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RETIREMENT SYMPOSIUM

Social Security Income: How It Fits Into Retirement Planning

MODERATOR

Dorothy Hinchcliff
Managing Editor of FA
Financial Advisor & Private Wealth Magazine

PANELISTS

Reed J. Lloyd, CRC®, CRPS®
Field Vice President
Pacific Life Insurance Company

Judith Sanborn, CFP®, AIF®
Certified Financial Group

Paul F. Auslander, CFP®
Chairman & CEO
American Financial Advisors, Inc.

Happy Belated 75th

Social Security

- Celebrated 75 years on August 14, 2010
- Shows signs of aging
- And like many septuagenarians
  - Lives on a fixed income
  - Worries about inflation
  - Taps into principal to meet current expenses
  - Is concerned about running out of money

Source: Press Office Public Service Announcement, www.SocialSecurity.gov.

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2012 Was a Deficit Year

- Pays out more in benefits than takes in through taxes
  - Announced Spring 2012
- Strain on revenue hastened by recession
  - Program costs projected to exceed tax revenue throughout remaining 75-year period
  - Trust Funds projected to be exhausted in 2033 (three years sooner)
- We've been here before
  - Early 1980s

Source: U.S. Social Security Administration Office of Retirement and Disability Policy; The Future Financial Status of the Social Security Program

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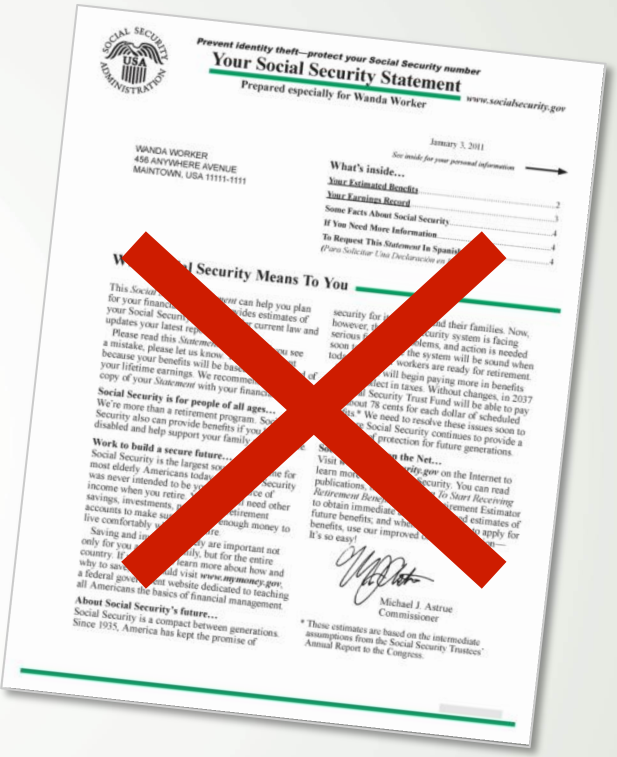
What It Means

- Designed as a pay-as-you-go system
- Federal Insurance Contributions Act (FICA)
- Employer pays 6.2% of worker's earnings
- Employee pays 6.2% of earnings in 2013
- Pays on earnings up to $113,700 (2013)
- FICA revenue is used to pay current benefits
- Any deficit is paid from the Trust Funds

Social Security Statement

- Suspension of paper statement
- Available online at mySocialSecurity account
- Account set-up
  - Valid email address
  - Have social security number
  - Have U.S. mailing address
  - Be at least 18 years old



Payment Changes

- Direct Deposit – Benefit Payments
  - Must enroll by 3/1/2013
  - Alternative option is debit card
- Payback of Benefits New Rule
  - Effective 12/8/2010
  - One application per lifetime
  - Within 12 months of first payment

History

- Benefit accruals begin January 1, 1937
  – Initially a lump-sum benefit (1937 until 1940)
- Monthly payments begin 1940
  – Ida May Fuller
- Never designed as sole source of retirement income

Source: www.SocialSecurity.gov/history/imf.html.

Automatic COLAs (Starting in 1975)

1975	8.0%
1976	6.4%
1977	5.9%
1978	6.5%
1979	9.9%
1980	14.3%
1981	11.2%
1982	7.4%
1984	3.5%
1985	3.5%
1986	3.1%
1987	1.3%
1988	4.2%

1989	4.0%
1990	4.7%
1991	5.4%
1992	3.7%
1993	3.0%
1994	2.6%
1995	2.8%
1996	2.6%
1997	2.9%
1998	2.1%
1999	1.3%
2000*	2.5%
2001	3.5%

2002	2.6%
2003	1.4%
2004	2.1%
2005	2.7%
2006	4.1%
2007	3.3%
2008	2.3%
2009	5.8%
2010	0.0%
2011	0.0%
2012	3.6%
2013	1.7%

*The COLA for December 1999 was originally determined as 2.4% based on CPIs published by the Bureau of Labor Statistics. Pursuant to Public Law 106-554, however, this COLA is effectively now 2.5%.

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1983 Amendments

- Introduce partial taxation of benefits (1984)
- Implement a gradual increase of delayed retirement credit to 8%
- Gradually raise full retirement age (FRA) from 65 to 67
- Add Windfall Elimination Provision (WEP)

Full Retirement Age (FRA)

Year of Birth	Full Retirement Age
1937 and prior	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
1943-54	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 month
1959	66 and 10 months
1960 and later	67

Windfall Elimination Provision (WEP)

- Affects workers who receive a pension from employment not covered by Social Security
- Reduces worker's Social Security benefit
  - Modifies benefit formula
  - Benefit can't be reduced to zero
- Different than Government Pension Offset (GPO)

Government Pension Offset (GPO)

- Affects spouse's dependent or survivor benefit
- Applies when spouse receives a government pension from an employer not covered by Social Security
- Reduces benefit by two-thirds of government pension
  - Benefit can be reduced to zero

Social Security Benefits

2013 Estimated Average Monthly Benefit with COLA	
All retired workers	**$1,261**
Aged couple, both receiving Social Security	**$2,048**
Widowed mother and two children	**$2,592**
Aged widow(er) alone	**$1,214**
Disabled worker, spouse, and one or more children	**$1,919**
All disabled workers	**$1,132**

Source: Social Security website, www.SocialSecurity.gov, 2013.

