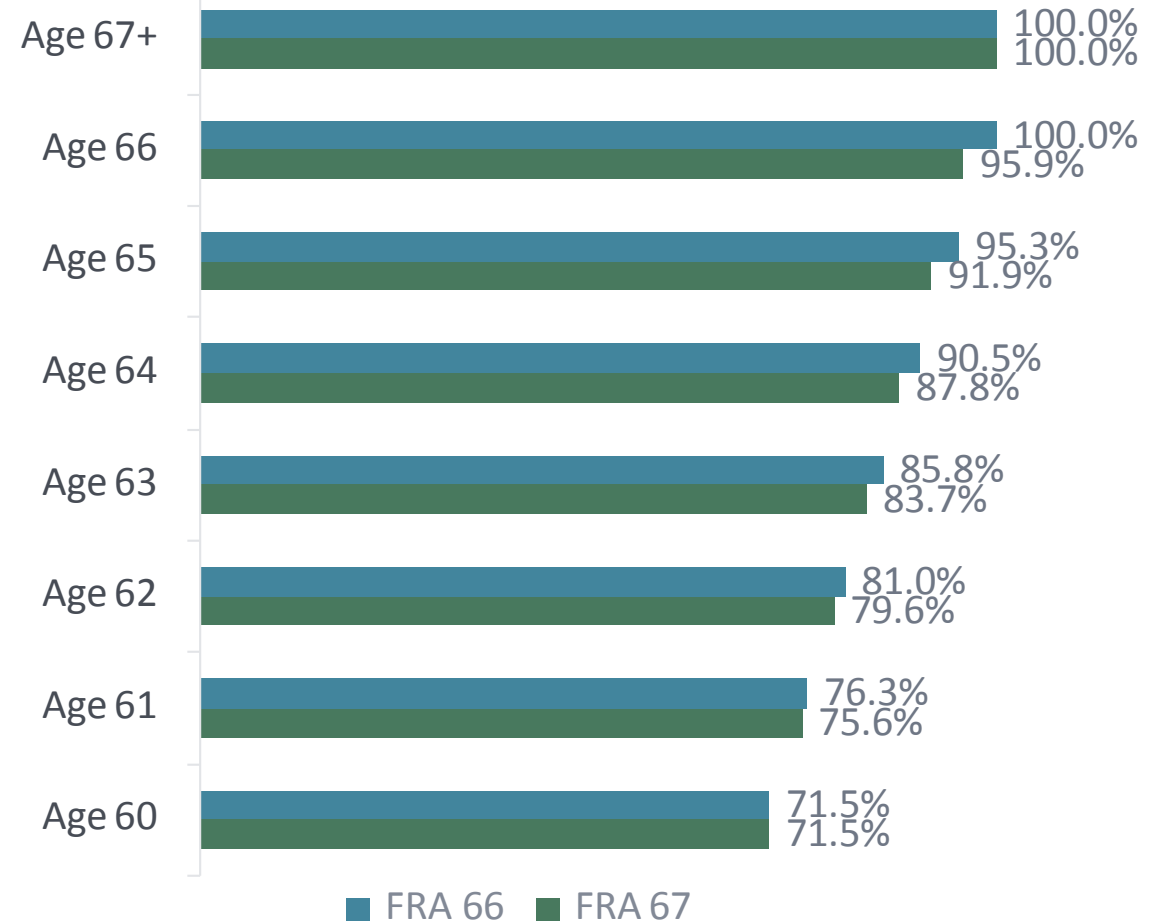
- Receive greater of your benefit or the survivors benefit<sup>1</sup>
- Subject to earnings test until FRA

## Claim own or spousal before FRA

- Surviving spouse still eligible for max survivor<sup>2</sup>

## Survivors Percent

(Widow(er)s' age when they claim the survivors benefit)



<sup>1</sup> Possible option to start with one and switch to the other if widow is between ages 60-70. See slide 24

