

SOCIAL SECURITY PLANNING DECISIONS FOR INDIVIDUALS & COUPLES

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SOCIAL SECURITY PLANNING FOR COUPLES

- Benefits Basics
 - Benefits are based on lifetime earnings
 - Average Indexed Monthly Earnings (AIME)
 - Adjust lifetime earnings (up to wage base) to current dollars
 - Average highest of *any* 35 years (not necessarily consecutive)

SOCIAL SECURITY PLANNING FOR COUPLES

– Primary Insurance Amount (PIA)

- 90% of first \$826 + 32% up to \$4,980 + 15% of the rest
 - Up to \$118,500 Social Security wage base (in 2015)
- Thresholds (“bend points” indexed for inflation)
- PIA equates to calculating “income replacement ratios”
- Maximum PIA \$2,663/month (in 2015)
- Workers eligible for their PIA at full retirement age
 - Benefits receive annual Cost-Of-Living Adjustments (COLA)

SOCIAL SECURITY PLANNING

• Benefits Basics – Early Retirement

- Workers eligible for early benefits before

Full Retirement Age (FRA)

- Reduced by 5/9 of 1% for each month early (up to 36)
- Reduced by 5/12 of 1% for each additional month early

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 later	67

SOCIAL SECURITY PLANNING

- Benefits Basics – Late Retirement

- Workers eligible for late benefits

- Waiting past FRA earns “delayed retirement credits”
 - Increase accrues monthly based on birth year
 - Birth year affects amount of increase but also FRA

Year of birth	Credit per year
1917-24	3.0%
1925-26	3.5%
1927-28	4.0%
1929-30	4.5%
1931-32	5.0%
1933-34	5.5%
1935-36	6.0%
1937-38	6.5%
1939-40	7.0%
1941-42	7.5%
1943 and later	8.0%

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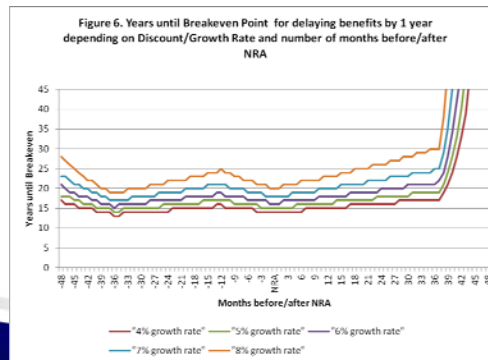
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SOCIAL SECURITY PLANNING

- Understanding Social Security Breakevens

- Client gives up current benefits, to receive an incrementally higher future payment
 - \$1,000/month today, vs \$1,080/month starting 1 year from now – how long does it take to recover \$12,000 at \$80/month?
 - Must include:
 - Growth rates
 - Inflation COLAs
 - No breakeven for delays past age 70!



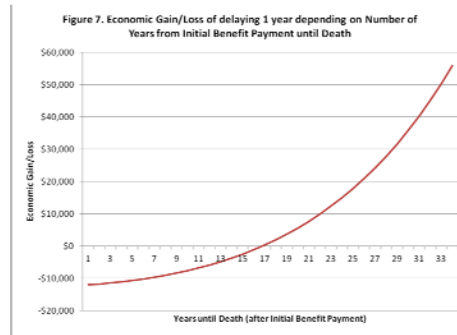
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SOCIAL SECURITY PLANNING FOR COUPLES

- Understanding Social Security Breakevens
 - Benefit to delaying is not symmetrical
 - Worst case scenario for dying: losing foregone benefits
 - Best case scenario for living: *lots* of additional payments!



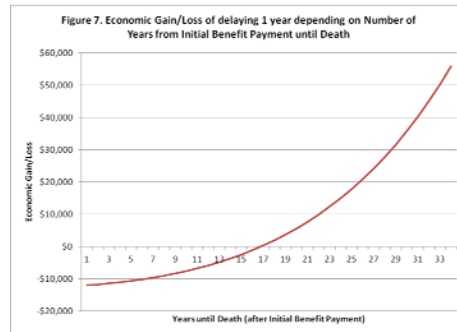
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SOCIAL SECURITY PLANNING FOR COUPLES

- Understanding Social Security Breakevens
 - Example:
 - Delay \$1,000/month benefit
 - Receive extra \$80/mo thereafter
 - Assuming 6% growth & 3% inflation
 - Breakeven ~17 years
 - Similar profit only 6 more years!



