

Don't Make These  
Top 3 Mistakes Advisors  
are Making with Social  
Security Advice

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# Why Clients **Still** Need SS Advice

Clients **still** claim early and leave money on the table

Clients **still** haven't saved enough for retirement

A smart Social Security strategy **still** makes a big difference

The rules of Social Security are **still** complicated

You can **still** “get more” for your clients

**But don't make these mistakes other advisors do...**



# BELIEVING SS IS SIMPLE

**MISTAKE #1**

# Social Security Simple? NOT!

- Still up to 10,000 combinations of ways to claim benefits.
- The rule changes in 2015 didn't simplify anything about Social Security planning.
- The quality of the advice you give matters substantially.
- Coordination – Social Security is the foundation to a retirement income plan adding longevity and impacting withdrawal strategy

# A Few Reasons It's Complicated

- Old rules VS new rules create multiple couples that fall across groups
- Many household types create claiming complexity
- FRA is a moving target beginning in 2017
- Part-time work is more popular yet creates additional complexity with claiming

# Old Rules + New Rules

- New rules created 3 distinct groups:
  1. Born on or before May 1, 1950
  2. Born on or before January 1, 1954
  3. Born on or after January 2, 1954
- Client couples will often straddle across groups creating confusion on how to apply the appropriate rules.
- Will continue another 6 years!



Case 1:

# Spouses in Different Groups

Bill: Group 2

FRA: 66

DOB: Jan 2, 1953

PIA of \$2,600

Life exp: 87

Sue: Group 3

FRA: 66 and 8 months

DOB: Jan 3, 1958

PIA of \$1,200

Life exp: 87

- 
- Across groups with different rules
  - FRAs are different
  - One spouse is 5 years older
  - Substantial difference in PIA

How do you create a smart strategy with these variables?

Without a thorough understanding of the new rules and the distinct groups created, it's possible to overlook a strategy that would be optimal for a client.

Year	Client Age (at end of year)	Spouse Age (at end of year)	Primary		Hi 70 own and Lo 66&8mos spousal	
			Client	Spouse	Client	Spouse
2016	63 yrs and 11 mths	58 yrs and 11 mths				
2017	64 yrs and 11 mths	59 yrs and 11 mths				
2018	65 yrs and 11 mths	60 yrs and 11 mths				
2019	66 yrs and 11 mths	61 yrs and 11 mths				
2020	67 yrs and 11 mths	62 yrs and 11 mths	400	577		
2021	68 yrs and 11 mths	63 yrs and 11 mths	400	577		
2022	69 yrs and 11 mths	64 yrs and 11 mths	400	577		
2023	70 yrs and 11 mths	65 yrs and 11 mths	3,432	1,007	3,432	
2024	71 yrs and 11 mths	66 yrs and 11 mths	3,432	1,007	3,432	1,300
2025	72 yrs and 11 mths	67 yrs and 11 mths	3,432	1,007	3,432	1,300
2026	73 yrs and 11 mths	68 yrs and 11 mths				
2027	74 yrs and 11 mths	69 yrs and 11 mths				
2028	75 yrs and 11 mths	70 yrs and 11 mths				
2029	76 yrs and 11 mths	71 yrs and 11 mths				
2030	77 yrs and 11 mths	72 yrs and 11 mths				
2031	78 yrs and 11 mths	73 yrs and 11 mths				
2032	79 yrs and 11 mths	74 yrs and 11 mths				
2033	80 yrs and 11 mths	75 yrs and 11 mths				
2034	81 yrs and 11 mths	76 yrs and 11 mths				
2035	82 yrs and 11 mths	77 yrs and 11 mths				
2036	83 yrs and 11 mths	78 yrs and 11 mths				
2037	84 yrs and 11 mths	79 yrs and 11 mths				
2038	85 yrs and 11 mths	80 yrs and 11 mths	3,432	1,007	3,432	1,300
2039	86 yrs and 11 mths	81 yrs and 11 mths	3,432	1,007	3,432	1,300
2040	87 yrs and 11 mths	82 yrs and 11 mths		3,432		3,432
2041	88 yrs and 11 mths	83 yrs and 11 mths		3,432		3,432
2042	89 yrs and 11 mths	84 yrs and 11 mths		3,432		3,432
2043	90 yrs and 11 mths	85 yrs and 11 mths		3,432		3,432
2044	91 yrs and 11 mths	86 yrs and 11 mths		3,432		3,432
2045	92 yrs and 11 mths	87 yrs and 11 mths				

Primary means more money in the early years and cumulatively

# Household Types

A smart Social Security strategy is not independent of other variables.