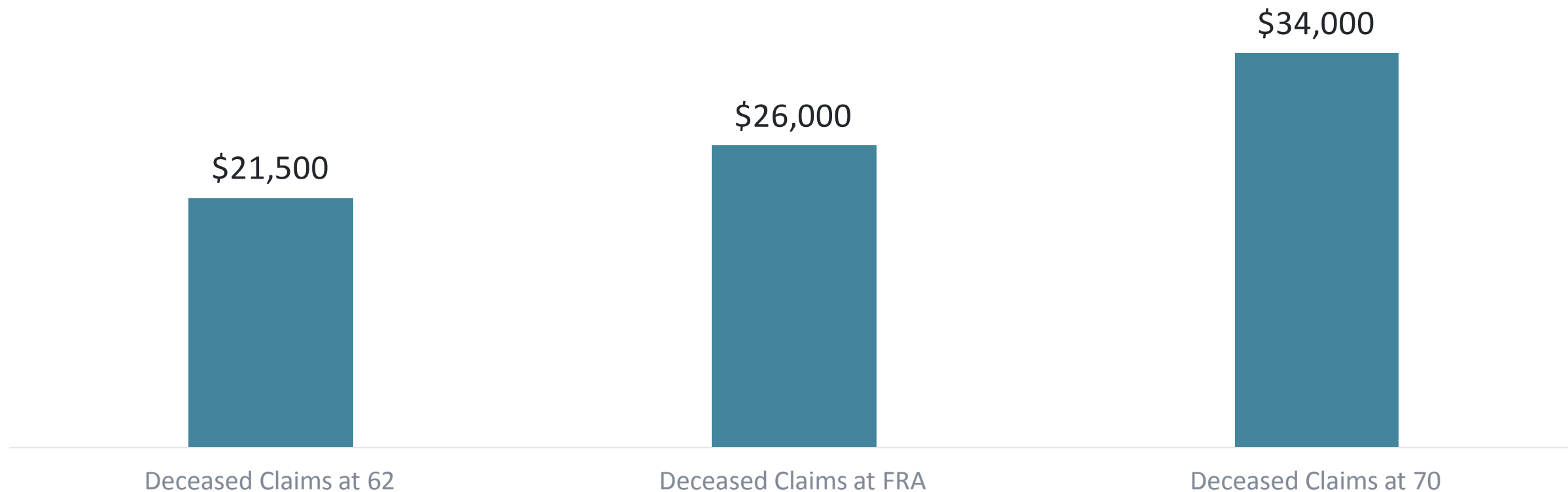
<sup>2</sup> Assumes surviving spouse is FRA or older when the surviving spouse applies for the survivors benefit. If applying for survivors benefit before FRA, the survivors percent will be reduced.



# Deceased claiming decision affects the surviving spouse

Survivors benefits are based on when the deceased claimed their Social Security benefit

## Example of survivors benefits



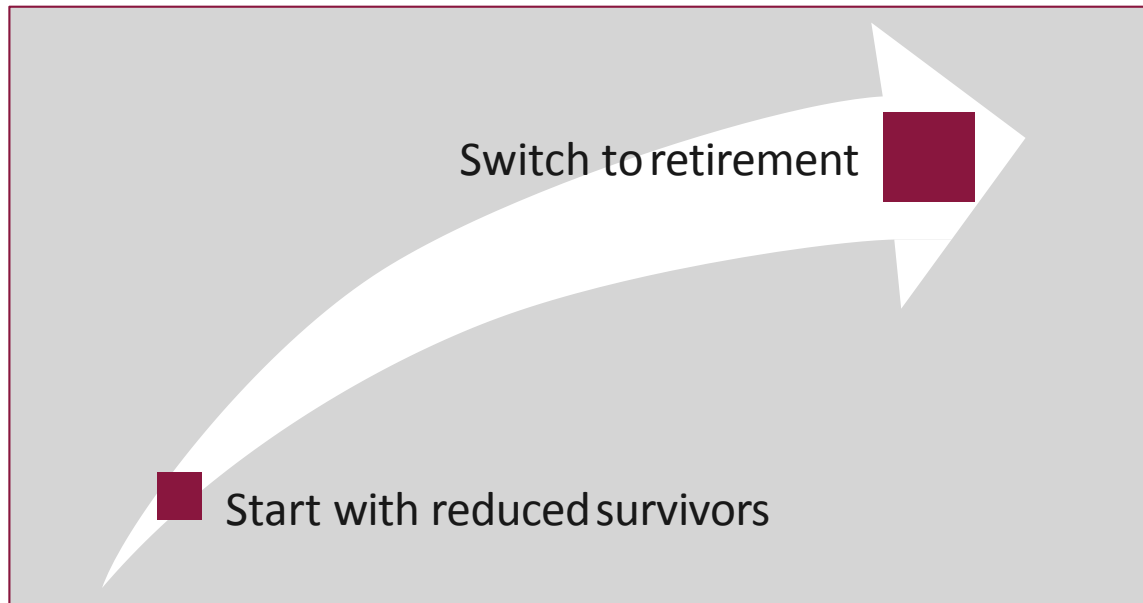
Based on average PIA for males at FRA (Social Security Statistical Supplement, 5b, 2020)  
Source: Social Security Administration

# Options for widow(er)s

Earnings limit applies to any benefit received before Full Retirement Age.

