Social Security Analysis And Strategy

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Executive Summary

For most Americans, Social Security is a significant retirement asset. Making the best possible selections related to your Social Security options can mean a material difference in the income it provides to you over the course of your retirement years. Our firm uses software created by the industry leader in Social Security claiming strategies.

The purpose of this Social Security Analysis and Strategy Report is to:

- Offer a high-level introduction to and education about your Social Security retirement benefit options.
- Help you determine when to begin benefits.

What You Will Find in the Following Pages

We've provided a great deal of information in this report. Some key highlights are:

An introduction to Social Security, explanation of key terms, and an explanation about how your benefits are calculated.

An analysis that compares your cumulative Social Security benefits for different starting dates and life expectancies.

A retirement needs analysis that compares the cumulative financial needs from your financial portfolio needed to meet your projected expenses.

A case study that demonstrates how the choice of Social Security starting date can extend the financial portfolio's longevity, that is, how long until your savings is exhausted.

Key Assumptions about This Report

As you review your Social Security Analysis and Strategy Report, please keep in mind that

1. This report is designed to illustrate the importance of your decision on when to begin Social Security benefits and to help you decide the best strategy for your situation. Detailed analysis is needed to compare different strategies side by side, especially if you are married and spousal benefits are considered.
2. This report is provided for informational purposes only. The information and data should not be acted upon or taken as advice. The purpose of the report is to educate and give general guidance to help you craft a personalized approach in taking Social Security.
3. All the information provided is based on current Social Security rules, benefits calculations, and payout promises on existing funding levels.

Key Terms

You may find some of these key terms throughout your report:

Children's (or Family) Benefits: Benefits received by dependent children that supplement family income.

Cumulative Benefits: Lifetime payout of Social Security benefits.

Delayed Retirement Credits: Increases in monthly Social Security benefits if you delay taking benefits.

Delayed Strategy: Claiming benefits after Full Retirement Age (FRA) in order to receive increased benefits.

Divorced Benefits: Benefits paid to the divorced spouse of an eligible worker to whom you were married at least 10 years.

Early Strategy: Claiming benefits at any time before Full Retirement Age (FRA).

Earnings Record: The history of your earnings for the years you have worked in your lifetime.

Earnings Test: The reduction in benefits taken if you continue to work while receiving benefits before you reach Full Retirement Age (FRA). Once you reach FRA, the earnings test does not apply to your income, and there is no limit on your earnings.

File and Suspend: A Social Security policy allowing a worker to file an application for retirement benefits but immediately suspend payments. This makes the worker's spouse eligible to file for and receive spousal benefits. This also allows the worker's benefit to accrue delayed retirement credits.

Full Retirement Age: The age at which you are eligible for your full monthly benefit.

Government Pension Offset (GPO): A provision that reduces and may eliminate the amount of spousal and survivor benefits paid to an individual who is eligible for a pension from work not covered by Social Security taxes.

Inflation: A decrease in the value and purchasing power of money.

Longevity Risk: The risk of running out of resources in your lifetime.

Monthly Benefit Amount: Also known as your Primary Insurance Amount (PIA), this is the benefit you will receive at your Full Retirement Age (FRA).

Non-Covered Pension: Some workers, especially state government employees including teachers, are eligible for a pension for work where Social Security taxes were not withheld from or paid on earnings. Such a pension is known as a non-covered pension.

Primary Insurance Amount: The monthly benefit amount based on your earnings record if you begin your benefits at your full retirement age.

Restricted Application: When a worker is eligible for both his or her own benefit and a spousal benefit, a restricted application can be filed for spousal benefits only, meaning the worker's own benefit will continue to accrue delayed retirement credits.

Spousal Benefits: Benefits paid to the spouse of an eligible worker. You must be at least age 62 to claim spousal benefits.

Survivor Benefits: Benefits paid to the surviving spouse of a deceased eligible worker.

WEP-PIA:This term applies to someone who is eligible for a pension from work not covered by Social Security taxes. The WEP-PIA reflects the adjustment to your Primary Insurance Amount because of the Windfall Elimination Provision (WEP).

Windfall Elimination Provision (WEP):A provision that may reduce Social Security benefits based on your earnings history if you are eligible to receive a pension from work not covered by Social Security.

Let's Start with the Basics...

When you elect to begin receiving Social Security payments is important. You may retire from a career at age 62, but beginning benefits at age 62 may not be the best choice. The age at which you begin will impact your benefits for the rest of your life -- and potentially benefits available to your spouse if you are married.

There are several factors that should be considered before selecting the optimal date to begin benefits. Your health status, life expectancy, need for income, whether or not you plan to continue working, and how concerned you are about running out of money in your lifetime should all be considerations in determining your date to begin benefits. Analysis requires careful consideration of the inputs, assumptions and other factors that will impact your Social Security benefits including the taxation of those benefits.

While having a strategy for when to begin Social Security benefits is important, it is critical to consider Social Security benefits in conjunction with all of your retirement assets for an optimal strategy. Incorporating your benefits into an overall retirement income plan may make a material difference in the amount of income available to you in retirement.

How Your Benefit Eligibility is Determined

Your benefit eligibility will depend on:

1. How much you earned over your working career
2. The age at which you apply for benefits
3. Spousal benefits - extra money allocated to married couples
4. Survivor benefits - reassessment of benefits to help the surviving spouse

Social Security benefits are based on average earnings over your highest 35 years of income, with earnings through age 60 indexed to reflect increases in U.S. workers' average wage level. For example, if the wage level in the U.S. is twice as high when you turn 60 as when you were 40, the formula doubles your age 40 earnings. If you worked less than 35 years, the "missing" years are calculated as zero. The maximum income in any year is equal to that year's maximum income subject to Social Security taxes.

If you claim benefits earlier than your Full Retirement Age (FRA) and continue to have more than a modest amount of earned income (e.g., wages and salary), you may lose some or all of your Social Security benefits. In addition, if you had wages from work not covered by Social Security, then the Social Security Administration's estimates of your benefits may be substantially too high.

The Impact of Starting Age on Monthly Benefits

Many personal and household factors can influence your Social Security retirement benefits, and perhaps the most significant is the age you begin benefits. You can see below the range of benefits you would receive depending on the age you begin benefits. This does not include the impact of spousal benefits if you are married, which can make a significant difference when added in. The information below was created from information you provided.

Abe (2.7% COLA) Lincoln	
Monthly benefits if begun at 62	$1,902
Monthly benefits if begun at Full Retirement Age 66 and 10 months	$2,685
Monthly benefits if begun at 70	$3,365
Mary (2.7% COLA) Lincoln	
Monthly benefits if begun at 62	$1,417
Monthly benefits if begun at Full Retirement Age 66 and 10months	$2,000
Monthly benefits if begun at 70	$2,507

Benefit projections above are based on the estimated Primary Insurance Amount at Full Retirement Age that you provided. Benefit amounts may change based on additional earnings or changes in earnings that can impact the Primary Insurance Amount. If you are already receiving benefits, your actual benefit payments may differ from the estimates above based on when you began collecting. All benefits levels are expressed in today's dollars. All payments will increase with Cost of Living Adjustments (COLAs).

Not only does the age you begin benefits impact your monthly payments, it also affects your "longevity risk" - the risk of outliving your resources. If you choose to begin receiving Social Security benefits before your Full Retirement Age (FRA), your monthly benefits will be reduced. If you delay the start of benefits until after your Full Retirement Age (FRA), your monthly benefits will be increased. So, the basic tradeoff is between beginning earlier and receiving more but smaller payments or beginning later and receiving fewer but larger payments.

