Social Security Presentation

Carr Wealth Management

A Registered Investment Advisory Firm

Anthony B. Carr, CPA, CFP®
anthony@carrwealth.com

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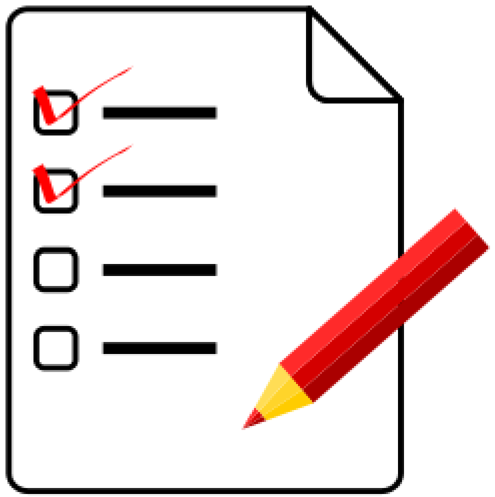
AGENDA

- ❑ Eligibility/Benefit Calculation
- ❑ Early Filing v. Delayed Filing
- ❑ Earnings Cap Penalty
- ❑ Spousal/Divorced Spousal Benefits
- ❑ Survivor Benefits
- ❑ Dependent Benefits
- ❑ Other
  - ✓ Disability Benefits
  - ✓ Taxes – Taxation, Income Gap Solutions
  - ✓ Social Security v. Public Pension
  - ✓ Is Social Security running out of money?



Eligibility - Work Credits

How Do You Qualify for Retirement Benefits?

Earn 40 Work Credits? → Yes → Eligible for Retirement Benefits

$5,200 earned income required to receive 4 work credits each year.
$1,300 earned income required to earn one credit each year.

Primary Insurance Amount (PIA)

How is my Benefit Calculated?

Highest 35 Years of Wages or Earnings + Formulas Applied By Social Security[1] = Primary Insurance Amount (PIA) At Full Retirement Age

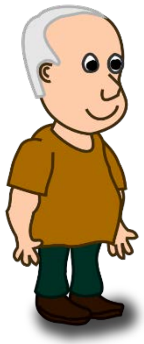
Max Benefit for 2018 = \$2,788, or \$33,456 a year (not incl. delayed credits)[2]
Ave. Benefit for 2018 = \$1,408, or \$16,896 per year.[2]

***P**rimary **I**nsurance **A**mount = the amount available to you at your Full Retirement Age.*

[1] Earnings and Wages are indexed for inflation and other adjustments.
[2] Social Security Administration

Go To www.ssa.gov to open online account and view your Primary Insurance Amount

Full Retirement Age (FRA)



Year of Birth	FRA
1943-1954	66 years old
1955	66 years-old 2 mos
1956	66 years-old 4 mos
1957	66 years-old 6 mos
1958	66 years-old 8 mos
1959	66 years-old 10 mos
1960	67 years-old and beyond

Types of Beneficiaries

Retirement Benefits

$

Retiring Worker

$ $ $ $

Spousal Benefits | Ex-Spousal Benefits | Widow/Widower Benefits | Dependent Benefits

Chart Illustrates the number of different types of beneficiaries that can possibly receive benefits based on one individual's earning record.

Minimum Age To File For Benefits:

• Retirement Benefits (worker)	62 - years old
• Spousal Benefits	62 - years old
• Ex-Spousal Benefits	62 - years old
• Surviving Spouse	60 - years old
• Disabled Surviving Spouse	50 - years old

Early Filing – The Big Choice

FILING EARLY → FULL RETIREMENT AGE → DELAYED FILING

As early as age 62 | *Ages 66 to 67* | *Up to Age 70*

According to Social Security, approximately 46% of Americans file for benefits as early as possible – at age 62.

Early Filing Penalty / Permanent Reduction in Benefits

Joe's Primary Insurance Amount (PIA) is $2,000 a month. If Joe files before his **FRA**, his benefits can be reduced up to 25%. If Joe files at age 62, his benefit is reduced to **$1,500**.

Full Retirement Age

Life Expectancy →

AGE	**62**	**63**	**64**	**65**	**66**
Benefit Amount	$1,500	$1,600	$1,733	$1,866	$2,000
Early Filing Reduction	-25.0%	-20.0%	-13.3%	-6.7%	0%

If Joe files at 62 instead of 66, he will receive 4 years of reduced benefits of $1,500 per month ($18K yr) – compared to higher amount of $2,000 per month ($24K yr) for the remainder of his lifetime.