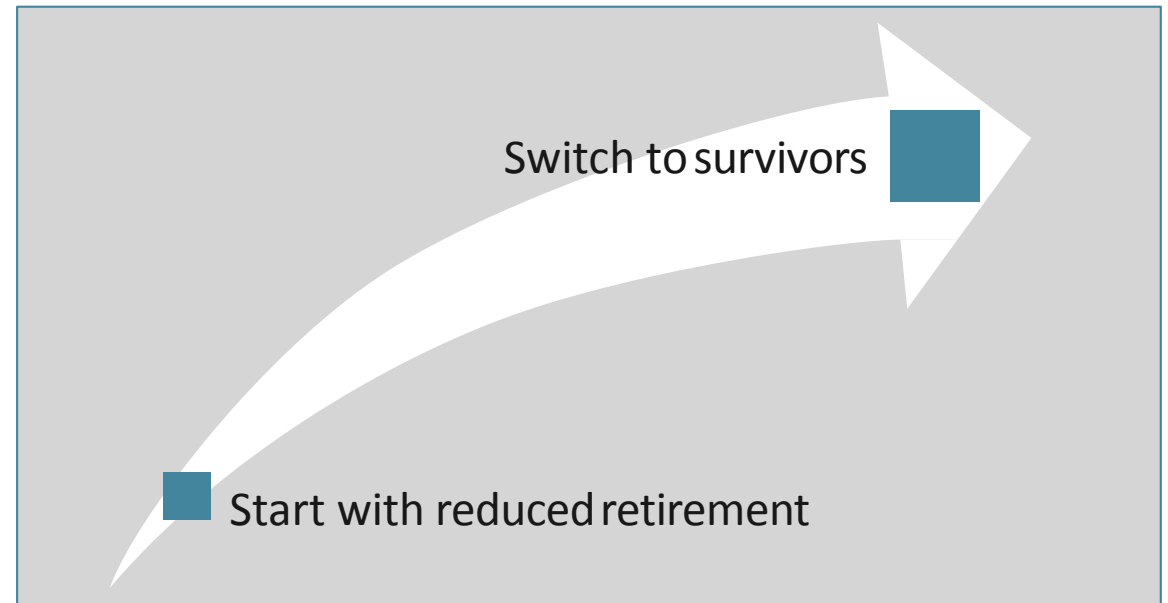
## Option 1

- Start with reduced survivors benefit



## Option 2

- Start with reduced retirement benefit



# Divorcee benefits available if marriage lasted 10+ consecutive years

Max spousal is 50%, max survivors is 100%

## Requirements

- Ex is age 62, dead or disabled
- Ex does not need to be receiving their benefits\*
- Receiving a benefit off your ex will not reduce your ex's benefit

## Current marital status

- Spousal off ex: unmarried
- Survivors off ex: unmarried or remarried at or after age 60

## If you worked

- Receive the greater of your retirement or spousal/survivor benefit of ex\*\*
- Subject to earnings test until FRA

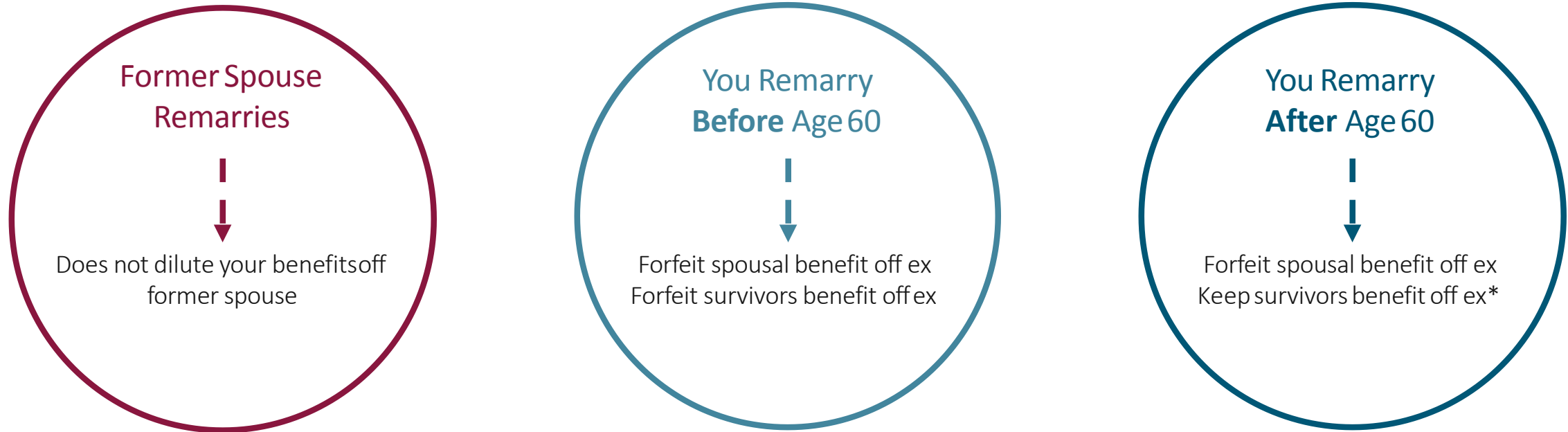
\*If divorce was less than two years ago, former spouse needs to apply in order for you to receive a spousal benefit

