

YOUR GUIDE TO RETIREMENT BENEFITS

SOCIAL SECURITY ★ ★ ★ ★ ★ ★

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Franklin D. Roosevelt

In 1935, President Franklin Delano Roosevelt signed the Social Security Act. It was created out of necessity as the United States was coming out of the Great Depression and numerous aging Americans were struggling. Financing would come from workers and employers and be distributed to retirees. After years of paying into Social Security, it is approaching the time that the largest generation ever will start reaping their benefits.¹



John F. Kennedy

"A nation's strength lies in the well-being of its people. The Social Security program plays an important part in providing for families, children and older persons in time of stress, but it cannot remain static. Changes in our population, in our working habits, and in our standard of living require constant revision."

HOW SOCIAL SECURITY WORKS

- When you receive a paycheck from your employer, you pay in to Social Security
- 6.2% of your salary is paid by you and 6.2% is paid by your employer²
- Forty credits are needed to be eligible to receive benefits³
- One credit for every \$1,300 made annually³
- Maximum four credits per year³
- Highest 35 years of earnings are used to determine your Social Security benefit⁴
- If you work less than 35 years, the missing years are counted as zero⁵
- 2017 average Social Security benefit is \$1,360⁶
- Maximum benefit for 2017 is \$2,687⁶
- Maximum taxable income is \$127,200⁶

¹ <https://www.ssa.gov/policy/docs/ssb/v66n1/v66n1p1.html>

² <https://www.ssa.gov/pubs/EN-05-10003.pdf>

³ <https://www.ssa.gov/pubs/EN-05-10072.pdf>

⁴ <https://www.ssa.gov/pubs/EN-05-10070.pdf>

⁵ <https://www.ssa.gov/planners/retire/stopwork.html>

⁶ <https://www.ssa.gov/news/press/factsheets/colafacts2017.pdf>

The Evolution of Social Security's Taxable Maximum

| YEAR | \$ |
|------|---------|
| 1985 | 39,600 |
| 1986 | 42,000 |
| 1987 | 43,800 |
| 1988 | 45,000 |
| 1989 | 48,000 |
| 1990 | 51,300 |
| 1991 | 53,400 |
| 1992 | 55,500 |
| 1993 | 57,600 |
| 1994 | 60,600 |
| 1995 | 61,200 |
| 1996 | 62,700 |
| 1997 | 65,400 |
| 1998 | 68,400 |
| 1999 | 72,600 |
| 2000 | 76,200 |
| 2001 | 80,400 |
| 2002 | 84,900 |
| 2003 | 87,000 |
| 2004 | 87,900 |
| 2005 | 90,000 |
| 2006 | 94,200 |
| 2007 | 97,500 |
| 2008 | 102,000 |
| 2009 | 106,800 |
| 2010 | 106,800 |
| 2011 | 106,800 |
| 2012 | 110,100 |
| 2013 | 113,700 |
| 2014 | 117,000 |
| 2015 | 118,500 |
| 2016 | 118,500 |
| 2017 | 127,200 |

Determining Your Primary Insurance Amount

In 2011, the Social Security Administration (SSA) stopped sending paper statements to Americans, which saved an estimated \$70 million. In 2012, the SSA resumed sending statements to those age 60 and over. However, it can still be challenging to determine the amount you will receive when you begin taking payments.

You can find this information by either calling the SSA or visiting its website (www.ssa.gov). You may also work with a financial services professional to help you get the answers you need to make an informed decision.

When Can You Start Receiving Your Social Security Benefit?⁷

You may begin to receive early benefits from Social Security at age 62. However, if you start before your full retirement age (FRA), your benefit will be reduced. At age 62, your benefit will only be 75 percent of your primary insurance amount (PIA). Depending on your lifespan, this can drastically reduce the amount of Social Security you receive over your lifetime.

Each year you delay receiving your Social Security benefit, your payment will increase. Once you reach your FRA, you can begin receiving your unreduced, full PIA. You can continue to delay receiving benefits until age 70. Your benefit will increase by 8 percent each year from your FRA until age 70. By delaying payments from FRA to age 70, you can receive a 32 percent increase in benefits.