Since Abe (2.7% COLA) was born in 1960, FRA is 66 and 10 months and any benefit taken before age 66 and 10 months will be reduced by 5/9% per month for up to 36 months, plus 5/12% per month for the next 12 months. So, if benefits are begun at age 62, the monthly benefit level would be $1,902. If benefits are delayed until after attaining FRA, monthly benefits will be increased by 2/3% per month for up to 48 months and will be $2,685 per month. Further, delaying the start of benefits until age 70 will increase the monthly benefit to $3,365. While we've used Abe (2.7% COLA)'s information for the purposes of explanation, the same basic calculations apply also to Mary (2.7% COLA)'s benefits. All benefit levels are expressed in today's (i.e., inflation-adjusted) dollars and reflect the current promises of the Social Security system, which can be altered by the U.S. Congress at any time.

When You Have Minor Dependents

You have indicated that you will have minor children in care when you plan to file for your Social Security retirement benefits. Your children may also qualify to receive benefits based on your earnings record. Children who qualify can be biological, adopted or stepchildren. In some cases, a dependent grandchild may also qualify for benefits.

In order to receive benefits based on your record, the child must:

- be unmarried,
- be under age 18, or
- be 18-19 years old and a full-time student (no higher than grade 12), or
- be 18 or older and disabled from a disability that began prior to age 22.

Unless your child is disabled, benefits will likely stop when the child reaches the age of 18. But, if the child is still a full-time student at a secondary (or elementary) school and is still age 18, benefits continue until the child graduates or until two months after the child reaches age 19, whichever comes first.

How much can your children receive? Each qualified child may receive a monthly payment up to one-half of your full retirement benefit amount. But there is a monthly limit that can be paid to a family based on the work record of one adult. The total your family can receive depends on your benefit amount and the number of family members who qualify to receive benefits. The total monthly benefit varies but is generally between 150 and 180 percent of your full retirement benefit.

In addition to children's benefits, if you are a parent with a minor child and you've not reached an age when you are eligible for your own retirement benefit or a spousal benefit, you may qualify to receive "Child in Care" benefits until the child turns 16, at which time your Child in Care benefits will cease (unless the child is disabled). Once you reach the age of 62, you are then eligible to apply for your own retirement benefit or a spousal benefit if eligible. Child in Care benefits are subject to the family maximum benefit.

Based on the information you provided, our Primary Solution takes into account any benefits your family members may be eligible to receive. Our Primary Solution focuses on maximizing your Social Security cumulative benefit and protecting against longevity risk, <u>and there are times when claiming children's benefits may not result in the greatest cumulative benefits</u>. An example should clarify the pros and cons of changing your claiming strategy to accommodate children's benefits.

Sue is a divorced mother of a 15-year-old son. She has a Full Retirement Age of 66, full retirement benefit (also called Primary Insurance Amount, or PIA) of $1,500, and life expectancy of 90. She will soon turn 62 and wants to know if she should begin her retirement benefits at 62 so her son can get children's benefits, or whether she should begin Social Security benefits at age 70. If not for her son's benefits, she would wait until 70 to begin her benefits since she has a relatively long life expectancy.

Let's compare two of her claiming options:

- In Strategy 1, Sue begins retirement benefits of $1,125 a month at age 62, and her son gets $750 a month in benefits, half of her PIA. Three years later, the son's benefits stop because he turns 18. Sue continues her monthly benefit of $1,125 a month.
- In Strategy 2, Sue begins retirement benefits of $1,980 a month at age 70 and her son does not receive benefits.

In this situation, we recommend that Sue forego the child's benefits and begin her benefits at 70. If Sue claims her benefits at 62, she is forgoing over $850 per month from age 70 until she dies in order for her son to collect $750 a month for three years! If Sue lives to at least age 83 and two months, her cumulative lifetime benefits will be larger if she delays her benefits until 70. If she delays her benefits until 70, her monthly benefits will be 76% larger each month beginning at age 70 and continuing for the rest of her life. If Sue is concerned about longevity risk (i.e., the risk of running out of money in her lifetime), the more significant risk may be beginning her benefits early and thus reducing her benefits for the rest of her life.

In our analysis, we consider each dollar of benefits for her son to be equal in value to each dollar of Sue's retirement benefits. However, suppose Sue's ex-husband reduces his child support payments by the son's $750 a month in benefits. Or, perhaps, Sue saves the $750 a month for her son. In these cases, the better comparison for Sue is receiving $1,125 a month beginning at 62 vs. $1,980 a month beginning at 70, but ignoring her son's benefits. In this case, her breakeven age is 80.5. In other words, if Sue lives longer than 80 years and six months, her cumulative benefits (excluding her son's benefits) will be larger if she delays her retirement benefits until 70. There is nothing wrong or selfish about Sue looking after her own financial security and ignoring or placing less weight on her son's benefits. However, to repeat, our analysis and recommendation consider each dollar of child(ren)'s benefits to be equal in value to each dollar of benefits for parent(s).

Let's change the example. Suppose Sue has a 15-year-old son and a 17-year-old daughter. If she begins her benefits today at 62, her children may split $1,200 each month until the daughter's benefits stop; then the son would receive $750 a month until his benefits cease. The family maximum benefit would not allow each child to receive $750 a month, and the most any one child can receive is one-half of the parent's PIA.

This example illustrates the tradeoff for parents or grandparents when one or more child is eligible for Social Security benefits. Depending on your specific situation including parent(s) and child(ren)'s ages, parent or parents' Primary Insurance Amount(s), and life expectancies, our Primary Strategy may or may not be the same as if child(ren) were not eligible for benefits. There are times when the cost of collecting child(ren)'s benefits and reducing your retirement benefits exceeds the advantages of doing so.

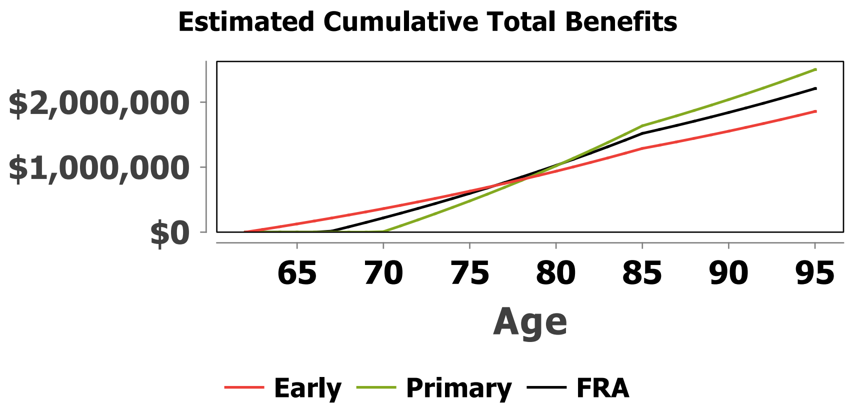
Your Primary Solution has taken into account the information you provided regarding your children. The details regarding your Primary Solution appear later in this report.

How to File for Children's Benefits

If the Social Security claiming strategy that you choose includes receiving child(ren)'s benefits, you do not need to complete a separate application to claim the benefits. When you complete your own application for benefits, you will provide the names and dates of birth for your dependents who qualify for benefits. Once the dependents are confirmed to be eligible for benefits, the payments will automatically be made. In the event children are eligible for benefits under more than one parent, they cannot collect on the earnings record of both parents, even if the parents are divorced. The Social Security Administration will determine which claiming scenario will result in greater benefits for the child(ren).

