



SOCIAL SECURITY



2015

6 Critical Social Security Facts Retirees Must Know

If you are like most Americans, Social Security may provide a significant portion of your income in retirement.

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6 Critical Social Security Facts Retirees Must Know

According to Social Security Administration (SSA) statistics, Social Security benefits account for about 36 percent of retirement income for the average American.

¹ One of the biggest mistakes today's retirees can make is to underestimate the importance of Social Security in their retirement strategies. In an era of vanishing pensions and volatile markets, Social Security offers government guaranteed income that isn't vulnerable to market risk, can't be outlived, and can provide for your loved ones after your death.

What is Social Security?

In this context, Social Security is a federal government sponsored retirement benefit designed to replace some of your income in retirement. If you or your spouse have worked for at least 40 quarters and paid taxes on the income, you may be eligible to collect benefits in retirement.

Source: Social Security Administration

However, Social Security preparation can be complex and the details of your personal situation matter a great deal when incorporating Social Security into your overall financial strategies.

We developed this special report to help investors learn more about Social Security benefits and how to maximize their lifetime income from Social Security.

We encourage you to read this report carefully and take note of any questions or thoughts about your personal situation so that you can discuss them with your qualified financial professional.

1. Your Age Affects the Benefit You Will Receive

62 is the earliest age that you can file for Social Security (unless you qualify for disability), but you won't be able to collect your full benefit then. Instead, the SSA reduces those benefits by either 25 percent if your full retirement age is 66 or 30

percent if it's 67. So, if your full monthly benefit at age 66 were \$1,000, you'd only receive \$750 each month if you started collecting at age 62. That reduction in benefits will be permanent.

You will be eligible to collect 100 percent of your benefit at your full retirement age (FRA), which is age 66 for anyone born between 1943 and 1954, 66 plus a two-month delay for those

According to the Social Security Administration...

A man reaching age 65 in 2014 can expect to live, on average, until age 84.3.

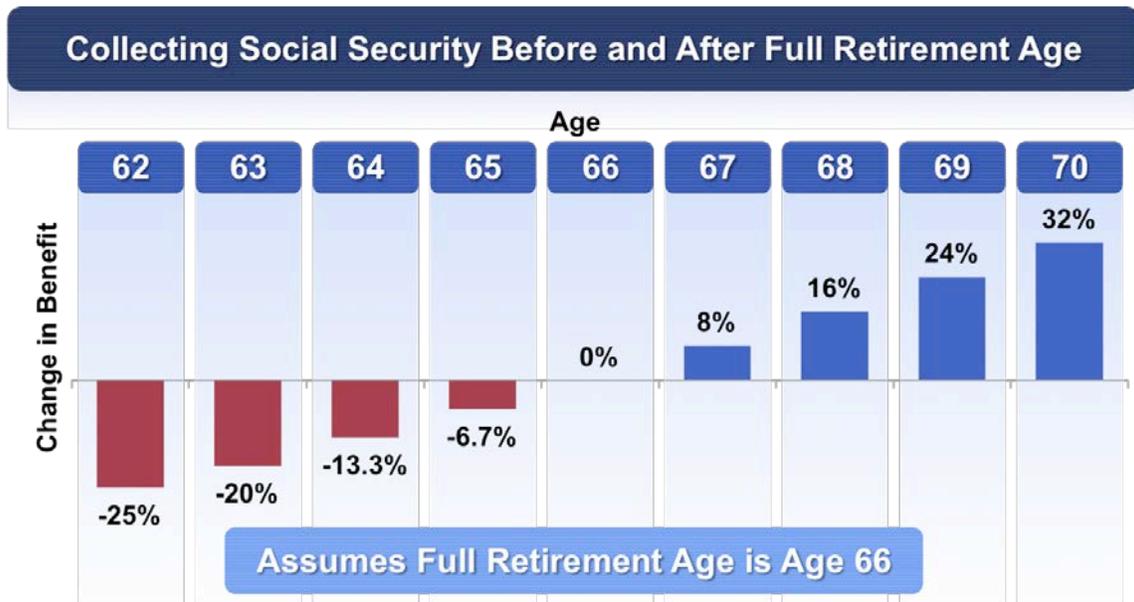
A woman turning age 65 in 2014 can expect to live, on average, until age 86.6.