⁷ <https://www.ssa.gov/planners/retire/applying2.html>

⁸ <https://www.ssa.gov/planners/retire/agereduction.html>

⁹ https://www.ssa.gov/OACT/ProgData/ar_drc.html

What is Your Full Retirement Age?⁸

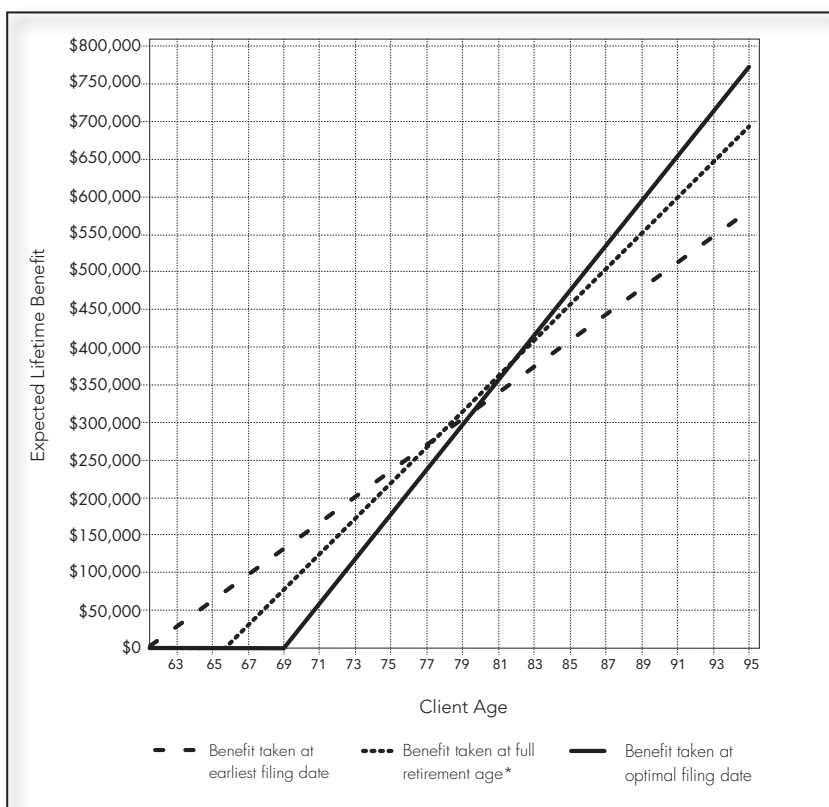
| Year of Birth | Full Retirement Age |
|-----------------|---------------------|
| 1937 or earlier | 65 |
| 1938 | 65 and 2 months |
| 1939 | 65 and 4 months |
| 1940 | 65 and 6 months |
| 1941 | 65 and 8 months |
| 1942 | 65 and 10 months |
| 1943-1954 | 66 |
| 1955 | 66 and 2 months |
| 1956 | 66 and 4 months |
| 1957 | 66 and 6 months |
| 1958 | 66 and 8 months |
| 1959 | 66 and 10 months |
| 1960 and after | 67 |

Discount or Premium of Primary Insurance Amount⁹

| Apply at Age | Benefit is X Percent of PIA | Example if PIA is \$1000 |
|--------------|-----------------------------|--------------------------|
| 62 | 75.0% | \$750 |
| 63 | 80.0% | \$800 |
| 64 | 86.7% | \$867 |
| 65 | 93.3% | \$933 |
| 66 | 100.0% | \$1,000 |
| 67 | 108.0% | \$1,080 |
| 68 | 116.0% | \$1,160 |
| 69 | 124.0% | \$1,240 |
| 70 | 132.0% | \$1,320 |

This chart is for illustrative purposes only.
Assuming FRA is age 66

Break-Even Analysis | Cumulative Balance



This illustration represents a hypothetical situation and is for informational purposes only. Comparison uses the specified age of death at 95. This chart does not illustrate COLA. *Full retirement age varies by date of birth.