EARLY FILING – Earnings Cap Penalty

If you go continue to work, or go back to work once you file early for benefits, you may be subject to a penalty for making too much money (Wages and self-employment income only).

<u>**Age**</u>		
62	$17,040	(*Benefits reduced by $1 for every $2 above limit*.)
63	$17,040	(*Benefits reduced by $1 for every $2 above limit*.)
64	$17,040	(*Benefits reduced by $1 for every $2 above limit*.)
65	$17,040	(*Benefits reduced by $1 for every $2 above limit*.)
66	$44,980	(*Benefits reduced by $1 for every <u>$3</u> above limit*.)

FRA & Beyond - No Limit

EARLY FILING – Earnings Cap Penalty Example

Using previous example: Joe files for retirement benefits at age 62, which will reduce his benefit from his PIA of $2,000 to $1,500 per month.

- Joe decides to go back to work part-time when he's 63, he earns $30,000. The excess over the income threshold for age 63 is calculated as follows:

  $30,000 - $17,040 income limit = $12,960……divided by 2 = $6,480 ($540 per mo.) reduction in benefits.

- Joe's reduced monthly benefit will be $960 per month (48% of his PIA amount at FRA).
  $960 = $2,000 PIA less $500 (25% reduction) less $540 earnings cap penalty.

(Penalty will come in the form of reduced benefits the following year or whenever SS and the IRS compare records).
** Amount of Penalty will be aggregated and paid back to recipient beginning at FRA – spread out over life expectancy.*

Delayed Retirement Credits

Joe's PIA is $2,000 a month. But if Joe delays his benefits until age 70, he can earn an additional 8% increase in his benefit amount. Joe's benefit amount increases to $2,640 a month at age 70 (not including cost of living adjustments).

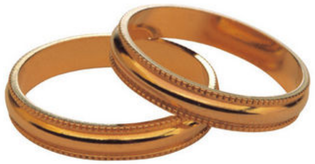
Full Retirement Age

AGE	66	67	68	69	70
Benefit Amount	$2,000	$2,160	$2,320	$2,480	$2,640[1]
Delayed Retirement Credit	0%	+8%	+8%	+8%	+8%

- Higher amounts due to delayed credits will receive larger Cost of Living Adjustments
- Higher amount will provide a greater Survivor benefit for surviving spouse.
- Advantages of delaying benefits should be offset with fact that no income is received from age 66 to 70.

1 Non Compounded Growth. The compounded growth for 4 years at 8% is $2,721

Spousal/Divorce Spousal Benefits



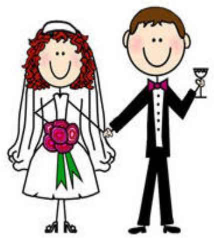
Spouse #1
Has their own PIA

PIA = Primary Insurance Amount = 100% of calculated benefits at Full Retirement Age

Spouse #2
Has their own PIA

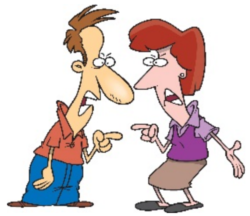
Instead of filing for their own benefits (PIA), spousal benefits may allow you to file on your spouse's (or ex-spouse's) work record – on their PIA.

Spousal Benefits – Eligibility



Requirements – Married Spouses to file for spousal benefits

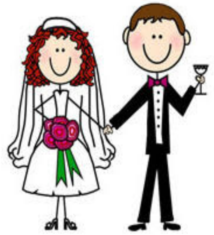
- ❑ Both Spouses must be at least 62-years old, but spouse who cares for dependent child under 16 of retiring worker can receive spousal benefits at any age.
- ❑ Married spouses must be married for at least a year.
- ❑ A spouse does not have to have earned 40 work credits to qualify for spousal benefits.
- ❑ For one spouse to receive benefits based on the working record of the other spouse, the *other spouse* must be receiving their own retirement benefits. An exception exists for divorced spouses (see below)



Requirements – Divorced Spouses to file for spousal benefits

- ❑ Both former spouses must be at least 62-years old.
- ❑ Must have been married to former spouse for at least 10 years.
- ❑ Must not not be remarried.
- ❑ A divorced spouse does not have to wait for the other spouse to file for their retirement benefits in order to file for spousal benefits. A major difference.