About one out of every four 65-year-olds today will live past age 90, and one out of 10 will live past age 95.

Social Security Administration Life Expectancy Planner, 2015

born between 1955 and 1960, and age 67 for anyone born after 1960. For example, if you were born in 1951, your full retirement age is 66. If you were born in 1956, your full retirement age would be 66 years and four months.²

If you can afford to wait until your full retirement age, you'll be eligible for 100 percent of your Social Security benefit. If you can afford to wait even longer, your benefit will increase by up to 8 percent every year until age 70, permanently. So, if your basic benefit were \$1,000 at your FRA of age 66, it would increase to \$1,320 per month or 132 percent of your benefit by waiting until age 70 to take it. If you were born after 1942, you'll qualify for the 8 percent credit each year.³



Source: SSA.gov. Does not include cost-of-living increases.

2. The Right Social Security Strategy Could Be Worth Hundreds of Thousands of Dollars Over Your Lifetime

Many retirees wrestle with the question of, “When is the right time to file for benefits?” There is no perfect time to file for benefits, but choosing the right claiming strategy can radically affect how much you are able to collect over your lifetime. Many Americans are forced to claim early benefits for financial reasons, but, if you can afford it, delaying Social Security benefits could mean collecting significantly more over the course of your life.

If either you or your spouse expect to live past the age of 80, you're generally better off waiting to claim as long as possible to receive a larger benefit.

However, if your health isn't good or you need the income, you might want to consider claiming Social Security benefits early.

Ultimately, your personal Social Security strategy will depend on many personal factors like taxes, marital status, age, health, and other sources of income. It's a good idea to discuss your situation with a financial professional who can analyze your situation and offer personalized advice.

3. You Can Work and Collect Social Security, But it Might Affect Your Monthly Benefit

Many Americans are continuing to work well into their retirement years. While the government allows you to work and collect Social Security benefits, your benefits may be reduced if you are below your full retirement age.

In 2015, if you are over 62, but younger than your FRA, you will lose \$1 of your benefit for every \$2 you earn over \$15,720.⁴ Starting with the month you reach full retirement age, you will start receiving benefits with no reduction, even if you keep working. Once you reach your FRA, the SSA will recalculate your benefit and give you credit for any benefits that were withheld while you were working. Keep in mind that you must pay Social Security and Medicare taxes as long as you are earning income.⁵

4. Social Security Benefits Are Taxable

Unfortunately, retirement doesn't mean retiring your worries about taxes. If you collect substantial income from sources like wages, investment income, rental income, or any source that you report on your tax return, you will very likely owe taxes on your Social Security benefits. The tax rate you'll pay depends entirely on your overall income bracket since Social Security gets treated like ordinary income.

You won't ever have to pay taxes on more than 85% of your Social Security benefits.

**Social Security Administration
Benefits Planner**

However, there are strategies that may help you maximize your income while reducing taxes. For example, one method is to take as much income as possible from sources that are excluded from the

"provisional income" that the SSA uses to calculate the taxation of your Social Security.⁶

Please keep in mind that taxes are just one piece of your overall financial picture and it's important not to let them overshadow other important issues. If you are

How We Can Help You With Social Security:

Leveraging Advanced Social Security Claiming Strategies

Claiming Your Spousal or Survivor Benefits

Determining How Divorce Affects Your Social Security Benefits

Understanding Pensions & Social Security Benefits

Claiming Disability Benefits

Understanding Your Medicare Benefits

concerned about the effect of taxes on your retirement income, we strongly recommend that you speak to a qualified financial professional.

5. Married? Don't Forget About Spousal and Survivor Benefits

Married couples need to think about how their Social Security claiming strategies will affect their spouse's benefits and income in retirement. This issue is especially important when one spouse is significantly older than the other or earned more during a career. Your spouse's benefits are based on your personal benefit, which means that the age at which you file for benefits will have a major impact on what your husband or wife is eligible to collect.