When Should I Apply for Social Security?

One of the most challenging questions to answer is when to start receiving your Social Security benefit. There are pros and cons to delaying your benefit as well as to receiving it as soon as you become eligible.

Two primary factors may help you make your decision. First, do you need the money? If you need the income to cover expenses in retirement, your decision is made. If you do not need the money, it might make sense to delay receiving your benefit and let your future payments continue to increase. The second factor is your health and life expectancy. Individuals in poor health may want to

begin receiving their benefits earlier rather than later. If you are in good health and have a history of longevity in your family, it may behoove you to wait. No matter what you decide, there is an element of risk in your decision because your finances and health can change throughout retirement.

There are calculators to help you determine your available benefit at various ages. By determining your break-even age and your projected life expectancy, you can make an informed decision about when to apply for your Social Security benefit.

Cost-of-Living % Adjustments

| Year | COLA % | Year | COLA % |
|------|--------|------|--------|
| 1980 | 9.9 | 1999 | 1.3 |
| 1981 | 14.3 | 2000 | 2.5 |
| 1982 | 11.2 | 2001 | 3.5 |
| 1983 | 7.4 | 2002 | 2.6 |
| 1984 | 3.5 | 2003 | 1.4 |
| 1985 | 3.5 | 2004 | 2.1 |
| 1986 | 3.1 | 2005 | 2.7 |
| 1987 | 1.3 | 2006 | 4.1 |
| 1988 | 4.2 | 2007 | 3.3 |
| 1989 | 4.0 | 2008 | 2.3 |
| 1990 | 4.7 | 2009 | 5.8 |
| 1991 | 5.4 | 2010 | 0.0 |
| 1992 | 3.7 | 2011 | 0.0 |
| 1993 | 3.0 | 2012 | 3.6 |
| 1994 | 2.6 | 2013 | 1.7 |
| 1995 | 2.8 | 2014 | 1.5 |
| 1996 | 2.6 | 2015 | 1.7 |
| 1997 | 2.9 | 2016 | 0.0 |
| 1998 | 2.1 | 2017 | 0.3 |

COLA is for applied year
<https://www.ssa.gov/OACT/COLA/colaseries.html>

Can My Social Security Benefit Increase?

Each October, the SSA announces the amount in which monthly benefits will increase. Cost-of-living adjustments (COLA) are applied to individuals who are already receiving benefits and to those who have not filed yet. COLA is based off the consumer price index from the third quarter of one year to the third quarter of the next. There is no guarantee of COLA annually, which can make it more challenging to plan your retirement income. As illustrated in the above table, there was no COLA increase in 2010, 2011 and 2016.