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SOCIAL SECURITY PLANNING FOR COUPLES

- Unique Benefits for Spouses – Spousal Benefit
 - Spouses can claim a “spousal benefit” based on 50% of the working spouse’s PIA
 - Receive spousal benefit *or* personal benefit, not both
 - Early/late benefit elections that alter working spouse’s PIA *do not* impact spousal benefit

SOCIAL SECURITY PLANNING FOR COUPLES

- Unique Benefits for Spouses – Spousal Benefit
 - Can elect to receive spousal benefit as early as age 62
 - Benefits are reduced for beginning before full retirement age
 - 25/36 of 1% first 36 months, 5/12 of 1% for additional months
 - Working spouse be eligible & have applied for benefits to be eligible for spousal benefits!
 - May render some spouses unable to claim spousal benefit due to age differences between spouses
 - *No delayed retirement credits past full retirement age*

SOCIAL SECURITY PLANNING FOR COUPLES

- Unique Benefits for Spouses – Survivor Benefit
 - Spouses receive a “survivor benefit” based on 100% of the deceased spouse’s *benefit* (not PIA)
 - Full survivor benefit payable at spouse’s survivor full retirement age
 - Survivor benefit can begin as early as age 60
 - Max reduction: 28.5%
 - Monthly % reduction based on survivor full retirement age

Year of Birth	Full (survivor) Retirement Age	Months from age 60 to full retirement age	Monthly % reduction
1939 or earlier	65	66	.475
1940	65 and 2 months	62	.460
1941	65 and 4 months	64	.445
1942	65 and 6 months	66	.432
1943	65 and 8 months	68	.419
1944	65 and 10 months	70	.407
1945 - 1956	66	72	.396
1957	66 and 2 months	74	.385
1958	66 and 4 months	76	.375
1959	66 and 6 months	78	.365
1960	66 and 8 months	80	.356
1961	66 and 10 months	82	.348
1962 and later	67	84	.339

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SOCIAL SECURITY PLANNING FOR COUPLES

- Unique Benefits for Spouses – Survivor Benefit
 - No survivor benefit increase for delaying past full survivor retirement age
 - Can still apply for individual benefits later

Year of Birth	Full (survivor) Retirement Age	Months from age 60 to full retirement age	Monthly % reduction
1939 or earlier	65	60	.475
1940	65 and 2 months	62	.460
1941	65 and 4 months	64	.445
1942	65 and 6 months	66	.432
1943	65 and 8 months	68	.419
1944	65 and 10 months	70	.407
1945 - 1956	66	72	.396
1957	66 and 2 months	74	.385
1958	66 and 4 months	76	.375
1959	66 and 6 months	78	.365
1960	66 and 8 months	80	.356
1961	66 and 10 months	82	.348
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SOCIAL SECURITY PLANNING FOR COUPLES

- Unique Benefits for Ex-Spouses
 - Still eligible for spousal benefit after a divorce
 - Marriage must have lasted at least 10 years
 - Must currently be unmarried
 - Can choose from most favorable ex-spouse if multiple
 - Timing for spousal benefit based on normal rules
 - Can apply as long as ex-spouse is at least 62
 - Does not require ex-spouse to have actually applied
 - Must have been divorced at least two years

SOCIAL SECURITY PLANNING FOR COUPLES

- Unique Benefits for Ex-Spouses
 - Still eligible for survivor benefits after a divorce
 - Marriage must have lasted at least 10 years
 - Timing for survivor benefit based on normal rules
 - If remarried after age 60, can still claim survivor benefit based on original ex-spouse

SOCIAL SECURITY PLANNING FOR COUPLES

- Interplay of Individual, Spousal, & Survivor Benefits
 - Standard breakeven equation still applies, but with couples...
 - Delaying personal benefits affects survivor benefits
 - Timing of personal benefit impacts spousal eligibility
 - Varying age differences impact who's eligible for what & when
 - Social Security rules allow special elections to...
 - Apply for spousal benefits while not claiming individual benefits
 - Allow spouse to claim spousal benefits without starting individual benefits

SOCIAL SECURITY PLANNING

- File And Suspend Strategy
 - An individual files for retirement benefits, but immediately suspends receiving any payments...
 - By applying for benefits, the spouse is eligible for a spousal benefit
 - By suspending benefits, the individual can still accrue delayed retirement credits for his/her own benefit
 - Also increases the amount of future survivor benefits
 - *Must have reached full retirement age to file and suspend*
 - Suspends *all* benefits