For many couples, maximizing a survivor benefit for a younger spouse is a major consideration. Since a survivor who has reached FRA will be eligible for 100 percent of the primary worker's benefit, he or she will be able to take advantage of any delayed retirement credits and cost-of-living adjustments that the primary earner accumulates. Surviving spouses can usually choose between collecting a personal benefit or a survivor benefit, depending on which one is higher.⁷

6. Advanced Filing Strategies Can Help Boost Your Lifetime Income

If you are married, there are some advanced claiming strategies that you and your spouse may be able to use to increase your lifetime benefits. Keep in mind that factors like taxes, age differences, life expectancy, retirement assets, family status and income all affect Social Security claiming strategies and can reduce their advantages to you. No strategy can be right for everyone and it's important to consider your entire financial picture when making decisions.

File and Suspend is a very popular strategy in which the higher earning spouse files for benefits at his or her FRA, and then suspends the claim. Filing for benefits allows the spouse to collect spousal benefits while the higher wage earner's benefits continue to accumulate credits.

Are Advanced Filing Strategies Legal?

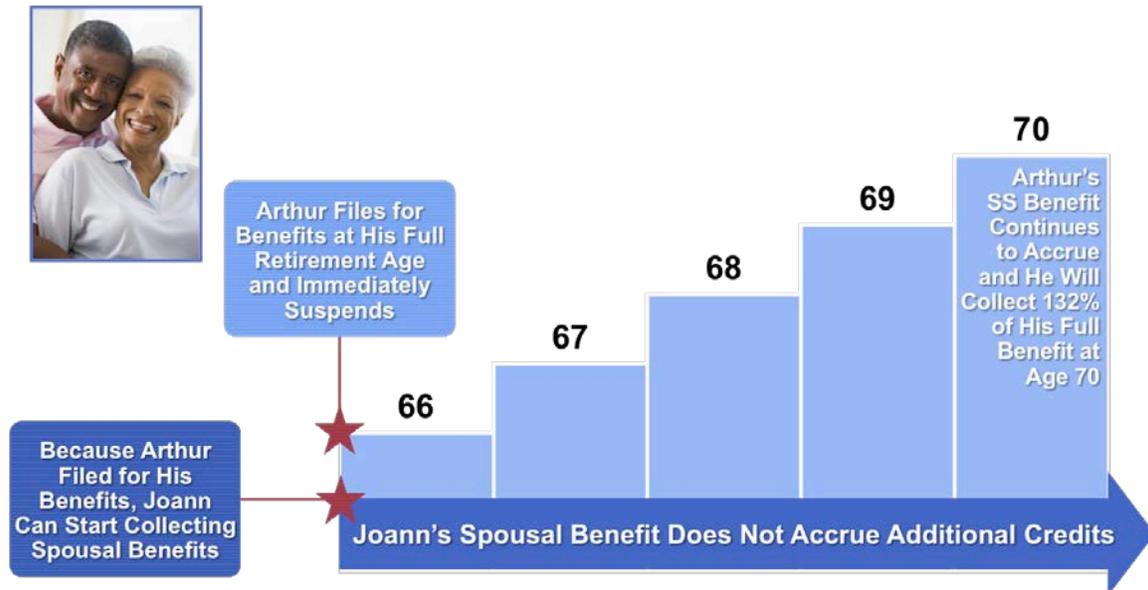
All of the strategies presented in this report are completely legitimate and have been used by millions of retirees to maximize their lifetime income.

However, high levels of federal debt and deficit spending mean that in the future, the Social Security Administration may limit retirees' abilities to maximize their claiming strategies.

We encourage you to speak with a financial professional as soon as possible to discuss your personal Social Security strategy.

Let's take a look at a hypothetical example to see how this strategy works:

Arthur & Joann, Age 66



Source: SSA.gov, Pioneer Investments.