\*\*Spousal benefit: only eligible to start with spousal benefit if you were born on/before 1/1/1954; Survivors benefit: may be eligible to start with one benefit and switch to the other

Source: Social Security Administration

# Remarriage and Social Security (applies to divorcee and widows)

If your former spouse remarries, it does not affect your benefits



If your second marriage ends (either through divorce, annulment or death), you may become re-entitled to benefits off of the first marriage.

\*If you remarry at or after age 60, you may receive greater of 1) spousal/survivor benefit of current spouse, 2) your retirement benefit, or 3) survivor benefit of former spouse  
Source: Social Security Administration

## Case Study: Divorce and Remarriage

If both marriages ended after 10+ years, you receive highest available benefit

### Jane and Tom

Married Tom at 25  
Married 15 years  
Divorced  
Tom is deceased



### Jane and Theo

Married Theo at 45  
Married 10 years  
Divorced  
Theo is alive and is age 62



Jane is single, receives greater of

- Her retirement benefit
- Survivor from Tom
- Spousal/survivor from Theo

# Taxes and your retirement plan



# Taxes and Social Security

	Social Security benefits are not taxable	Up to 50% of Social Security Benefits May Be Taxable	Up to 85% of Social Security Benefits May Be Taxable
<b>Individuals</b>	< \$25,000	\$25,000-\$34,000	\$34,001+
<b>Married Couples Filing Jointly</b>	< \$32,000	\$32,000-\$44,000	\$44,001+

# Combined income determines if Social Security benefits are taxable



Source: Social Security Administration

\* This is not all-encompassing. May include income from savings bonds to pay for higher education and deductions for qualified educational loans. Contact a qualified tax advisor for more information. MFS does not provide tax advice. For informational purposes only.



## Combined income exclusions

**Roth IRA and Roth  
401(k)/403(b)\***

**Qualified charitable  
distributions\***

**Nontaxable portion  
of pensions  
and annuities\***

**Inheritance and  
gifts\*\***

**Life insurance  
proceeds\*\***

**HSA withdrawals  
for qualified  
medical expenses\*\***

## Questions to consider

Discuss claiming options and the impact it will have on your retirement income goals with your investment professional

- How long will you work?
- What is your withdrawal rate?
- What is your (combined) life expectancy?

### Guidelines to Claim Social Security and Minimize Longevity Risk\*



#### Single\*

- Average life expectancy: take as soon as possible
- Long life expectancy: let Social Security grow as long as possible



#### Married\*

- Spouse with lower Social Security benefit begins as soon as possible
- Spouse with higher Social Security benefits maximizes benefits as much as possible

\* Source: William Meyer and William Reichenstein, "Social Security: When Should You Start Benefits and How to Minimize Longevity Risk", Journal of Financial Planning, March 2010. MFS does not provide tax, legal, retirement, or accounting advice.

# Thank You

# Appendix

# Reductions if worked in public sector that did not pay into Social Security



	Windfall Elimination Provision (WEP)	Government Pension Offset (GPO)
Who it affects	You worked in a position that didn't pay into Social Security and you also worked in the private sector	You worked in a position that didn't pay into Social Security; your spouse worked in the private sector
What it may reduce	Any pension you get from that work may reduce your Social Security retirement benefits	Social Security spousal and survivor(er)s
Calculation	First bend point may be reduced from 90% to 40%	Reduce spousal/survivors benefits by two-thirds of your government pension
Maximum Reduction	\$483 if you applied in 2021	If your government pension is 1.5 > your spouses retirement benefit, may wipe out your spousal and survivors benefit

The Windfall Elimination Provision doesn't apply to survivors benefits.