SOCIAL SECURITY PLANNING

- Filing a Restricted Application
 - An individual files for spousal benefits, but restricts the application to spousal benefits *only*...
 - By applying for spousal benefits, individual begins to receive payments based on his/her spouse's PIA
 - Can still accrue delayed retirement credits for his/her own benefit
 - Also increases the amount of future survivor benefits
 - *Must have reached full retirement age*
 - Applying early (prior to full retirement age) constitutes a deemed application to begin *all* eligible benefits

SOCIAL SECURITY PLANNING

- Interplay of Individual, Spousal, & Survivor Benefits
 - Examples...
 - Darren is 66 years old (at FRA) with a PIA of \$1,800/month
 - Wife Julie is also 66 years old (at FRA) but is not eligible for her own retirement benefit
 - Julie can claim \$900/month spousal benefit

SOCIAL SECURITY PLANNING

- Interplay of Individual, Spousal, & Survivor Benefits
 - Darren can file-and-suspend to make Julie eligible for spousal benefit
 - Darren can delay benefits to at age 70

Age	Darren	Julie
66	0	\$900 (spousal)
70	\$2,376	\$900
Darren's death		\$2,376

- \$900/month x 4 years = \$43,200 of "free" money!

SOCIAL SECURITY PLANNING

- Interplay of Individual, Spousal, & Survivor Benefits
 - Examples...
 - Darren is 66 years old (at FRA) with a PIA of \$1,800/month
 - Wife Julie is also 66 years old (at FRA) with PIA of \$900/month
 - Julie can claim \$900/month individual, or \$900/month spousal benefit

SOCIAL SECURITY PLANNING

- Interplay of Individual, Spousal, & Survivor Benefits
 - Darren can file-and-suspend to make Julie eligible for spousal benefit
 - Julie can file restricted application for \$900/month spousal benefit
 - Julie can switch at age 70

Age	Darren	Julie
66	0	\$900 (spousal)
70	\$2,376	\$1,188 (indiv)
Darren's death		\$2,376

- \$900/month x 4 years = \$43,200 of "free" money!
 - PLUS \$288/month FOR LIFE thereafter!

SOCIAL SECURITY PLANNING

- Interplay of Individual, Spousal, & Survivor Benefits
 - Examples...
 - Darren is 64 years old and *currently* receiving \$1,560/month
 - Wife Julie is also 64 years old (FRA at 66) with \$900/month PIA at FRA
 - Early spousal benefit \$750/mo (reduced 25/36% x 24);
 - Early individual benefit \$780/mo (reduced 5/9% x24)

SOCIAL SECURITY PLANNING

- Interplay of Individual, Spousal, & Survivor Benefits
 - Julie will receive individual benefits, squashing any spousal
 - Cannot file a restricted application because Julie is not FRA
 - If Julie waited two years, could get \$900/month at FRA (spousal) *and* later bump up to \$1,188/month at age 70

Age	Darren	Julie	Julie (waits)
64	\$1,560	\$780	\$0
66	\$1,560	\$780	\$900
70	\$1,560	\$780	\$1,188
Darren's death		\$1,560	\$1,560

SOCIAL SECURITY PLANNING

- Interplay of Individual, Spousal, & Survivor Benefits
 - Examples...
 - Darren is 70 years old receiving \$2,376/month, in poor health
 - Julie is only 62 years old (FRA at 66) with \$900/month PIA at FRA
 - Julie can file restricted application at 66 and then switch to delayed individual benefits at 70

SOCIAL SECURITY PLANNING

- Interplay of Individual, Spousal, & Survivor Benefits
 - Examples...
 - Julie's spousal and individual benefits only apply as long as Darren is alive; steps up to Darren's benefit at his death
 - Given Darren's poor health, almost impossible to reach breakeven period
 - Preferable to begin benefits early, to get what's available before surviving benefit applies!

SOCIAL SECURITY PLANNING

- Interplay of Individual, Spousal, & Survivor Benefits
 - In the case of a surviving spouse...
 - Survivor benefits based on deceased spouse's benefit (not PIA)
 - Individual benefits and survivor benefits have no interaction
 - But still receive only higher of the two
 - Can claim survivor at 60 and delay individual as late as 70

SOCIAL SECURITY PLANNING

- Interplay of Individual, Spousal, & Survivor Benefits
 - In the case of a surviving spouse...
 - Can claim individual at 62 and delay survivor benefits as late as full retirement age (no reason to delay further)
 - Survivor's benefit *automatically* equal to decedent's PIA as long as spouse didn't apply early
 - Applying early for individual *also reduces* survivor benefit
 - Unhealthy spouses be cautious about early benefits!