How Your Primary Strategy Makes a Difference

Your primary strategy for claiming Social Security benefits is customized to your specific situation and is based on the information you provided. To create your primary strategy, our firm analyzed all the possible claiming strategies available to you and the overall benefit each would render. We weighed many factors in suggesting this strategy for you, including monthly benefit amount, your life expectancy, your marital status and others.



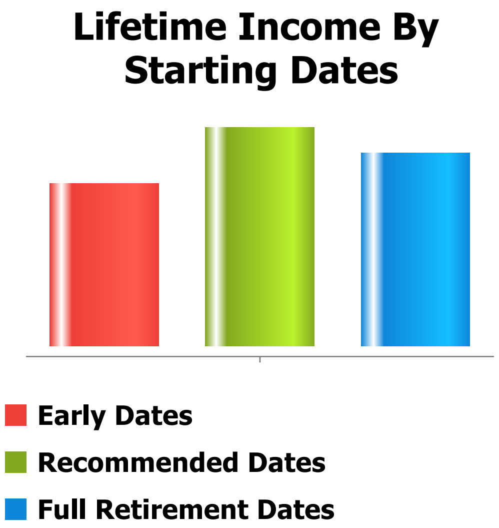
We have suggested a claiming strategy that would pay about

$2,501,357

over your remaining life expectancy. The details of this strategy and how it works are discussed in this report.

Your primary strategy was created using the expected lifetimes of 85 for Abe (2.7% COLA) and 95 for Mary (2.7% COLA). Given these assumptions, you need to maximize benefits for a potentially long joint life. Your primary strategy also provides the highest monthly benefit amount to a surviving spouse, reducing the chance of running out of money in his or her lifetime.

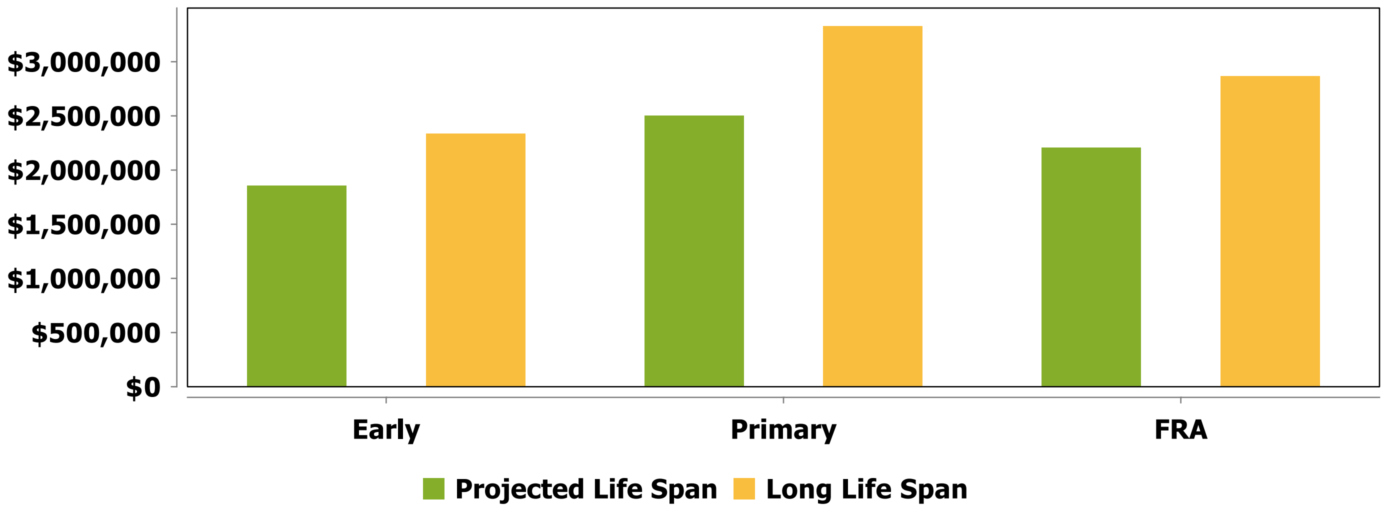
The graph on the right represents the cumulative lifetime benefits you could expect to receive over your life expectancy if you took benefits early (represented by the red bar), at Full Retirement Age (represented by the blue bar), or according to the primary strategy we have created for you (represented by the green bar).



Protection Against Longevity Risk

The best strategy for you balances your cumulative lifetime benefits with the income you can expect to receive from Social Security and any other assets should you live longer than the ages you provided, 85 years for Abe (2.7% COLA) and 95 years for Mary (2.7% COLA). This concept is known as "longevity risk," or the risk that you will run out of money in your lifetime.

The reason this is an important part of your Social Security decision is that, the longer your life, the longer your retirement savings must last. Getting more from your Social Security benefits means that you will need to withdraw less from your portfolio over the years.



The projected life span bar in the graph above illustrates the cumulative lifetime benefit you could expect to receive should you live to the exact life expectancy you provided. The long life bar represents the comparative value of the cumulative lifetime benefits should you live 10 years longer than expected.

The Difference a Long Life Makes

The table below shows the approximate value of your lifetime cumulative benefits over your life expectancy if you choose to take benefits early, at Full Retirement Age or according to the primary strategy we have created for you. The Short Life Span row illustrates the amount if each of you lives 5 years less than you plan. The Projected Life Span row illustrates the amount if each of you lives to the exact age you provided. The Long Life Span row is the amount you could expect if each of you lives 5 years longer than expected.

	Early Age	Primary Age	Full Retirement Age
Short Life Span	$1,435,826	$1,776,822	$1,631,208
Projected Life Span	$1,857,390	$2,501,357	$2,209,298
Long Life Span	$2,338,999	$3,329,090	$2,869,730

Important Filing Dates

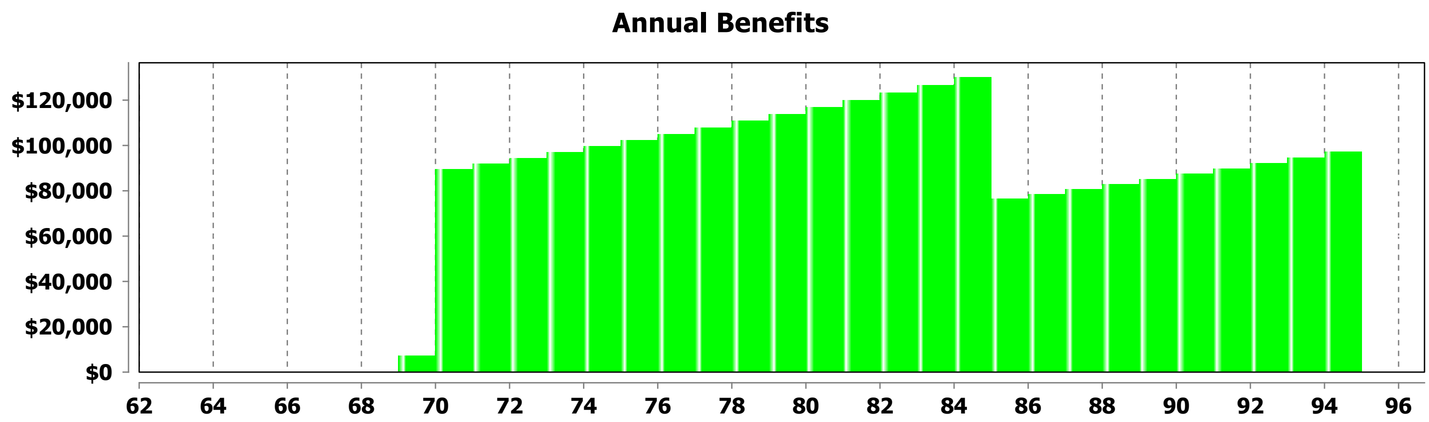
In order for you to take advantage of this strategy, you should pay close attention to these filing dates:

- Abe (2.7% COLA) begins benefits based on his earnings record in the estimated amount of $4,164 in December 2029 at age 70.
- Mary (2.7% COLA) begins benefits based on her earnings record in the estimated amount of $3,101 in December 2029 at age 70.
- In January 2045 Mary (2.7% COLA) switches to survivor benefits in the estimated amount of $6,376.