For many households, there are variables that change the optimal strategy for collecting benefits.

It's not enough to only be able to give advice on the "common" household types.

- Married
  - Single
  - Divorced
  - Widowed
  - Minor children at retirement
  - Disability before retirement
  - Adult disabled children
  - Multiple marriages/divorces
  - Non-covered pension
  - Foreign pensions
  - Still working/working part-time
  - Want to retire early
  - One member of couple has already started benefits
  - Railroad benefits
  - High net worth vs. mass affluent
- The common ones

# FRA is a Moving Target

- FRA for retirement and spousal benefits is changing:
  - Those turning 62 in 2017 have an FRA other than 66.
  - FRA increases by 2 months for each birth year from 1955 through 1959.
  - For those born 1960 or later, FRA is 67.
- FRA for widow's benefits is different than FRA for retirement and spousal benefits for some years.
  - For those born Jan. 2, 1957 or later, FRA for widows is NOT 66.

# Part-time Work

- According to a 2015 Federal Reserve study, 27% of retirees plan to continue working as long as possible.
- Misinterpretations about the earnings test are common.
- Benefits withheld not lost forever; benefit is recalculated at FRA.
- If income exceeds one of the 35 years used to determine the PIA, then the PIA will increase.

Case 2:

# Part-time Work

Steve is 62 with a PIA of \$2,613. He is ready to semi-retire, and his employer offers a program where he can work part-time for a few years. He will earn about \$21,000 annually.

Monthly Benefit (COLA Adjusted)	Total Before Earnings and Taxes	Earnings Reductions	Total After Earnings and Taxes
0	8,144	8,144	Before FRA, \$1 withheld of every \$2 over
2035.9	24,431	8,144	
2035.9	24,431	6,108	\$1 withheld for every \$3 earned over
2035.9	24,431	6,108	
2221	26,467		After FRA, earnings test does not apply
2221	26,652		
2221	26,652		
2221	26,652		

# Part-time Work

- Benefits are adjusted at FRA
- From FRA until death, Steve will receive about **\$43,000** more in benefits from his higher monthly payment

Age (at end of year)	Monthly Benefit (COLA Adjusted)	Total Before Earnings and Taxes	Earnings Reductions	Total After Earnings and Taxes
62 yrs and 10 mnths	0	8,144	8,144	
63 yrs and 10 mnths	2035.9	24,431	8,144	16,287
64 yrs and 10 mnths	2035.9	24,431	6,108	18,323
65 yrs and 10 mnths	2035.9	24,431	6,108	18,323
66 yrs and 10 mnths	2221	26,467		26,467
67 yrs and 10 mnths	2221	26,652		26,652
68 yrs and 10 mnths	2221	26,652		26,652
69 yrs and 10 mnths	2221	26,652		26,652



# NOT FOCUSING ON ADVICE QUALITY

**MISTAKE #2**



# It's Advice, Not Interpretation

- Yes, SS has thousands of rules...
- But clients really don't want to hear about rules
- Clients want real, actionable advice about what to do
- Clients want to see the trade-offs between different ways to claim benefits
- Advisors must provide **STRATEGIES** – and coach clients on how their strategy impacts their overall retirement income plan

# Quality Advice Includes

- Showing clients/prospects the tradeoffs between options
- Looking for ways to add value
  - Using a high level of detail in planning
  - Mitigating an early claim with voluntary suspension or a re-do
  - Tax torpedo implications
  - Claiming with a terminal illness
  - Managing less common scenarios such as minor children and foreign pensions

# Level of Detail Required

- Baby boomers know more about Social Security
- They are expecting a level of detail in planning that most tools don't have
- It's no longer about a Social Security strategy, it's about creating income by coordinating all of the client's resources



Their  
recommendation  
means 61% success



Our optimal strategy  
moved the needle to  
86% success

### Case 3:

# Redo Strategy

Tom: Group 2

FRA: 66

Dec 2, 1953

PIA of \$2,600

Life exp: 75

Lois: Group 3

FRA: 66 and 4 months

Jan 2, 1956

PIA of \$800

Life exp: 92

Due to his short life expectancy, Tom began retirement benefits of \$1,950 at 62.