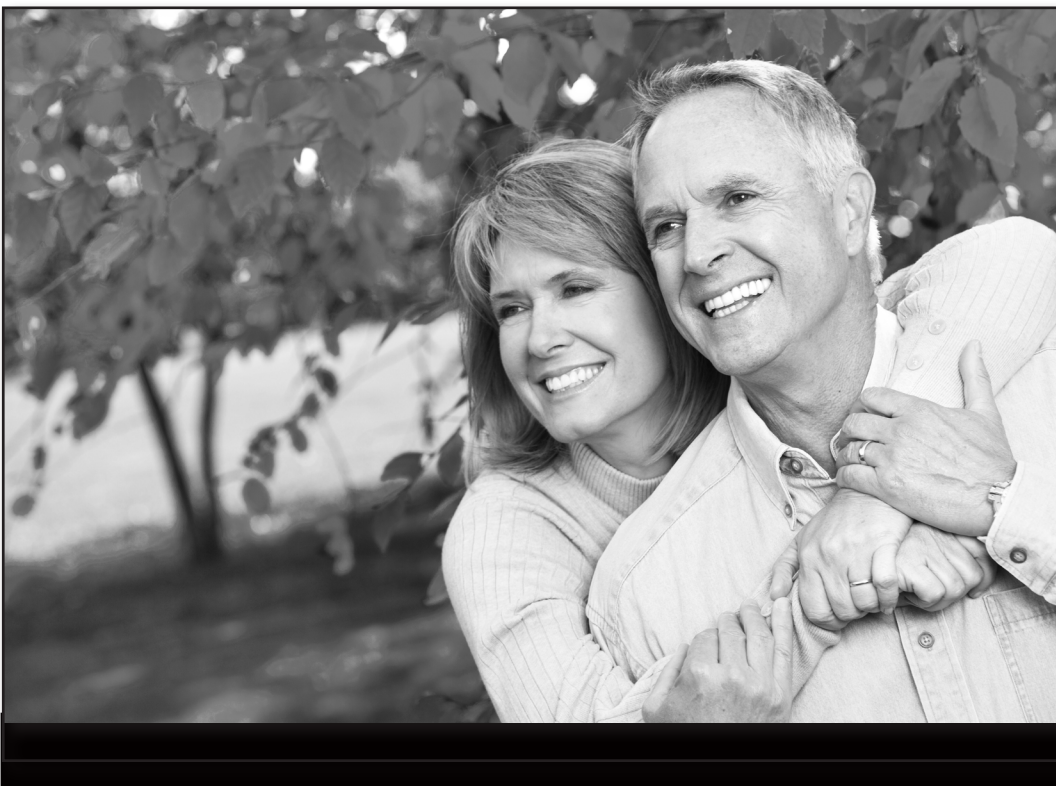
How Spousal Benefits Work¹⁰

If you are a married individual who had little to no earnings throughout your working years, Social Security can be received through spousal benefits. Once your working spouse files and collects his or her benefit, you can also file and start receiving half of your working spouse's full retirement age amount. As the non-working spouse, you may file for benefits before FRA; however, you will receive a reduced spousal benefit.

Divorced or Widowed¹¹

If you were married for at least 10 years, have not remarried, and the benefit you would receive on your own work record is less than the benefit you would receive based on your ex-spouse's, you can receive spousal benefits based on your ex-spouse's work history. Again, you may apply as early as age 62, but you will have a reduced payment. If your ex-spouse has not applied for retirement benefits but could qualify, you can receive benefits on his or her record if you have been divorced for at least two years. You will need to produce information to verify you were married and for the SSA to locate appropriate records. With that information, they will be able to calculate your benefits.

If you are widowed, you may receive survivor benefits. You can apply as early as age 60, but if you apply before your FRA, you will receive reduced benefits. If you are over your FRA, your benefit will equal 100 percent of your deceased spouse's benefit. **Important:** Your survivor benefit will be 100 percent of your deceased spouse's actual benefit. If your deceased spouse took benefits early, it will be 100 percent of the reduced amount received. If benefits were delayed to age 70, it will be 100 percent of his or her maximum amount. If you were both receiving Social Security at the time of a passing, you will receive



either 100 percent of your spouse's benefit or continue receiving your benefit, whichever is greater. Lastly, if you remarry, your survivor benefit will stop unless you are age 60 or over when you remarry.

Working in Retirement¹²

Because of the recent economy, more people are choosing to work in retirement. Between age 62 and your FRA, you may have some of your Social Security benefit withheld if you earn too much income. If you are receiving your benefit and earning over \$16,920 during your low threshold years (age 62 to your FRA), your benefit will be reduced. One dollar of your Social Security benefit will be withheld for every \$2 you make over the threshold. During your high threshold year (the year you reach your FRA), there is another threshold income amount that is triggered. In the months leading up to your FRA, your benefit is reduced by \$1

for every \$3 you earn over \$44,880. The amount of Social Security withheld while you were earning income and receiving benefits will be used to recalculate your PIA; however, the recalculation will usually still work out to be lower than if you would have waited until your FRA to receive benefits. Once you reach your FRA, there is no limit to the amount of income you can earn. You can maximize your earnings without fear of reduced Social Security benefits.