SOCIAL SECURITY PLANNING FOR COUPLES

- Social Security Couples Claiming Caveats
 - Government Pension Offset (GPO)
 - If individual receives pension from Federal/state/local government based on earnings *not* subject to FICA, then...
 - 2/3rds of pension income received will offset Social Security *spousal or survivor* benefits

SOCIAL SECURITY PLANNING FOR COUPLES

- Social Security Couples Claiming Caveats (GPO)
 - 2/3rds of pension income received will offset Social Security *spousal or survivor* benefits
 - Even a modest pension can *entirely eliminate* Social Security benefits
 - If discovered later, Social Security Administration may demand repayment
 - Intended to prevent “double dipping” for spouse/survivor benefits while also being in workforce earning pension as well
 - Common w/ Federal government workers under CSRS & some state/local municipalities

SOCIAL SECURITY PLANNING FOR COUPLES

- Social Security Couples Claiming Caveats
 - Windfall Elimination Provision (WEP)
 - If individual receives pension from Federal/state/local government based on earnings *not* subject to FICA, then...
 - Individual benefits may be reduced if there is also some benefit based on separate FICA earnings

SOCIAL SECURITY PLANNING FOR COUPLES

- **Social Security Couples Claiming Caveats (WEP)**
 - Alters the first bend point from 90% to 40%
 - First bend point may be 45% to 85% with 21-29 years of substantial earnings also subject to FICA
 - WEP does not apply if there are at least 30 years of substantial earnings subject to FICA
- Cannot and does not fully eliminate benefits (unlike GPO); only trims benefits a few hundred dollars
 - Current first bend point is \$826; maximum WEP reduction \$413

SOCIAL SECURITY PLANNING FOR COUPLES

- **Social Security Couples Claiming Caveats**
 - **Social Security Earnings Test**
 - If an individual receives employment income before FRA, then Social Security benefits may be reduced
 - Benefits reduced by \$1 for every \$2 of earnings above \$15,720 (in 2015)
 - Benefits reduced by \$1 for every \$3 of earnings above \$41,880 (in 2015) in the year that FRA is reached
 - Benefits no longer reduced for income earned once FRA is reached
 - Applies to retirement, spousal, and survivor benefits

SOCIAL SECURITY PLANNING FOR COUPLES

- Social Security Couples Claiming Caveats (Earnings Test)
 - Reduced *retirement* benefits due to earnings no longer count as “early benefits” for early retirement reductions
 - Adjustment made at FRA
 - Provides an approximate equivalent to simply having delayed in the first place
 - Generally deters individuals from starting benefits early if they will be ‘lost’ through the earnings test anyway

SOCIAL SECURITY PLANNING FOR COUPLES

- Bringing It All Together
 - Most common planning tool: delay higher earning spouse benefits as long as possible
 - Maximize value of benefits delay
 - Asymmetrically more valuable when living past breakeven as longevity hedge
 - With couples, *either* member of the couple can live long enough to make breakeven worthwhile

SOCIAL SECURITY PLANNING FOR COUPLES

- Bringing It All Together
 - Take advantage of steps to increase benefits during 60s if possible
 - Restricted application and/or file-and-suspend represent opportunities to “have your cake and eat it too”
 - Provides an incentive to at least delay to FRA

SOCIAL SECURITY PLANNING FOR COUPLES

- Bringing It All Together
 - Optimal strategies will vary depending on differences in ages and PIAs between spouses
 - Significant age differences may prevent/alter strategies
 - Optimal claiming order may vary depending on which PIA is higher, and by how much

SOCIAL SECURITY PLANNING FOR COUPLES

- Bringing It All Together
 - Still must be integrated with the rest of the plan
 - Timing of pensions and other fixed income benefits
 - Timing of employment and earned income changes
 - Liquidations from the portfolio to bridge delay years
 - To analyze all combinations, consider tools like www.ssanalyzer.com, www.socialsecuritytiming.com, or www.maximizemysocialsecurity.com.

QUESTIONS?

Handouts & additional materials:
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