Dependent Benefit Eligibility

Spouse may claim a dependent benefit if:

- Worker has claimed his or her benefit
- Spouse is 62 or older
  - 50% of worker's primary insurance amount at spouse's full retirement age
    - Reduced if spouse claims earlier

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Survivor Benefit Eligibility

Surviving spouse may claim a survivor benefit if he or she is:

- Age 60 or older
  - Reduced benefits if claiming before full retirement age
- Disabled and age 50 or older
- Caring for deceased worker's disabled or young child(ren)
- Not remarried before age 60

Ex-Spouse Eligibility

Ex-spouse of marriage lasting 10 years or longer may claim as either a dependent or survivor

- Dependent benefits
  - Worker and ex-spouse are both eligible
    - Both 62 or older
  - Ex-spouse is not currently remarried
- Survivor benefits
  - Age 60 or older
  - Not remarried before age 60

Check Please

Benefits paid determined by:

- Earnings while working (primary insurance amount)
- Age at which claimed
  - Permanently reduced if claimed before full retirement age
  - Increased if claimed after full retirement age
    - Delayed retirement credit
    - 8% per year

Show Me the Money

Age	Client A's Benefit (FRA = 66)	Client B's Benefit (FRA = 67)
62	75% of PIA	70% of PIA
Full Retirement Age (FRA)	**100% of PIA**	**100% of PIA**
70	132% of PIA	124% of PIA

Before You Answer the "When" Question, Ask:

- Do you need the money?
  - If yes, stop here
  - If no, then
- Are you still working?
  - Beware of the earnings test
- What about longevity?
  - The longer the delay, the bigger the pay
  - The longer you live, the greater the total benefit

Earnings Test

Collect and work before full retirement age, benefits may be impacted:

- Under full retirement age for entire year
  - Deduct $1 from benefits for every $2 earned above the limit
  - For 2013, the annual earnings limit is $15,120
- Year of full retirement age
  - Deduct $1 from benefits for every $3 earned above the limit
  - For 2013, the annual earnings limit is $40,080
- Beginning the month of full retirement age
  - There is no limit on earnings

Planning for Two

- Early
- Full retirement age
- Delayed
- Dependent
- Survivor

Longevity Times Two

- If both are age 66, then:
  - One-in-two chance one lives to 90
  - One-in-three chance one lives to 95
- It may pay to plan for the survivor benefit

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Claim and Suspend

- Worker—age 66, still working
  - Monthly retirement benefit at age 66 = $2,000
  - Monthly benefit at age 70 = $2,640
- Spouse—age 66, no earnings history
  - Monthly dependent benefit at age 66 = $1,000
- Worker files for benefit
  - Spouse now entitled to dependent benefit
- Worker suspends payment of benefit
  - Receives delayed retirement credit

A Tale of Two Benefits

Scenario 1:

- Both worker and spouse receive benefits at age 66
  - \$2,000 + \$1,000 = \$3,000 per month
  - At worker's death, spouse receives \$2,000 as survivor benefit
  - One-third of Social Security income is lost at first death

A Tale of Two Benefits

Scenario 2:

- Worker files for benefits at age 66 but suspends payments until age 70; spouse receives benefits at age 66
  - $1,000 per month for first four years
  - $2,640 + $1,000 = $3,640 per month at age 70
  - At worker's death, spouse receives $2,640 as survivor benefit
  - One-fourth of Social Security income is lost at first death

Choose the Benefit Wisely

- Worker—age 66
  - Monthly retirement benefit at 66 = $2,000
  - Monthly benefit at 70 = $2,640
- Spouse—age 62
  - Monthly retirement benefit at 66 = $2,000
  - Monthly benefit at 62 = $1,500

Door Number 1 or 2

- Worker is entitled to two benefits at 66
  - Retirement benefit ($2,000)
  - Dependent benefit ($1,000)
- Worker may take dependent benefit and delay payment of retirement benefit
  - Receives delayed retirement credit
- Worker then switches from dependent benefit ($1,000) to retirement benefit ($2,640) at 70

The Magic of FRA

Planning opportunities are created at FRA because:

- The earnings test no longer applies
- Payments may be suspended
  – If filing before FRA, payments must be taken
- Benefits may be chosen
  – Worker may pick between retirement and dependent if entitled to both
  – If filing before FRA, retirement benefit must be taken

When Should Benefits Begin?

- Personal decision based on income needs, resources, and probable life expectancies
- Healthy individual may delay
- Less healthy individual might consider taking earlier
- Couples should consider both life expectancies and the survivor benefit

Taxation

- Benefits may be subject to income tax
- Taxpayers with combined income above certain threshold amounts pay tax on benefits
- Currently, one-third of all benefits subject to tax
- Numbers will increase as threshold amounts are not adjusted for inflation

A Fix?

What the Deficit Commission Said

- Raise full retirement age (FRA) to 69
- Raise earnings limit to $190,000
- Change formula for COLAs
- Tweak how benefits are calculated

Source: The National Commission on Fiscal Responsibility and Reform, The Moment of Truth, December 2010.

Moving Forward

- Changes are coming
- Planning for benefits for those soon to retire may not be affected
- Younger generations more likely to be impacted
- Stay tuned

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