This is a hypothetical case study designed to illustrate a claiming strategy. The effects of taxes, cost-of-living adjustments, and any income limits are not shown.

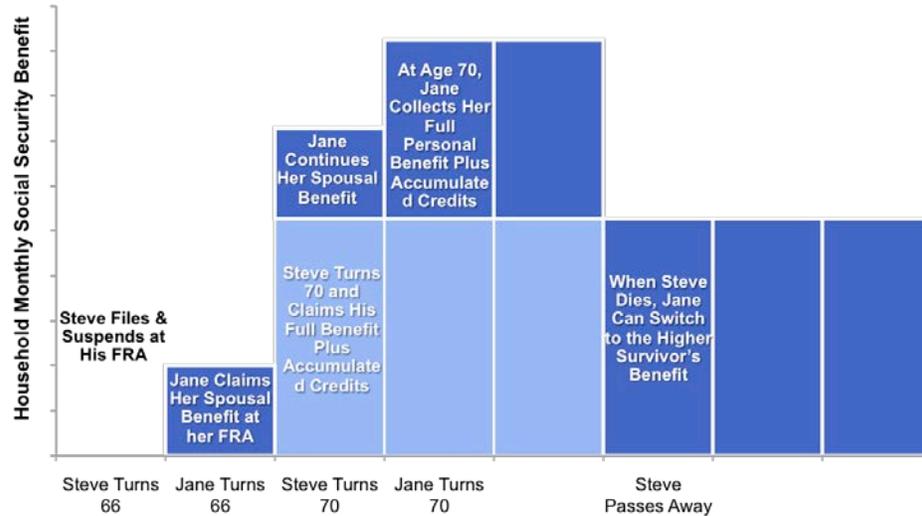
In this hypothetical scenario, Arthur earned more during his career than Joann, making his Social Security benefit significantly higher; Joann's spousal benefit is higher than her own personal benefit. Arthur files for his Social Security benefits at his FRA of 66. He also immediately suspends that claim (postponing the income) so that his benefits continue to accrue. Since Arthur has already filed for benefits, Joann is able to start claiming spousal benefits (a full 50 percent of Arthur's benefit since she is also at her full retirement age). These spousal benefits do not accrue any additional delayed retirement credits. At age 70, Arthur begins collecting his own benefits, which have grown to 132 percent of his basic benefit, plus any cost-of-living increases.⁸ Keep in mind: while "file & suspend" can be implemented before full retirement age, the benefits of the strategy may be significantly reduced.

If both you and your spouse worked and are eligible to collect benefits on your own employment records, there are some other advanced strategies that may help you increase your lifetime benefits. These strategies won't work for everyone. They are generally most beneficial when spouses are close in age and the higher earner has reached full retirement age.

File and Suspend Plus allows the higher earner to file and suspend at his or her FRA, enabling the spouse to collect a spousal benefit when he or she reaches full retirement age. Both spouses will collect their higher personal benefits once they turn 70. The benefit of this strategy is that it maximizes household Social Security income at every stage and also increases the survivor's benefit.

This chart shows a hypothetical example:

Steve, Age 66 & Jane, Age 64



Source: SSA.gov, Pioneer Investments.

This is a hypothetical case study designed to illustrate a claiming strategy. The effects of taxes, cost-of-living adjustments, and any income limits are not shown.