Be sure to file for benefits about three months before you expect to receive your first payment.

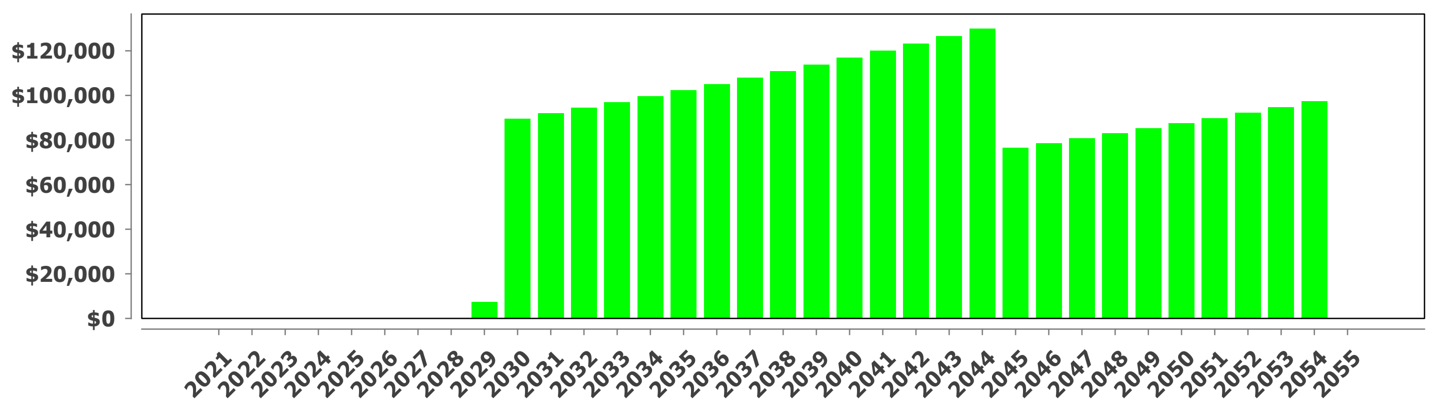
Annual Benefits You Can Expect by Age with Primary Strategy

The graph below illustrates the annual total income you, or you and your spouse if married, would receive by using the primary strategy.



Expenses and Your Annual Benefits

The graph below compares your estimated annual spending against your Social Security income. If you are married, the graph illustrates your joint Social Security income. The green lines represent your expected Social Security income, and red lines represent a gap between your income and spending that will need to be addressed. You might have additional savings you can use to meet your spending needs, or you can adjust your spending so that your Social Security income is sufficient. If the graph displays only green bars, your estimated spending does not exceed your social security income.



Your Primary Social Security Strategy Details

We've constructed this primary strategy based on the information you provided. Your primary strategy was created to balance two equally important yet separate goals: get the most lifetime income and offer income protection if you live longer than expected. While getting the highest cumulative lifetime benefit may initially seem most important, taking both criteria into account is prudent in the event you live longer than expected. Our tools allow you to compare your primary strategy against other strategies to ensure that the primary strategy is best for your situation.

- Abe (2.7% COLA) begins benefits based on his earnings record in the estimated amount of $4,164 in December 2029 at age 70.
- Mary (2.7% COLA) begins benefits based on her earnings record in the estimated amount of $3,101 in December 2029 at age 70.
- In January 2045 Mary (2.7% COLA) switches to survivor benefits in the estimated amount of $6,376.

Here's why your Primary Strategy was selected:

The primary strategy reflects a specific strategy for claiming your Social Security benefits and is in line with two goals shared by most retirees: maximizing expected lifetime benefits and minimizing longevity risk. It also has incorporated any complicated strategies around spousal benefits that will result in more money for you.

Our primary strategy is based on your life expectancy inputs and is the strategy that will likely provide the greatest cumulative lifetime benefit. However, because you are married, you should also consider survivor benefits in your claiming strategy. A surviving spouse can receive the larger of the two benefit amounts, but not both. If at least the higher earner waits to begin benefits on his or her earnings record until age 70, survivor income will be greatest. However, if you live a short life, waiting may increase survivor benefits, but it may not provide the greatest cumulative lifetime payout over your joint lifetimes. You should carefully consider these factors as you determine your best starting age.

Furthermore, because waiting to claim benefits increases your benefit with delayed retirement credits, it decreases the amount of money that must be withdrawn from savings each month and reduces the chance that a surviving spouse will run out of money in his or her lifetime.

If your primary strategy states that one of you should "file and suspend" or "file a restricted application," be certain that you are clear about this with the agent taking your application. It is not uncommon for an agent to be unfamiliar with a claiming strategy. If the agent is hesitant, ask to speak with a "technical expert" or an office manager.

Here's when it might not work:

Your primary strategy may not be your best choice if either of you live significantly longer or shorter than projected, or if you continue to work and are younger than Full Retirement Age.

If you continue to work and are younger than Full Retirement Age:

- Social Security benefits based on your earnings record (including your spouse's spousal benefits) will be subject to an earnings test, which could reduce those benefits. The earnings test does not apply after you reach Full Retirement Age.
- If the earnings test will result in the loss of most or all of these benefits, you should consider waiting until Full Retirement Age (or until you stop working, whichever is sooner) to file for benefits.

*This primary strategy assumes you will not receive a pension from work not covered by Social Security. If this assumption does not apply to you, the primary strategy may not be your best strategy for claiming Social Security benefits.

Why Taxes Matter

Many people are not familiar with taxation on Social Security benefits. If Social Security is your only income, benefits will not be taxable. But if you have other income, including income from a pension, withdrawals from a 401(k), or investment income, taxes may be owed on up to 85% of your benefits. For each taxpayer, there is a range of income where 50% or 85% of their Social Security benefit is included in their taxable income. The actual rate that applies depends on your marginal tax rate. This tax effect can make a significant difference in the Social Security benefit you are able to collect and may mean you should use an alternate claiming strategy. If you plan to work after beginning Social Security benefits and before reaching your Full Retirement Age, we may be able to assist with some careful analysis and planning intended to reduce the impact of taxes on your benefits.

Analysis of Cumulative Lifetime Benefits

On the following pages, you will see schedules that compare the differences between two Social Security claiming strategies.

Schedule 1 illustrates the difference in both monthly and cumulative lifetime benefits between two strategies for claiming benefits. The "breakeven line" indicates the age at which one strategy begins to pay more in benefits than the other, meaning that if you live beyond that age, the primary strategy is probably the best choice for your situation.

Schedule 2 calculates the amount of funds you will need to withdraw from your savings each year to supplement your Social Security benefits in order to meet your expected spending needs. It shows the annual and cumulative withdrawals for each of the two strategies. The breakeven line marks the age at which the two strategies require the same amount of cumulative withdrawals from your financial portfolio.

Typically, starting Social Security benefits early will require smaller withdrawals from your financial portfolio in the early years because the Social Security income is helping to meet your spending needs. In contrast, waiting to begin benefits will provide a significantly higher monthly benefit for the remainder of your lifetime. The result is that your savings may last longer because the larger Social Security benefit allows you to withdraw less from your portfolio over time.