Spousal Benefits – Eligibility

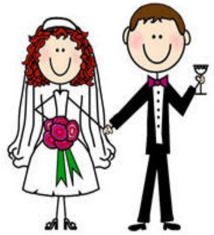


- Maximum spousal benefit is **50%** of other spouse's Primary Insurance Amount (PIA).

- Filing for Spousal benefits before reaching full retirement age (early filing) will reduce benefits (from 50% to 35%) and possibly be subject to earnings cap penalty (same income thresholds as retirement benefits).

- Spousal Benefits are based **<u>solely</u>** on PIA of other spouse, so filing early or delayed filing by spouse whose earning record is being used has no effect on eligible spousal benefits for other spouse.

Spousal Benefits – Eligibility



❑ Example

Joe's PIA = $2,000

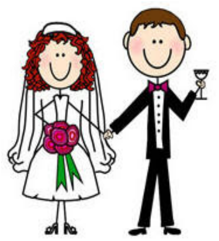
Maximum Spousal Benefit to Mary = $1,000 (50% of Joe's PIA)

- It does not matter if the retiring worker files early or late, the maximum spousal benefit is based on the other spouse's PIA of $2,000.

Mary's Age	62 Through 66	Full Retirement Age (66)	67 through 70
Mary's Spousal Benefit	35% to 50% ***($700 to $1,000)*** ***(Earnings Cap May Also Apply)***	50% of PIA ***($1,000)***	50% of PIA* ***($1,000)***

**** There is no benefit for a spouse to wait beyond their FRA to collect spousal benefits. The delayed retirement credits of 8% apply only to retirement benefits, not spousal (or survivor) benefits.***

Spousal Benefits



When would it make sense to file for spousal benefits?

- ❑ When one spouse does not have enough work credits to file on their own work record.
- ❑ When the maximum amount of spousal benefit available to one spouse (50%) is more than their own Primary Insurance amount. Social Security will pay you the larger of available benefits. You can't collect both.
- ❑ When you are able to collect spousal benefits while your own retirement benefits continue to grow – **Restricted Spousal Benefits.**
  - Restricted Spousal Benefits – If you were born on or before January 1, 1954, you are eligible to file for restricted benefits which allows you when you reach full retirement age to receive spousal benefits while your own retirement amount (PIA) continues to grow by 8% a year until age 70.

Survivor (Widow/Widower) Benefits

Two forms of Survivor Benefits:

a) $255 lump sum death benefit to surviving spouse (or dependent children if no surviving spouse).

b) Monthly lifetime survivor benefits are paid to surviving spouses, dependent children, and possibly dependent parents.

- *97% of all survivor benefits are paid to women.*

Survivor Benefits – Eligibility Rules

Eligibility Rules

- Must be at least 60 years of age. A Surviving spouse who is permanently disabled can file at age 50 . Exception for a spouse who is caring for a child under the age of 16, and that child was the dependent of the deceased worker. The spouse can be of any age.

- Must have been married for at least 9 months (exception applies for death caused by an accident or in the line of active duty).

Divorced Spouses

- Rules apply equally to married and divorced spouses with exception of two additional requirements for divorced spouses:
  a. Must have been married to former deceased spouse for at least 10 years, and
  b. Surviving spouse can remarry and not lose benefits provided he or she is at least 60 when they remarry. If subsequent marriage doesn't last 10 years, they are considered unmarried again and may file on their former deceased spouse's record.

Survivor Benefits – Stepping Into Deceased Spouse's Shoes

Surviving Spouse

Maximum survivor benefit is 100% of what deceased spouse was receiving or was entitled to receive.

- Example

Joe, PIA = $2,000   Mary, wife

	Amount available to Mary
If Joe dies prior to FRA, not filed yet	100% of PIA *($2000/mo)*
If Joe dies prior to FRA, filed early (ages 62 to 66)	75% to 100% of PIA *($1,500 to $2,000/mo)*
If Joe dies after delayed filing (66 to 70)	100% to 132% of PIA *($2,000 to $2,640/mo)*

Mary's benefit:

- Early Filing Penalty – Since minimum age is 60 (instead of 62), the reduction will be greater for filing early (28.5% reduction at age 60).
- Earnings Cap Penalty – Filing early and continuing or going back to work before you reach FRA may result in earning cap penalties.
- Waiting beyond FRA to receive survivor benefits will not increase survivor benefits by 8% a year (only retirements accrue delayed retirement credits).