Taxation of Social Security Benefits¹³

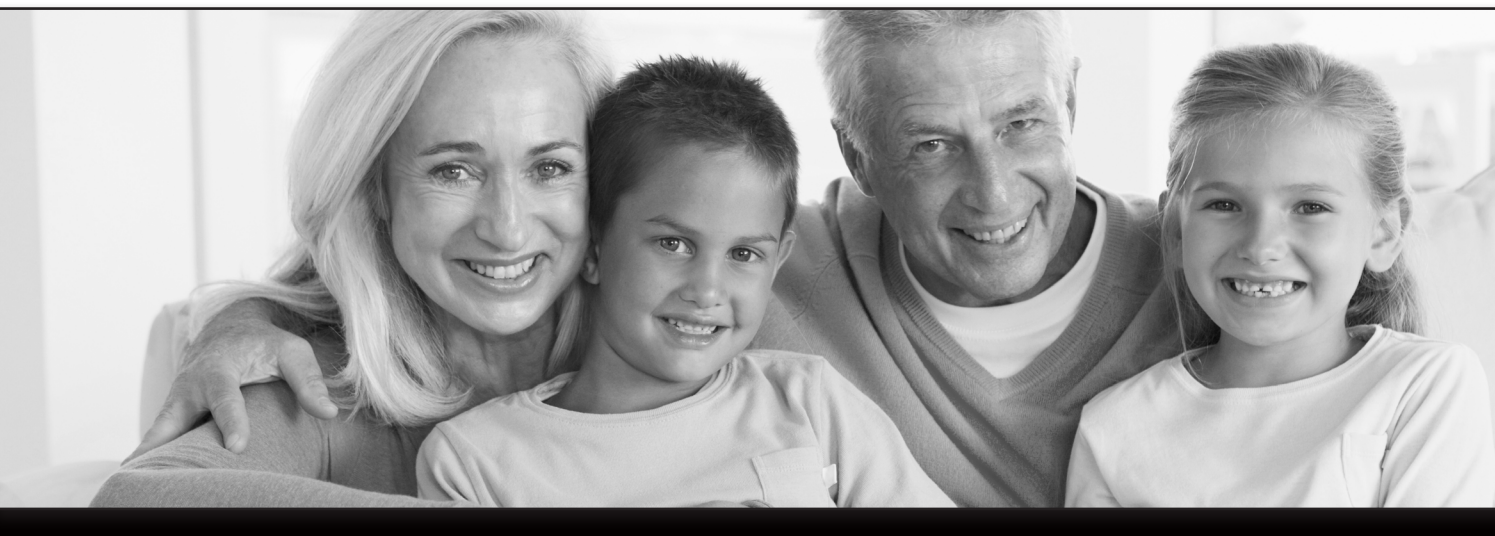
Depending on how much income you earn in retirement, your Social Security benefit may be taxable. Income that counts toward your limits include: pensions, dividends and interest, and even tax-free interest from municipal bonds. To determine your threshold income, take your modified adjusted gross income and add half of your combined Social Security benefits plus your tax exempt income.

¹⁰ <https://www.ssa.gov/planners/retire/yourspouse.html>

¹¹ <https://www.ssa.gov/planners/retire/yourdivspouse.html>

¹² <https://www.ssa.gov/pubs/EN-05-10069.pdf>

¹³ <https://www.ssa.gov/planners/taxes.html>



The chart to the right illustrates how much of your Social Security will be taxed.

There are only two ways to reduce the amount of tax you pay on your Social Security. One, reduce the amount of other income you are receiving. Two, change the type of investments you have that are paying dividends and interest. There is a planning opportunity that will allow you to receive a portion of your already taxed money and minimal interest. This option can help you continue receiving the income you need and potentially reduce the amount of money that counts toward your threshold income.

Social Security Reform¹⁴

Because of the current debt situation in the United States, many pre- and post-retirees have become concerned about their Social Security benefits. Current projections suggest that, in 2037, only a portion of promised benefits will be able to be paid. The government has proposed many options for reforming Social Security benefits, including raising the retirement age, raising taxes and revising benefits. Any revision will likely be phased in over a period of time thus minimally affecting the baby boomer generation.