Schedule 1

Breakeven Analysis comparing two strategies:

Year	Abe (2.7% COLA)	Mary (2.7% COLA)	Early				Primary				Difference
			Abe (2.7% COLA) (PIA=2685.0)	Mary (2.7% COLA) (PIA=2000.0)	Annual Benefits	Cumulative Benefits	Abe (2.7% COLA) (PIA=2685.0)	Mary (2.7% COLA) (PIA=2000.0)	Annual Benefits	Cumulative Benefits	
2021	62	62	$0	$0	$0	$0	$0	$0	$0	$0	$0
2022	63	63	$1,965	$1,463	$41,136	$41,136	$0	$0	$0	$0	($41,136)
2023	64	64	$2,018	$1,503	$42,246	$83,382	$0	$0	$0	$0	($83,382)
2024	65	65	$2,072	$1,543	$43,385	$126,767	$0	$0	$0	$0	($126,767)
2025	66	66	$2,128	$1,585	$44,556	$171,323	$0	$0	$0	$0	($171,323)
2026	67	67	$2,185	$1,628	$45,758	$217,081	$0	$0	$0	$0	($217,081)
2027	68	68	$2,244	$1,672	$46,993	$264,074	$0	$0	$0	$0	($264,074)
2028	69	69	$2,305	$1,717	$48,262	$312,336	$0	$0	$0	$0	($312,336)
2029	70	70	$2,367	$1,763	$49,564	$361,899	$4,164	$3,101	$7,265	$7,265	($354,634)
2030	71	71	$2,431	$1,811	$50,902	$412,801	$4,276	$3,185	$89,539	$96,805	($315,996)
2031	72	72	$2,497	$1,860	$52,276	$465,077	$4,392	$3,271	$91,957	$188,762	($276,315)
2032	73	73	$2,564	$1,910	$53,686	$518,762	$4,510	$3,359	$94,438	$283,199	($235,563)
2033	74	74	$2,633	$1,961	$55,134	$573,896	$4,632	$3,450	$96,985	$380,185	($193,711)
2034	75	75	$2,704	$2,014	$56,622	$630,518	$4,757	$3,543	$99,602	$479,787	($150,731)
2035	76	76	$2,777	$2,069	$58,151	$688,669	$4,885	$3,639	$102,290	$582,077	($106,592)
2036	77	77	$2,852	$2,124	$59,718	$748,387	$5,017	$3,737	$105,050	$687,128	($61,259)
2037	78	78	$2,929	$2,182	$61,331	$809,718	$5,153	$3,838	$107,886	$795,014	($14,704)
Break Even Point											
2038	79	79	$3,008	$2,241	$62,986	$872,703	$5,292	$3,941	$110,797	$905,811	$33,108
2039	80	80	$3,089	$2,301	$64,685	$937,388	$5,435	$4,048	$113,786	$1,019,597	$82,209
2040	81	81	$3,173	$2,363	$66,431	$1,003,819	$5,581	$4,157	$116,857	$1,136,454	$132,635
2041	82	82	$3,258	$2,427	$68,224	$1,072,043	$5,732	$4,269	$120,011	$1,256,465	$184,422
2042	83	83	$3,346	$2,492	$70,063	$1,142,106	$5,887	$4,384	$123,248	$1,379,713	$237,607
2043	84	84	$3,437	$2,560	$71,956	$1,214,061	$6,045	$4,503	$126,576	$1,506,289	$292,228
2044	85	85	$3,530	$2,629	$73,897	$1,287,959	$6,209	$4,624	$129,991	$1,636,281	$348,322
2045	86	86	$0	$4,197	$50,365	$1,338,324	$0	$6,376	$76,514	$1,712,795	$374,471
2046	87	87	$0	$4,310	$51,724	$1,390,047	$0	$6,548	$78,578	$1,791,373	$401,326
2047	88	88	$0	$4,427	$53,120	$1,443,168	$0	$6,725	$80,700	$1,872,073	$428,905
2048	89	89	$0	$4,546	$54,553	$1,497,721	$0	$6,906	$82,877	$1,954,950	$457,229
2049	90	90	$0	$4,669	$56,026	$1,553,747	$0	$7,093	$85,114	$2,040,064	$486,317
2050	91	91	$0	$4,795	$57,538	$1,611,284	$0	$7,284	$87,410	$2,127,474	$516,190
2051	92	92	$0	$4,924	$59,090	$1,670,375	$0	$7,481	$89,770	$2,217,244	$546,869
2052	93	93	$0	$5,057	$60,685	$1,731,060	$0	$7,683	$92,194	$2,309,437	$578,377
2053	94	94	$0	$5,194	$62,324	$1,793,384	$0	$7,890	$94,682	$2,404,120	$610,736
2054	95	95	$0	$5,334	$64,006	$1,857,390	$0	$8,103	$97,237	$2,501,357	$643,967
2055	95	95	$0	$0	$0	$1,857,390	$0	$0	$0	$2,501,357	$643,967

Schedule 2

Retirement Needs Analysis comparing two strategies and the cumulative withdrawals from your financial portfolio each will require to meet your spending needs.