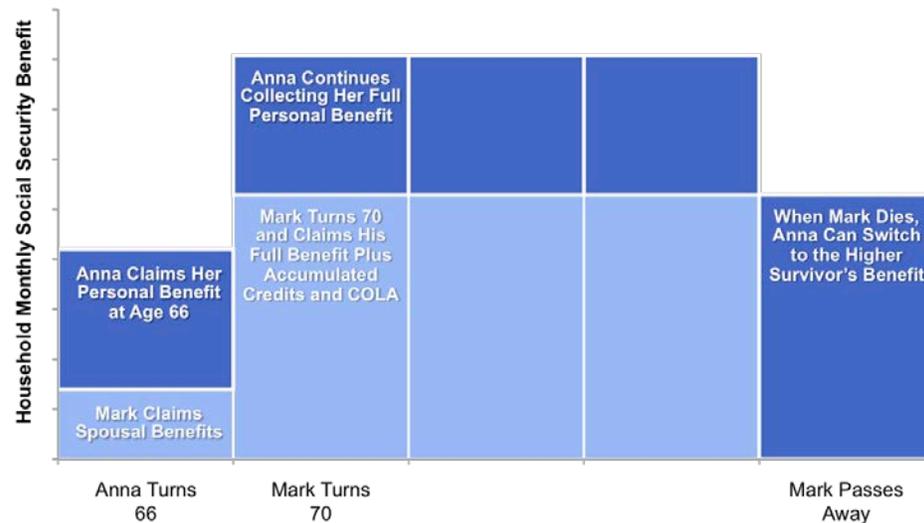
In this scenario, Steve is the higher earner and is also two years older than his wife, Jane. Steve files and suspends at his full retirement age of 66 to allow Jane to collect a spousal benefit while Steve's benefit continues to accrue. Since Jane has not yet reached her FRA, she'll have to wait two years to claim her spousal benefit, per SSA rules.⁹

At age 70, Steve begins collecting his larger personal benefit and Jane continues with the spousal benefit. When Jane turns 70, she switches over to her personal benefit, which has been accruing extra credits the whole time, increasing their household income. If Steve predeceases Jane, she will be able to collect a larger survivor's benefit, which will be 100 percent of Steve's maximum benefit.

The Spousal Benefit Change-Up is a scenario in which the lower earner claims benefits at full retirement age, allowing the higher earner to claim a spousal benefit while his or her personal benefit continues to accrue. At age 70, the higher earner switches to collecting his or her personal benefit.

Here's a hypothetical illustration of this strategy:

Mark & Anna, Age 66



Source: SSA.gov, Pioneer Investments.

This is a hypothetical case study designed to illustrate a claiming strategy. The effects of taxes, cost-of-living adjustments, and any income limits are not shown.

Are You Making These Critical Social Security Mistakes?

- ✘ Ignoring Spousal & Survivor Benefits
- ✘ Claiming Too Early
- ✘ Claiming Too Late
- ✘ Forgetting About Earnings Limits
- ✘ Ignoring the Impact of Taxes

Mark and Anna are both at their full retirement age of 66 and Mark is the higher earner. Anna claims her full Social Security benefits at age 66, foregoing any additional credits. Mark claims his spousal benefits as Anna's husband while letting his own benefit accumulate. At age 70, Mark switches to his personal benefit plus accumulated credits, while Anna continues to take her personal benefit, since it's higher than what she would get as Mark's spouse. At Mark's death, Anna can switch to her higher survivor's benefit, which is 100 percent of Mark's maximum accumulated benefit.

The benefits of advanced claiming strategies are that they seek to maximize income while increasing the survivor benefit. As with many financial strategies, the truth is in the details, and things like age differences between you and your spouse, taxes, and life expectancy can all affect your overall outcome.

Conclusions

We hope that you've found this special report educational and informative and that you have come away with some ideas for how to optimize your Social Security benefits. For most retirees, Social Security benefits are the cornerstone of their income strategies and account for a significant percentage of their income. It's absolutely critical to plan ahead now so that you can identify and implement the best Social Security claiming strategy and make the most of this invaluable resource.

Every strategy will not work for every retiree, which is why it's so important to take the time to analyze your needs and test possible scenarios. The hypothetical examples that we have shown in this report are highly simplified and cannot show the effects of taxes, cost-of-living adjustments, and many other details that can affect the overall outcome of any claiming strategy.

One of the benefits of working with a financial professional is that we can help you analyze your financial situation and develop personalized recommendations that are designed to help you best leverage Social Security in light of your overall financial goals.

If you or anyone close to you would like to discuss how to maximize their Social Security benefits with a professional, please give our office a call at **507-835-9111** to schedule a complimentary consultation.

Warm Regards,



Brad Connors
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Footnotes, disclosures and sources:

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