Sources: SSA Publication No. 05-10007 "Government Pension Offset," SSA Publication No. 05-10045 "Windfall Elimination Provision"

# Disability benefits

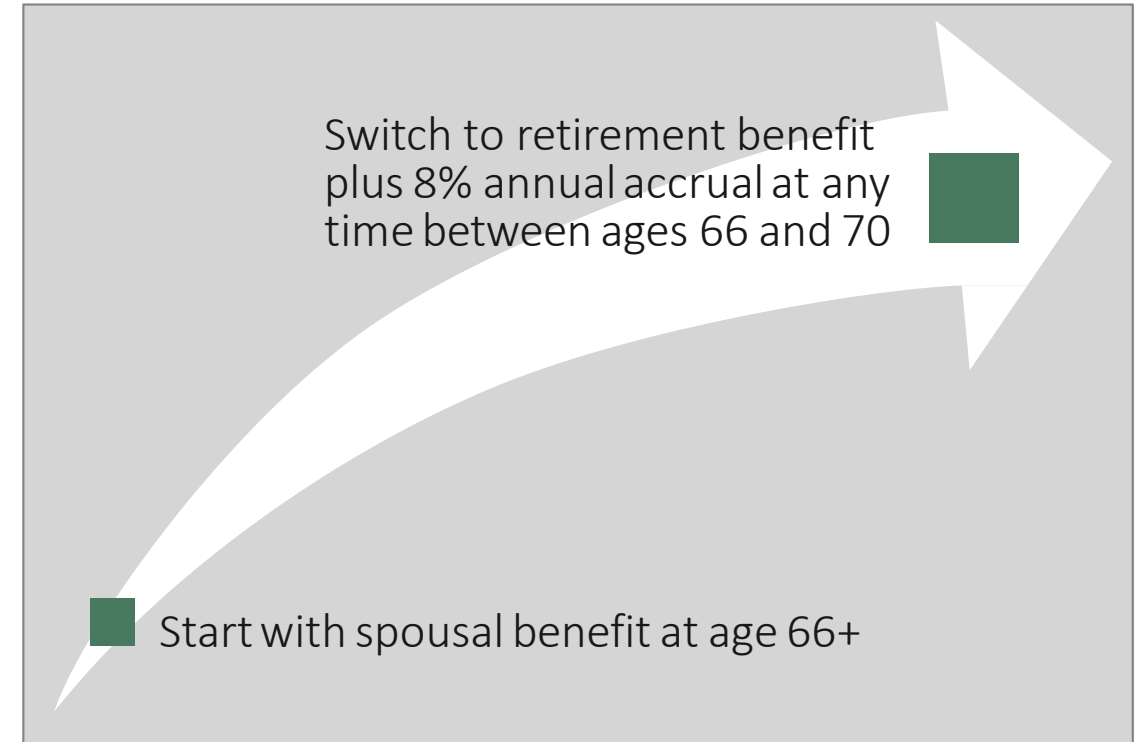
	SSDI Social Security Disability Trust Fund	SSI Supplement Social Insurance
Initial Qualifications	Based on your work history (If 31 or older when disability occurred: Generally must have worked 5 out of the last 10 years)	Must have limited income and resources.
Full Retirement Age	At Full Retirement Age: <ul style="list-style-type: none"> <li>▪ Amount does not change</li> <li>▪ Funding switches from Disability to Retirement</li> </ul>	Assuming assets, income and life circumstances do not change, then dollar amount will not change
Dependent Eligibility	Entitles children and spouse to Social Security benefits	Does not entitle children and spouse to Social Security benefits
Health insurance	Medicare after two years	Medicaid

# Restricted application: start with spousal, switch to retirement

Only available if you were born on or before 1/1/1954

## Requirements for Restricted Application

- You were born on or before 1/1/1954\*
- You apply at age 66 or older
- Your spouse has applied for retirement or disability benefit\*\*



\* If you were born after 1/1/1954, you will not be able to restrict application to spousal benefits only. When you apply, you will receive the greater of your retirement or spousal benefit.

\*\* Your spouse may be receiving a reduced retirement benefit and/or be born after 1/1/1954. The age and birth date requirements pertain only to the person who wants to start with spousal.

Source: Social Security Administration

# Restricted application case study

## Diego and Dana

- He is age 68, born in 1953 and the higher earner. He wants to start his retirement benefit at age 70.
- She is age 62, born in 1959, and retired.
- Is restricted application available?



# Restricted application case study