Client	Client	Annual Spending	Early					Primary					Difference
			Client	Client	Annual Benefits	Annual Withdrawal	Cumulative Withdrawal	Client	Client	Annual Benefits	Annual Withdrawal	Cumulative Withdrawal	
62	62	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
63	63	$0	$1,965	$1,463	$41,136	($41,136)	($41,136)	$0	$0	$0	$0	$0	$41,136
64	64	$0	$2,018	$1,503	$42,246	($42,246)	($83,382)	$0	$0	$0	$0	$0	$83,382
65	65	$0	$2,072	$1,543	$43,385	($43,385)	($126,767)	$0	$0	$0	$0	$0	$126,767
66	66	$0	$2,128	$1,585	$44,556	($44,556)	($171,323)	$0	$0	$0	$0	$0	$171,323
67	67	$0	$2,185	$1,628	$45,758	($45,758)	($217,081)	$0	$0	$0	$0	$0	$217,081
68	68	$0	$2,244	$1,672	$46,993	($46,993)	($264,074)	$0	$0	$0	$0	$0	$264,074
69	69	$0	$2,305	$1,717	$48,262	($48,262)	($312,336)	$0	$0	$0	$0	$0	$312,336
70	70	$0	$2,367	$1,763	$49,564	($49,564)	($361,900)	$4,164	$3,101	$7,265	($7,265)	($7,265)	$354,635
71	71	$0	$2,431	$1,811	$50,902	($50,902)	($412,802)	$4,276	$3,185	$89,539	($89,539)	($96,804)	$315,998
72	72	$0	$2,497	$1,860	$52,276	($52,276)	($465,078)	$4,392	$3,271	$91,957	($91,957)	($188,761)	$276,317
73	73	$0	$2,564	$1,910	$53,686	($53,686)	($518,764)	$4,510	$3,359	$94,438	($94,438)	($283,199)	$235,565
74	74	$0	$2,633	$1,961	$55,134	($55,134)	($573,898)	$4,632	$3,450	$96,985	($96,985)	($380,184)	$193,714
75	75	$0	$2,704	$2,014	$56,622	($56,622)	($630,520)	$4,757	$3,543	$99,602	($99,602)	($479,786)	$150,734
76	76	$0	$2,777	$2,069	$58,151	($58,151)	($688,671)	$4,885	$3,639	$102,290	($102,290)	($582,076)	$106,595
77	77	$0	$2,852	$2,124	$59,718	($59,718)	($748,389)	$5,017	$3,737	$105,050	($105,050)	($687,126)	$61,263
78	78	$0	$2,929	$2,182	$61,331	($61,331)	($809,720)	$5,153	$3,838	$107,886	($107,886)	($795,012)	$14,708
Break Even Point													
79	79	$0	$3,008	$2,241	$62,986	($62,986)	($872,706)	$5,292	$3,941	$110,797	($110,797)	($905,809)	($33,103)
80	80	$0	$3,089	$2,301	$64,685	($64,685)	($937,391)	$5,435	$4,048	$113,786	($113,786)	($1,019,595)	($82,204)
81	81	$0	$3,173	$2,363	$66,431	($66,431)	($1,003,822)	$5,581	$4,157	$116,857	($116,857)	($1,136,452)	($132,630)
82	82	$0	$3,258	$2,427	$68,224	($68,224)	($1,072,046)	$5,732	$4,269	$120,011	($120,011)	($1,256,463)	($184,417)
83	83	$0	$3,346	$2,492	$70,063	($70,063)	($1,142,109)	$5,887	$4,384	$123,248	($123,248)	($1,379,711)	($237,602)
84	84	$0	$3,437	$2,560	$71,956	($71,956)	($1,214,065)	$6,045	$4,503	$126,576	($126,576)	($1,506,287)	($292,222)
85	85	$0	$3,530	$2,629	$73,897	($73,897)	($1,287,962)	$6,209	$4,624	$129,991	($129,991)	($1,636,278)	($348,316)
86	86	$0	$0	$4,197	$50,365	($50,365)	($1,338,327)	$0	$6,376	$76,514	($76,514)	($1,712,792)	($374,465)
87	87	$0	$0	$4,310	$51,724	($51,724)	($1,390,051)	$0	$6,548	$78,578	($78,578)	($1,791,370)	($401,319)
88	88	$0	$0	$4,427	$53,120	($53,120)	($1,443,171)	$0	$6,725	$80,700	($80,700)	($1,872,070)	($428,899)
89	89	$0	$0	$4,546	$54,553	($54,553)	($1,497,724)	$0	$6,906	$82,877	($82,877)	($1,954,947)	($457,223)
90	90	$0	$0	$4,669	$56,026	($56,026)	($1,553,750)	$0	$7,093	$85,114	($85,114)	($2,040,061)	($486,311)
91	91	$0	$0	$4,795	$57,538	($57,538)	($1,611,288)	$0	$7,284	$87,410	($87,410)	($2,127,471)	($516,183)
92	92	$0	$0	$4,924	$59,090	($59,090)	($1,670,378)	$0	$7,481	$89,770	($89,770)	($2,217,241)	($546,863)
93	93	$0	$0	$5,057	$60,685	($60,685)	($1,731,063)	$0	$7,683	$92,194	($92,194)	($2,309,435)	($578,372)
94	94	$0	$0	$5,194	$62,324	($62,324)	($1,793,387)	$0	$7,890	$94,682	($94,682)	($2,404,117)	($610,730)
95	95	$0	$0	$5,334	$64,006	($64,006)	($1,857,393)	$0	$8,103	$97,237	($97,237)	($2,501,354)	($643,961)
95	95	$0	$0	$0	$0	$0	($1,857,393)	$0	$0	$0	$0	($2,501,354)	($643,961)

Healthcare Costs in Retirement

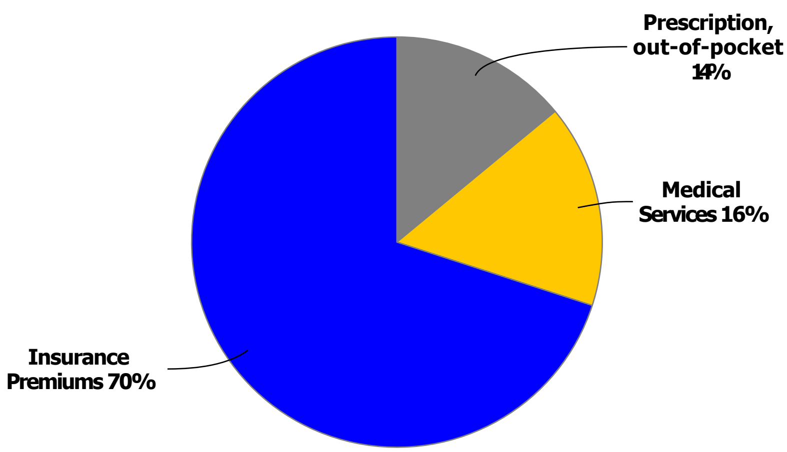
Most retirees are concerned about healthcare costs in retirement. However, many avoid planning for healthcare costs because both media and academic information is overwhelming. Often, though, retirees find that their actual spending on health-related goods and services in retirement differs significantly from projected estimates. So let's begin with the average annual expenditures actually reported by retirees.

The U.S. Bureau of Labor Statistics completes periodic surveys of American consumers related to actual expenditures – including expenditures on health insurance, out-of-pocket healthcare, and other related expenses in retirement.[1] According to actual spending data, the average consumer over age 65 reports the following expenditures on health-related services:

Insurance premiums (including Medicare Part B and Medicare Part D)	$4,716
Prescription drug out-of-pocket expenditures	$776
Medical services (including dental and vision out-of-pocket expenses and medical supplies not covered by insurance)	$1,232
TOTAL annual expenditures on healthcare	$6,724

U.S. Bureau of Labor Statistics Consumer Expenditure Survey, 2017-2018.

The allocation for health-related expenditures as compared to the total spent is:



As you can see from the chart above, insurance premiums account for the largest percentage of health-related expenditures; however, when compared to the average consumption of health services while in retirement, insurance premiums are essential. According to the most recent report from the Urban Institute, many average-income single adults retiring between 2015 and 2020 will receive about $500,000 in benefits, and couples will receive roughly $1 million, substantially more than previous cohorts. Under scheduled law, millennials who turn 65 around 2050 are projected to receive in real dollars about twice as much as those retiring at the time of this report (i.e., about $1 million for an average-income single adult and $2 million for a couple).

Costs for health-related services are certainly dependent on a number of factors including your health status, family history, age, employer-provided services, geography, and even your marital status. This report assumes that you fall into the average expenditures listed above. If you believe your actual expenditures will be more, you should plan accordingly. In addition, we've assumed that your income in retirement falls below the lowest threshold and you will not be subject to higher Medicare premiums based on income.

Your Expected Healthcare Costs in Retirement

Based on your life expectancy of 85 for Abe (2.7% COLA) and 95 for Mary (2.7% COLA), you should plan for the following health-related expenditures in retirement:

Abe (2.7% COLA): $117,060 (cumulative lifetime total in today's dollars)

Mary (2.7% COLA): $175,590 (cumulative lifetime total in today's dollars)

To arrive at these amounts, we calculated the number of years between Medicare eligibility at age 65 and your estimated life expectancy, then we multiplied by the annual expenditures reported to the U.S. Bureau of Labor Statistics in 2017-2018. Your actual expenditures may be more or less than this projection.

The amounts above are in current dollars and are not adjusted for inflation. However, according to the Kaiser Family Foundation, healthcare costs over the past 25 years have risen at an average of more than 6% per year. Future costs are expected to rise at about the same rate over the next decade, it's important to work with your financial professional to plan for these expenses.

Medicare Expenses

Introduction

As you develop and manage plans for your future, medical insurance is a key component of your financial stability. To this end, as you approach age 65 you should become knowledgeable about Medicare coverage and what you need to do to ensure uninterrupted coverage and/or late enrollment premium penalties, regardless of your current medical coverage and work status.