Survivor Benefits – Switching From/To Retirement Benefits

- Example I

Joe, age 62, PIA $2,000
Mary age 60. PIA $900

Life Exp once person reaches 65:
Male 82.9 years
Female 85.5 years

Joe dies suddenly, Mary has following options:

Now (Mary at 60)

- Receive Joe's survivor benefit of (28.5% reduction since Mary is only 60) of $1,430/mo ($17,160 yr).

Mary's Benefits Through age 86 = $463,320

Or,
When Mary turns 62

- Receive her own retirement benefits early (25% * $900) of $675/mo ($8,100 yr), **and** then wait until she reaches 66 and then switch to Joe's survivor benefit of $2,000 per month.

*Her own Benefits received from 62 to 66: $32,400 ($8,100*4)*
Survivor benefit from 66 and beyond $24,000 yr

Mary's Benefits Through age 86 = $512,400

Survivor Benefits – Switching From/To Retirement Benefits

- Example II

Joe, age 62, PIA $2,000
Mary age 60. PIA $2,000

Joe dies suddenly, Mary has following options:

Now (Mary at 60)

- Receive Joe's survivor benefit of (28.5% reduction since Mary is only 60) of $1,430/mo ($17,160 yr). **And, delay her own retirement credits until she reaches age 70 ($2,640 a month, or $31,680 yr).**

Survivor benefit from age 60 to age 70 is $171,600

Her own Benefit beginning at age 70 $2,640

Mary's Benefits Through age 86 = **$678,480**

When Mary turns 62

- Receive her own retirement benefits early (25% * $2,000) of $1,500/mo ($18,000 yr), **and** wait until she reaches 66 and then switch to Joe's survivor benefit of $2,000 per month.

*Her own Benefits received from 62 to 66: $72,000 ($18,000*4)*
Survivor benefit from 66 and beyond $24,000 yr

Mary's Benefits Through age 86 = $552,000

Dependent Benefits

When can a Dependent File for Benefits?

Dependent benefits are paid to dependent children when a:

- Parent dies
- Parent files for retirement benefits

Planning Tool for Parents' retirement:

- College Funding
- Life Insurance Protection

Dependent Benefits - Requirements

- Child must be unmarried and under 18, or under 19 if still a full-time high school student. Disabled adults over 18 are also eligible for benefits as long as the total disability began before 22.

- The child can be a natural child, legally adopted child, stepchild and, in some cases, a grandchild if the child's parents are deceased or disabled and the grandchild is the grandparents' dependent.

- The child's survivor benefit is 75% of the deceased parent's PIA. A child's benefit based on a parent filing for retirement benefits is 50% of the retiring parent's PIA amount.

Dependent Benefits - Example

❑ Example

Joe, Age 62   PIA = $2,000
Mary, Age 45   (no PIA)
Joey, Age 7

Joe's Options:

1) File Early at 62, triggers benefits for Mary and Joe.

Family Benefits if Joe files at 62:

- ✓ Joe $1,500 mo. ($18K a year) (early filing penalty 25%)
- ✓ Mary $1,000 mo. ($12K a year) until Child turns 16 (8 yrs) – A spouse caring for a child under the age of 16 can file for spousal benefits (50% of PIA) at any age. Total benefits = $96K
- ✓ Joey $1,000 mo. ($12K a year) until age 18 (10 years) – Child under age 18 may receive dependent benefits (50% of parents PIA). Total benefits = $120K

Total Family Benefits for next 10 years = $396K

2) File at age 66 (FRA) – Joe receives $2,000 per month/ Mary, age 49 receives $1,000 per month for 4 years (Joey is 11 now). Total benefits = $48K / Joey receives $1,000 per month for 6 years. Total benefits = $72K.

Total Family Benefits for next 10 years = $360K

3) File at age 70 – Joe receives $2,640 per month/ Mary, age 53 receives $0 (Joey is 16 now). Total benefits = $0K / Joey receives $1,000 per month for 2 years. Total benefits = $24K.

Total Family Benefits for next 10 years = $76.8K

Disability Benefits

Earn 40 Work Credits?

Yes

Is Medical condition expected to last a year or result in death?