### Our Redo Strategy:

Withdraw Tom's application and repay prior benefits. At 62, Lois files for own benefits of \$587. At 66, Tom files a restricted application for spousal benefits of \$400. At 70, Tom switches to his retirement benefits of \$3,432 and Lois add spousal benefits of \$500 for total benefits of \$1,087.

Strategy Early: Tom continues his retirement benefits of \$1,950 and Lois begins her retirement and spousal benefits at age 62 of \$928. After Tom dies, Lois gets survivor benefits of \$2,145.

Year	Client Age (at end of year)	Spouse Age (at end of year)	Primary		Early		Difference
			Client	Spouse	Client	Spouse	
2016	63 yrs	60 yrs and 11 mnths			1,950		-25,350
2017	64 yrs	61 yrs and 11 mnths			1,950		-48,750
2018	65 yrs	62 yrs and 11 mnths		587	1,950	928	-76,249
2019	66 yrs	63 yrs and 11 mnths	400	587	1,950	928	-103,348
2020	67 yrs	64 yrs and 11 mnths	400	587	1,950	928	-126,048
2021	68 yrs	65 yrs and 11 mnths	400	587	1,950	928	-148,747
2022	69 yrs	66 yrs and 11 mnths	400	587	1,950	928	-171,446
2023	70 yrs	67 yrs and 11 mnths	3,432	1,087	1,950	928	-190,613
2024	71 yrs	68 yrs and 11 mnths	3,432	1,087	1,950	928	-170,928
2025	72 yrs	69 yrs and 11 mnths	3,432	1,087	1,950	928	-151,244
2026	73 yrs	70 yrs and 11 mnths	3,432	1,087	1,950	928	-131,559
2027	74 yrs	71 yrs and 11 mnths	3,432	1,087	1,950	928	-111,874
2028	75 yrs	72 yrs and 11 mnths	3,432	3,432	1,950	2,145	-92,543
2029	76 yrs	73 yrs and 11 mnths		3,432		2,145	-77,099
2030	77 yrs	74 yrs and 11 mnths		3,432		2,145	-61,655
2031	78 yrs	75 yrs and 11 mnths		3,432		2,145	-46,211
2032	79 yrs	76 yrs and 11 mnths		3,432		2,145	-30,767
2033	80 yrs	77 yrs and 11 mnths		3,432		2,145	-15,323
2034	81 yrs	78 yrs and 11 mnths		3,432		2,145	121
2035	82 yrs	79 yrs and 11 mnths		3,432		2,145	15,565
2036	83 yrs	80 yrs and 11 mnths		3,432		2,145	31,009
2037	84 yrs	81 yrs and 11 mnths		3,432		2,145	46,453
2038	85 yrs	82 yrs and 11 mnths		3,432		2,145	61,897
2039	86 yrs	83 yrs and 11 mnths		3,432		2,145	77,341
2040	87 yrs	84 yrs and 11 mnths		3,432		2,145	92,785
2041	88 yrs	85 yrs and 11 mnths		3,432		2,145	108,229
2042	89 yrs	86 yrs and 11 mnths		3,432		2,145	123,673
2043	90 yrs	87 yrs and 11 mnths		3,432		2,145	139,117
2044	91 yrs	88 yrs and 11 mnths		3,432		2,145	154,561
2045	92 yrs	89 yrs and 11 mnths		3,432		2,145	170,005
2046	93 yrs	90 yrs and 11 mnths		3,432		2,145	185,449
2047	94 yrs	91 yrs and 11 mnths		3,432		2,145	200,893
2048	94 yrs and 2 mnths	92 yrs and 1 mnths					200,893

This Redo strategy gets Tom and Lois an additional **\$200,893** in cumulative lifetime benefits.