¹⁴ <https://www.ssa.gov/policy/docs/ssb/v70n3/v70n3p111.html>

¹⁵ <https://www.ssa.gov/pubs/EN-05-10035.pdf>

Social Security Taxation

Retired Married Couple¹⁵ (Joint Federal Return)

Combined income less than \$32,000

- 0% - Social Security tax exempt

Combined income between \$32,000 and \$44,000

- 50% - Up to 50% of your Social Security may be taxable

Combined income over \$44,000

- 85% - Up to 85% of your Social Security may be taxable

Retired Single Worker¹⁵ (Individual Federal Return)

Combined income less than \$25,000

- 0% - Social Security tax exempt

Combined income between \$25,000 and \$34,000

- 50% - Up to 50% of your Social Security may be taxable

Combined income over \$34,000

- 85% - Up to 85% of your Social Security may be taxable

On the 1040 tax return, your "combined income" is the sum of your adjusted gross income plus nontaxable interest plus half of your Social Security benefits.

- What percentage of Americans age 65 and older receive Social Security benefits?
Answer: 90%¹⁶
- Social Security represents what percentage of income for elderly Americans?
Answer: 34%¹⁶
- Claiming Social Security benefits at the wrong time can reduce your monthly benefit by how much?
Answer: 30%*¹⁷
- How long is this reduction applied to your monthly benefit?
Answer: For life¹⁸
- What percentage of retirees claim Social Security benefits at age 62?
Answer: 42% of men and 48% of women¹⁹
- What percentage of retirees receive reduced Social Security benefits?
Answer: 72%²⁰

¹⁶ <http://www.socialsecurity.gov/news/press/basicfact.html>

¹⁷ <https://www.ssa.gov/oact/quickcalc/earlyretire.html>

¹⁸ <https://www.ssa.gov/pubs/EN-05-10024.pdf>

¹⁹ <http://money.usnews.com/money/retirement/articles/2015/06/01/the-most-popular-ages-to-sign-up-for-social-security>

²⁰ <https://www.ssa.gov/policy/docs/statcomps/supplement/2015/supplement15.pdf>

²¹ <https://www.ssa.gov/policy/docs/ssb/v66n1/v66n1p1.html>

²² <https://www.ssa.gov/history/imf.html>

²³ <https://www.ssa.gov/history/1950amend.html>

²⁴ <http://www.ssa.gov/history/1960.html>

²⁵ <http://www.ssa.gov/history/1980.html>

²⁶ <http://www.ssa.gov/history/1990.html>

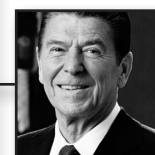
²⁷ <http://www.ssa.gov/history/2000.html>

²⁸ <https://www.ssa.gov/history/2010.html>

²⁹ <http://docs.house.gov/meetings/ru/ru00/cprt-114-ru00-d001.pdf>

* Assuming FRA is age 66

- **1935:** Social Security is enacted.²¹
- **1940:** Ida Mae Fuller is issued the first monthly benefit from Social Security. Her check is for \$22.54.²²
- **1950:** President Truman signed the 1950 Social Security Amendments, extending coverage and liberalizing the benefits.²³
- **1961:** The Social Security Amendments of 1961 are signed by President Kennedy, permitting all male workers to elect early retirement at age 62.²⁴
- **1972:** Automatic cost-of-living adjustments are enacted.²¹
- **1983:** President Reagan signed the Social Security Amendments of 1983.²⁵
- **1995:** The Social Security Administration became an independent agency.²⁶
- **2000:** President Clinton signed a bill eliminating the retirement earnings test (RET) for beneficiaries at or above the FRA.²⁷
- **2012:** The Social Security Statement became available online via SSA's website by visiting: www.ssa.gov/mystatement²⁸
- **2015:** The Bipartisan Budget Act of 2015 eliminated some advanced filing strategies.²⁹





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