Yes

Apply "work duration" and "recent work" tests

=

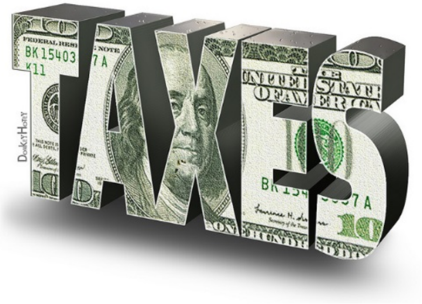
Disability Benefit

Spouses, Ex-Spouses, Surviving Spouses, and Dependents may all be eligible to receive benefits based on disabled worker's benefit.

No

- You may qualify for disability benefits with less than 40 credits depending on your age and work history.

Taxation of Benefits



- ✓ How does Tax Reform impact Social Security?

  It doesn’t. The critical tax question regarding social security is how much of the benefits are taxed. That calculation didn’t change with tax reform. Once the taxable benefits are determined, then the tax due on the benefits may have changed.

- ✓ No one pays federal income tax on more than 85% of his or her Social Security benefits. In other words, at least 15% of social security benefits will always be tax-free.

- ✓ Taxation depends on the amount of other income, including wages, interest (tax-exempt also), dividends, capital gains, business, rental income, IRA distributions, pensions, etc.

Filling the “Income Gap”

- Filling in the “INCOME GAP” – Various types of income that can be used to allow a person to maximize social security benefits for themselves or for their surviving spouses:

  - Investment Withdrawals/Liquidation
    a. Qualified Investments – IRA’s. The income distributed from qualified plans is generally taxed at ordinary income rates Do the overall benefits of filing late exceed both the taxes paid and investment opportunity cost.
    b. Non-Qualified Investments (Capital Gain Property) – Brokerage accts/real property. Selling capital gain property, ideally high cost-basis property, may produce lower taxes because of capital gain treatment. The taxes, transaction costs, and investment opportunity costs must be compared to benefits of delayed filing.

  - Roth IRA Distributions – Tax free withdrawals can lower taxable income, lower tax rates, and lower medicare premiums.

  - Borrow – Cost of Borrowing vs. benefits of delayed filing.

  - Partial 1031 Exchange (Cash Out) – Capital gain income, or no gain at all.

  - Reverse Mortgages– Non taxable income, lower tax rates, lower medicare premiums.

Public Pension v. Social Security Benefits

Retirement Benefits

- Individual receiving public pension may also receive Social Security Benefits, but amount may be reduced:

  - ½ of Public Pension reduced from SS Benefits
  - Maximum reduction of SS Benefits is $430 per month.

Spousal and Survivor Benefit

- Spouse receiving public pension most likely will have any eligible spousal or survivor benefits significantly reduced or eliminated:

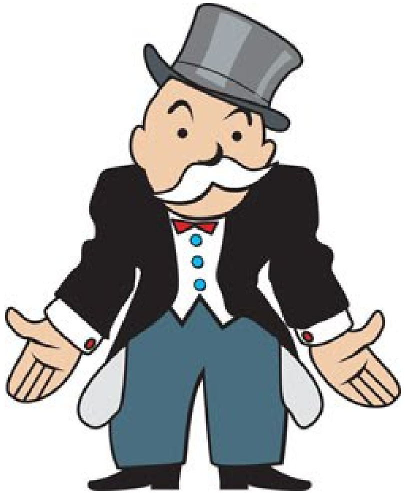
  - 2/3 of Public Pension reduced from SS Benefits
  - No Maximum reduction

Is Social Security Running Out Of Money?

✓ "Baby Boom" generation will soon all be retired

✓ Working Age population in relation to Boomers dwindling

✓ Current projection has Trust Fund becoming insolvent in 2034



Possible Solutions?

- Decrease benefits
- Increase Full Retirement Age
- Increase Wage and Earning Income Base ($128,200 today).

Carr Wealth Management, LLC
Anthony B. Carr, CPA, CFP®, MBA

- **Experience & Knowledge**
  Anthony Carr, owner, has been a **CPA** for thirty-years, a **CFP® professional** for eighteen years. He has performed planning and investment management services since 1998.

- **Independence**
  No obligations or compensation agreements with any proprietary product selling company.

- **Knowledge Driven Solutions**
  Helping clients reach their objectives with knowledge based advice rather than product-oriented services.

- **Fee-Only**
  No Commissions * Hourly planning fees* Working incentive to maximize long-term investment performance

- **Fiduciary Duty**
  The firm is a Registered Investment Adviser – required fiduciary duty.
  Not all financial planners required to "act in clients best interests."