Additionally, Lois's survivor benefit is \$1,287 more every month for the rest of her life.



# MISSING THE OPPORTUNITY FOR COORDINATION

MISTAKE #3

# Coordination of Social Security with Portfolio

- The next phase of retirement income planning involves making assets last longer
- You can find our research in *Journal of Financial Planning* and *Financial Analyst Journal*
- By coordinating Social Security with the portfolio you can extend the spend-down by as long as 10 years!
- By combining coordination with tax-efficiency you can add more years to the spend-down

# Coordination

- The next step in retirement income planning
- Refers to carefully combining an optimal Social Security claiming strategy with a tax-efficient withdrawal strategy to extend the life of the portfolio.

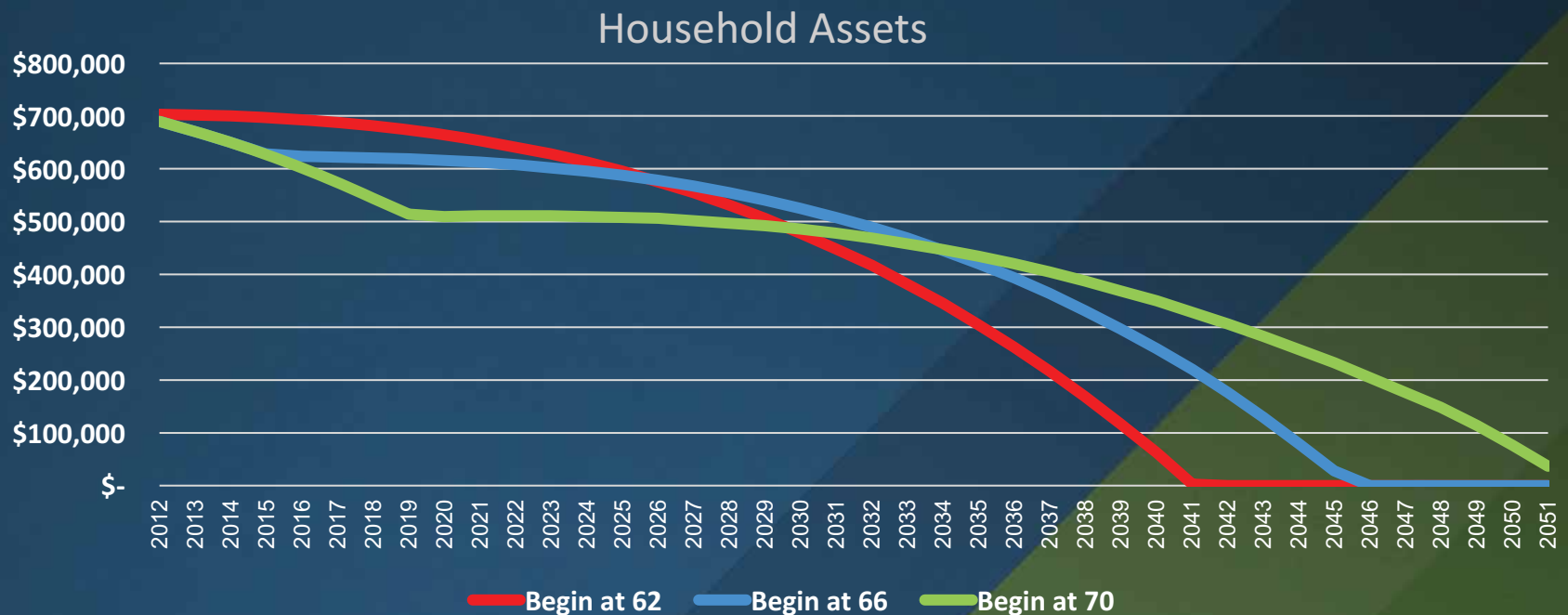




# Does our research still apply?

What is the impact of new SS rules on portfolio longevity?