Recommended Medicare Enrollment Dates

Abe (2.7% COLA) and Mary (2.7% COLA), by enrolling during the enrollment period below – or in your special enrollment period after employer coverage ends – you will avoid gaps in coverage and late enrollment penalties.

Based on the birth date (s) you provided, your Medicare enrollment dates are below.

- Abe (2.7% COLA) should enroll for Medicare coverage between September 2024 and March 2025.
- Mary (2.7% COLA) should enroll for Medicare coverage between September 2024 and March 2025.

Medicare Categories

Like Social Security, Medicare can seem overwhelming. Medicare has 4 categories of coverage: parts A, B, C and D.

Part A is “hospital insurance” and helps pay for inpatient hospital care, skilled nursing facilities, hospice care, and some home health care. Because people usually pay for Part A coverage through a federal Medicare tax while working (1.45% of wages), most don't pay a deductible or monthly premium after age 65. However, if you did not pay Medicare taxes while working, you may still be able to purchase Part A coverage.

Part B is “medical insurance” and helps pay for doctors’ visits, outpatient hospital care, physical and occupational therapy and some home health care. Part B coverage requires payment of a monthly premium. Premiums are set annually, and the premium is adjusted based on income thresholds.

Part C combines Part A, Part B, and, sometimes, Part D (prescription drug) coverage. These plans are called Medicare Advantage Plans and are managed by private insurance companies approved by Medicare. Rates for Plan C, and the coverage included, vary by carrier.

Part D provides coverage for prescription drug benefits. Plans vary by cost, number of drugs covered and pharmacies on each plan, but all plans must meet a minimum standard for drug coverage set by Medicare. The average monthly premium is around $42.05, ranging from $12.20 to $76.40 monthly.

“Medigap” policies are available to people who do not purchase a Medicare Advantage Plan. Medigap plans will cover payment for some costs not covered by Parts A, B and D.

Even if you have a plan for each of the parts A, B, C, and D, not all medically-related services will be covered. Most notably, long-term (or custodial) care is not covered. Cosmetic surgery and alternative therapies such as acupuncture are not covered. And most plans do not cover dental or vision care, or hearing devices.

In determining what coverage you will need, you should create a list of services that are important to you or any medical condition you may have. In your evaluation of your options, make certain these services are covered by any plan you are considering. The website www.medicare.gov can provide additional help in comparing plans.

Important Medicare Enrollment Dates:

Understanding Initial and Special enrollment dates, and requirements for each, is important.

If you are planning to enroll in Medicare, the enrollment dates are critical for you in order to avoid delayed coverage which could result in a period of time with no coverage or a late enrollment penalty. When you're first eligible for Medicare, you have a 7-month Initial Enrollment Period to sign up. For example, if you're eligible when you turn 65, you can sign up during the 7-month period that begins 3 months before the month you turn 65, includes the month you turn 65, and ends 3 months after the month you turn 65. If you didn't sign up for Medicare when you were first eligible, you can sign up during the General Enrollment Period between January 1–March 31 each year and your coverage will start July 1.

If you incur a late enrollment penalty, it is permanent, meaning that your premiums will forever bear the added penalty. The penalty is 10% of the effective premium amount for each year you have no coverage. Here is an example:

John was quite healthy when he retired from work at 64, so he chose not to continue his employer coverage after leaving. He knew he would be able to enroll in Medicare at some point when he needed coverage. When John turned 65, he was still very healthy and decided to forego Medicare enrollment. But when John turned 67, he wasn't quite as healthy and decided to enroll in Medicare. To John's surprise, his late enrollment – two full years after his eligibility – carried a 20% penalty, 10% for each year he had no coverage. And the penalty was 20% of the new, increased premium each year.

Important Note for Those Still Working, Collecting Employer Long Term Disability or Covered Under COBRA: Abe (2.7% COLA) and Mary (2.7% COLA) , if you are still working and will be covered by an employer-sponsored healthcare plan with a company of 20 or more employees when you reach age 65 and won't need Medicare right away, the recommend enrollment dates might not apply to you. However, should your employer coverage end (including employees on Long Term Disability or covered under COBRA), you will be subject to a special enrollment period of eight months that begins when you leave work or when your coverage ends, whichever occurs first. The following caveats should be kept in mind:

- COBRA is not considered as coverage for the purpose of calculating when healthcare coverage ended.
- Some employer retiree medical insurance plans require you to sign up for Medicare when you are initially eligible, and Medicare then becomes the primary payer in coordination of benefits. You should speak to a benefits representative with your employer to determine if you might be required to enroll in Medicare for coordination of benefits.
- Under some group retiree plans, if you select a Part D offering, you could forfeit some or all of your retiree medical coverage for you and all your dependents. Be sure to know your specific plan benefits and rules.

Medicare Part B Premiums:

The amount of your Medicare premium is determined each year using a benefit formula from the 1997 Balanced Budget Act which set the premium at 25% of the total program costs. In other words, the Part B premiums are calculated by dividing 25% of the actual cost of care and administration of the plan by the number of projected participants in the program. The remaining 75% of program costs are financed through general revenues.

Those with a modified adjusted gross income over $87,000 if you are single and $174,000 if you are married are assessed on income-related threshold adjustment and pay a higher premium for Medicare Part B. In addition, the premiums you pay for Medicare Part B are determined based on your income two years prior. For example, if you are enrolling in Medicare Part B for the first time in 2020, your income thresholds will be based on the income reported on your 2018 IRS tax return. If your income has gone down since that time, you may request a reduction in the income-related threshold adjustment by completing a form SSA-44 available from the Social Security Administration.

In 2020, the standard Part B premium will be $148.50. You will pay this amount if:

- You enroll in Medicare Part B for the first time in 2021, and
- You were not already receiving Social Security benefits at the end of 2020, and
- Your income falls below the lowest threshold in the table below.

2021 Part B Premiums

If you are Single with a Modified Adjusted Gross Income of:	If you are Married filing jointly and have a Modified Adjusted Gross Income of:	Your Medicare Part B premium per person will be:
$88,000 or less	$176,000 or less	$148.50
$88,001 - $111,000	$176,001 - $222,000	$207.90
$111,001 - $138,000	$222,001 - $276,000	$297.00
$138,001 - $165,000	$276,001 - $330,000	$386.00
$165,001 - $500,000	$330,001 - $750,000	$475.20
$500,001 and above	$750,0001 and above	$504.90

(These amounts are for 2021 only, and apply only to those who meet the criteria in the prior section of this report.)

If you are already collecting Social Security benefits at the time you begin Medicare coverage, your premiums will be automatically deducted from your Social Security payment each month. If you are not receiving Social Security benefits, you must pay your Medicare premiums by check, credit card or automatic draft from a bank account.

You can find additional information about Medicare and its associated coverage at www.medicare.gov.

Incorporating Long-Term Care into Retirement Planning

The health-related costs we included in this report do not include costs you may incur for long-term care, and Medicare does not pay for most long-term care needs. Not everyone will need long-term care, but the longer you live, the greater your chances of needing some sort of assistance with daily activities. Additionally, specific medical conditions can increase your need for long-term care.

There are four basic types of long-term care:

- Remaining at home and hiring a service for household or care-related tasks—or asking family and friends to help out.
- Adult day services facilities that provide respite care for seniors, as well as support services for families.
- Assisted living facilities which are residential facilities that offer healthcare and personal services.
- Skilled nursing facilities that provide around the clock medical and personal care to residents.