Journal of Financial Planning - 2012  
*How Social Security Strategy Impacts Portfolio Longevity*



# How SS Strategy Adds to Portfolio Longevity

2 key lessons: *SS and* withdrawal strategies impact portfolio longevity

## Case Overview:

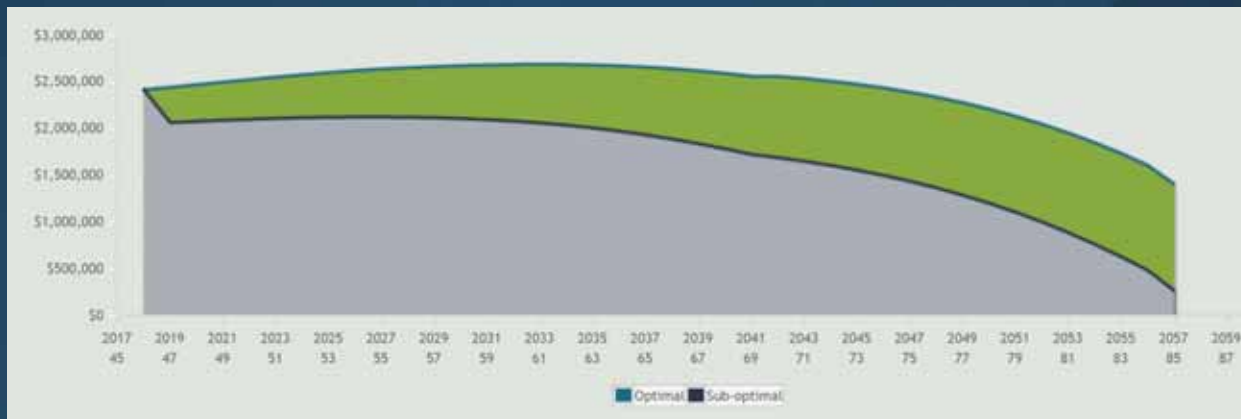
- Married Couple
- 62 and 58
- Husband PIA of 2,600
  
- \$2 million assets  
(\$750k taxable, \$1.25M TDA)
- \$8,000 monthly spending
  
- All bond portfolio

## Summary “Take Aways:”

1. Optimal SS claiming strategy – adds 5 years and \$641,350.
2. Tax-efficient withdrawal strategy – adds 3 years And \$193,178.
3. Together they add 8 years and \$834,528.

# Get More Zone

You can illustrate for clients how they can have more in retirement...



...by coordinating Social Security with how and when they tap accounts.

# Taxation of Social Security Benefits

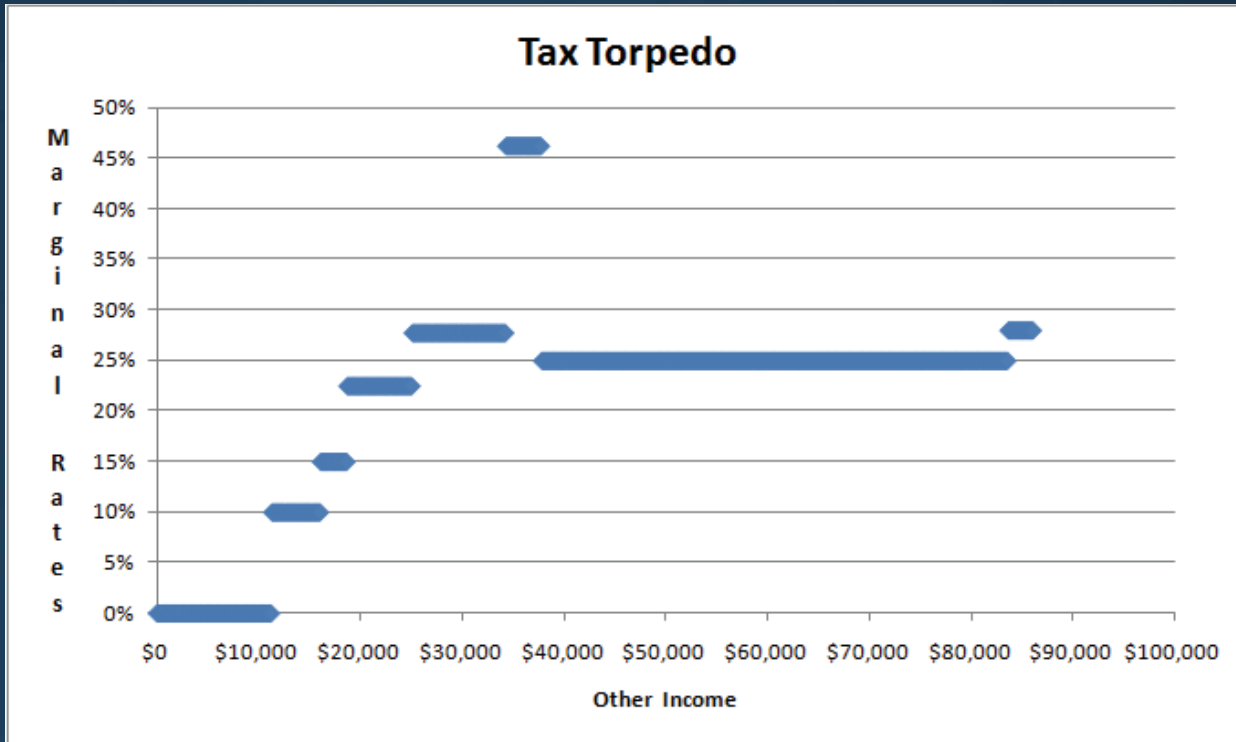
For most single taxpayers, taxable portion of SS benefits is:

Provisional Income	Taxable Portion of SS Benefits
$\leq \$25,000$	\$0
\$25,000 to \$34,000	\$0.50 for each dollar in this range
$\geq \$34,000$	+ an additional \$0.85 for each dollar above \$34k until 85% of SS benefits are taxed

Provisional Income = Adjusted Gross Income (excluding taxable SS benefits) + tax-exempt interest +  $0.5 * \text{SS benefits}$ .

Threshold income levels for couples: \$32,000 and \$44,000.

Figure 1. Graph of Marginal Tax Rates (that is, the Tax Torpedo)



Tax bracket	0%	10%	10%	15%	15%	25%	25%
SS tax/per \$	\$0	\$0	\$0.50	\$0.50	\$0.85	\$0.85	\$0
Marginal Tax Rate	0%	10%	15%	22.5%	27.75%	46.25%	25%

# Avoiding the Torpedo – Income Solver Example

	Jake	Jane
Born	Dec 2, 1951	Dec 23, 1951
PIA	\$2,700	\$1,000
Life Exp	74	95

- Financial Portfolio: \$1,000,000 in TDA and \$200,000 in taxable account (cost basis \$200K)
- Spending \$8,400/mo (\$100,800/yr) in real terms beginning January 2018, survivor 90%
- Inflation 1.7%, asset allocation: 60% stocks, 35% bonds, 5% cash
- Case run in August 2017. Total Value used 1.7% discount rate.

Strategy	Portfolio longevity	Total Value	Remainder in portfolio
CW SS at 70	25 years	\$2,496,771	Ran out
CW SS at FRA	27 years	\$2,572,667	Ran out
CW SS Primary	27 years	\$2,632,139	Ran out
Good Strategy	29 years	\$2,694,675	\$8,121

# Primary SS Claiming Strategy

- Jane begins benefits based on her earnings record in the estimated amount of \$983 in September 2017 at age 65 and 9 months.
- Jake files a restricted application for spousal benefits only in the estimated amount of \$500 in December 2017 at his FRA or 66.
- Jake switches to benefits based on his earnings record in the estimated amount of \$3,812 in December 2021 at age 70.
- Jane adds spousal benefits in December 2021 for a total estimated amount of \$1,426 at age 70.
- In December 2025 Jane switches to survivor benefits in the estimated amount of \$4,078.