Many people rely on family for care, most often for short-term care needs. Others are able to combine help from a service, part-time nurse, and/or adult day center to reduce the costs of long-term care or to delay the onset of full-time care.

According to the U.S. Department of Health and Human Services Administration on Aging, the average annual expenditures for long-term care across the United States are:

Average Annual Expenditures for Long-Term Care

Adult Day Services (5 days per week, 52 weeks)	$17,420
Assisted Living Facility (private one-bedroom, 52 weeks)	$39,516
Home Health Care -- Homemaker Services (42 hours per week, 52 weeks)	$41,496
Home Health Care -- Home Health Aide (42 hours per week, 52 weeks)	$45,864
Nursing Home -- Semi-Private Room (365 days in residence)	$74,820
Nursing Home -- Private Room (365 days in residence)	$83,580

It’s critical to plan for long-term care needs, even if you don’t expect to have them. Of course, your first defense is to remain healthy as long as possible. In addition, you should begin to consider your opportunities for securing care, such as:

- Family and friends;
- Self-funding from your savings;
- Purchasing long-term care insurance;
- Purchasing a life insurance policy with a long-term care rider;
- Moving into a continuing care facility where you can transition from independent living into a skilled nursing facility at the appropriate time;
- Securing a reverse mortgage or home equity loan as a last resort.

Planning for Healthcare in Retirement

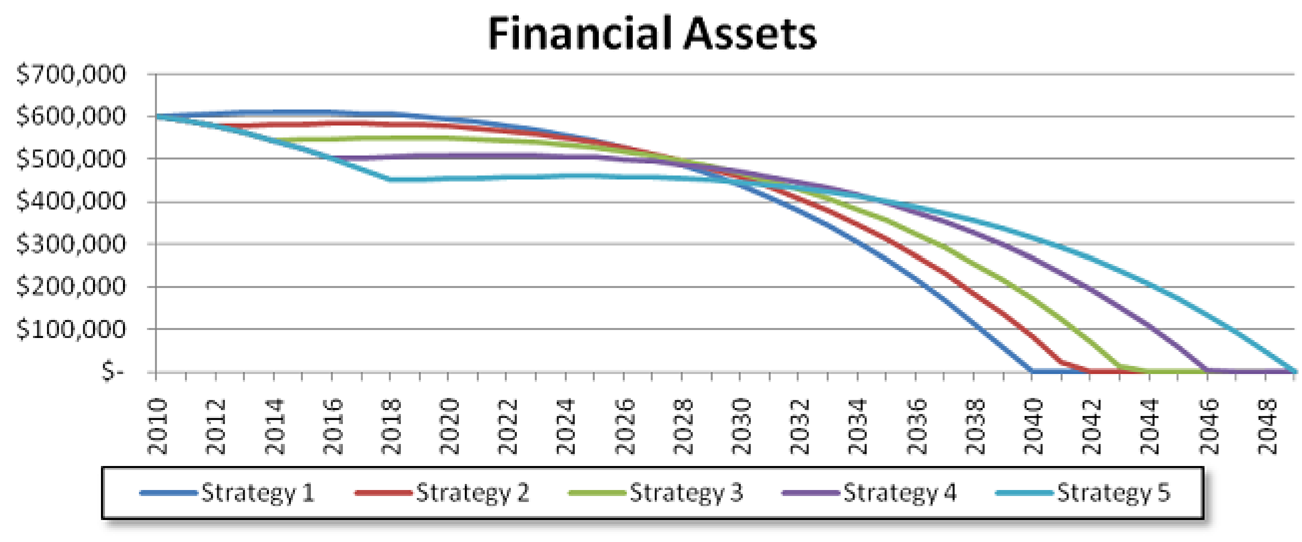
While the numbers related to healthcare in retirement can be shocking, it's important that you begin to plan as early as possible. Now that you have an idea of the costs you can expect over your retirement horizon, you can begin taking a few steps in preparation:

- If you haven't already, commit to a healthy lifestyle. Moderate amounts of exercise and modest changes in eating habits can turn into significant health benefits.
- Discuss healthcare costs with your financial professional. These costs should be a part of your retirement income and spending plan.
- Prepare for unexpected expenses by setting aside savings dollars for potential healthcare needs.
- Do your homework. Learn what Medicare plans cover, as well as available resources in your community that can help you save on costs.

Case Study:
The Impact of Starting Date on Other Assets

Choice of starting date can affect portfolio longevity. As we've demonstrated in the information in this Social Security analysis, the amount of your Social Security benefit can be significantly impacted by controllable factors. This case study illustrates the additional longevity that is possible by judiciously choosing the date you begin Social Security benefits. The case study assumes Mary, a 62-year-old single individual, retires from work in January 2010. Mary has $600,000 in a 401(k) and wants to know how long her financial portfolio may last if she spends $38,000 after taxes in the first year and an inflation-adjusted equivalent amount each year thereafter. She will follow one of five strategies that vary only in the date that she begins Social Security benefits, and the outcome of each is depicted in the graph below.

In Strategy 1, Mary begins benefits at age 62, and her portfolio runs out of money at the end of 2039. The Strategy 1 line is the highest in the early years but it runs out of money before the others. In Strategies 2 through 5, Mary begins Social Security at, respectively, ages 64, 66, 68, and 70. The Strategy 5 line is the lowest line in the early years but it runs out of money last. By delaying the start of Social Security benefits until 64, 66, 68, or 70, she can extend the portfolio's longevity by, respectively, 1+, 3+, 6+, or 9+ years, where 1+ indicates that the portfolio provides full funding for one more year plus part of a second. Thus, beginning benefits at 70 instead of 62 extended the portfolio's longevity by more than nine years.



This case study assumes the assets earn 5% per year with inflation at 3% per year. The individual begins retirement on her 62nd birthday at the beginning of 2010. Her Primary Insurance Amount is $1,500 and her Full Retirement Age is 66. This example assumes each year's taxes are based on current tax brackets, standard deduction amounts, personal exemption amounts, and a deduction amount for being 65 or over, all adjusted each year with inflation. It uses the three IRS formulas to calculate the taxation portion of Social Security benefits. It is for illustrative purposes only and does not constitute advice.

IMPORTANT DISCLOSURE

This report is for informational purposes only. All the information provided is based on Social Security rules, benefit calculations, and payout promises of existing Social Security policy at the time this report was printed. The purpose of the report is to educate and give general guidance to help craft a personalized approach to taking Social Security.

The Social Security claiming strategy highlighted in this report was generated based on information you provided. That information included estimates of your and, when applicable, your spouse's Primary Insurance Amount, life expectancy(ies), and date(s) of birth. If this information you provided, including your life expectancy projection(s), should prove wrong after the fact, then the primary strategy may not be the best strategy after the fact. Before selecting this or any other claiming strategy, you should analyze and compare it with other scenarios generated by your financial professional. The optimal strategy for a specific client depends, in part, on that client's tradeoff between the goals of maximizing expected lifetime benefits and minimizing the risk of outliving his or her financial assets. As such, it is ultimately the responsibility of the client to carefully consider the primary strategy before adopting it as his, her or their own. This report should be used only as a general guideline and not as the ultimate source of information about Social Security claiming strategies.

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This report and the analysis here within are based on certain assumptions selected by the financial professional who produced this report using our software about future economic conditions and events that may not turn out to be correct. The analysis in this report assumes the average wage growth will follow the predictions laid out in None, a cost of living adjustment in the amount of 2.7 percent will be given each year in the future, and future dollar amounts are discounted at a rate of 0.0 percent. Social Security Solutions, Inc.is under no obligation to update such written statements if conditions change or unexpected occurrences happen to affect the report afterwards.

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