# CW at 70

In the CW SS at 70 Strategy, Jake files for his Social Security benefits of \$3,564 (before COLA adjustments) in December 2021, while Jane files for spousal benefits in this same month and receives half of his PIA (\$1,350 before COLA adjustments). Since they receive no Social Security benefits until age 70, they must withdraw a little over \$100,000 in 2018 and 2019 from their taxable account to meet their spending needs. At the end of 2019, their taxable account is essentially exhausted. They are in the 0% tax bracket in 2018 and 2019; that is, their Adjusted Gross Income is less than the sum of their personal exemptions plus standard deduction. Beginning in 2020 and until Jake dies, this couple is either in the top end of the 15% tax bracket or low end of the 25% bracket. Shortly after Jane begins filing as a single in 2026, she is in the 28% tax bracket until the portfolio runs out. Their financial portfolio lasts 25 years, but Jane cannot meet her planned spending needs in her last four years.

# CW at FRA

In the CW SS at FRA Strategy, from 2018 through 2021 they receive, on average, about \$50,000 in Social Security benefits. So, they only need to withdraw about \$55,000, on average, in these years to meet their spending needs and their tax bill. Their taxable account is exhausted by the end of 2021. In 2018 through 2021, they file as a couple and are in the 0% tax bracket. This couple is generally in the low end of the 25% tax bracket until Jake dies in 2025, after which Jane quickly moves into the 28% tax bracket and remains there until the portfolio runs out after 2044. Their financial portfolio lasts 27 years, but Jane cannot meet her planned spending needs in her last two years.

# CW SS Primary

In the CW SS Primary Strategy, the story is essentially the same as with the CW SS at 70 Strategy. The couple is in the 0% tax bracket in 2018 and 2019. They are at the top end of the 15% tax bracket or low end of the 25% bracket in 2020 through 2025 while both partners are alive, but Jane is in the 28% tax bracket from 2028 until the portfolio runs out in 2045. The financial portfolio lasts 27 years, but it cannot meet all of Jane's needs in her final two years. Altogether, the primary claiming strategy compared to the strategy of both claiming Social Security benefits at 70 added two years of longevity to the financial portfolio and more than \$95,000 of Total Value.

# Good Strategy

- The Good Strategy uses the primary claiming strategy. In 2018-2020, it calls for CW withdrawal strategy but using Roth conversions to top of 15% tax bracket. Beginning in 2021, it calls for withdrawing sufficient funds from TDA to fill 15% tax bracket, but otherwise following the conventional wisdom.
- This withdrawal strategy adds value primarily two ways. First, it converts \$184,317 from TDAs to Roths in 2018 through 2020 to fill the 15% bracket. Second, from 2026 (Jane's first year to file as a single) until 2033, withdrawals from the Roth allowed Jane to pay taxes on less than 85% of Social Security benefits.
- This WD strategy adds 2 years of longevity compared to CW SS Primary. The portfolio lasts through Jane's lifetime.

# Good vs CW SS Primary Strategies in 2030, a Representative Year

- In Good Strategy, Jane withdraws \$27,257 from her Roth and \$46,149 from her TDA, the latter is \$39,697 less than in CW SS Primary Str.
- In Good Str, Jane pays taxes on \$7,379 less in Social Security benefits and half as much in federal income taxes compared to CW SS Primary Str.
- If Jane had to withdraw \$8,328 more from TDA in Good Strategy, it would have caused her to pay taxes on \$7,379, [85% of \$8,328], more of SS benefits. The marginal tax rate on this additional \$8,328 TDA WD would have been 46.25%.

# Summary of Example

- In summary, the choice of Social Security claiming strategy added two years of longevity to the financial portfolio, while the choice of withdrawal strategy added an additional two years. Altogether, coordinating the Social Security claiming strategy and withdrawal strategy added four years of longevity to the financial portfolio and almost \$200,000 in Total Value.
- The Good Strategy is not the optimal strategy. One slightly better strategy is: 2017 Roth15%; 2022 MA10%, 2023 MA15%.

# Takeaways

- Social Security is still complicated – the new rules have made the answers even less clear.
- Clients remain confused and may now be under a different set of rules.
- Household types add complexity: married; widowed; receive a pension from job not covered by Social Security; children; divorced.
- Other factors add complexity: taxes, future earnings, already started, breakeven analysis.
- Clients are looking for more retirement income and optimizing Social Security is critical – software makes it quick and simple.
- Coordination – Social Security is the foundation to a retirement income plan adding longevity and impacting withdrawal strategy
- The quality of your advice matters – and you can't give quality advice with inferior tools.
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