

THE NEW WORLD OF SOCIAL SECURITY PLANNING DECISIONS

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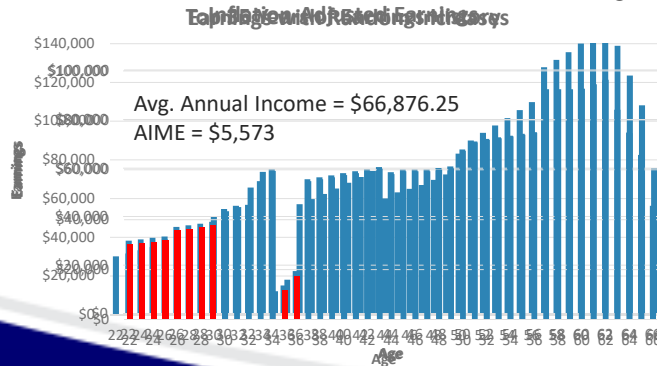
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SOCIAL SECURITY PLANNING FOR COUPLES

- Benefits Basics
 - Benefits are based on lifetime earnings



SOCIAL SECURITY PLANNING FOR COUPLES

– Primary Insurance Amount (PIA)

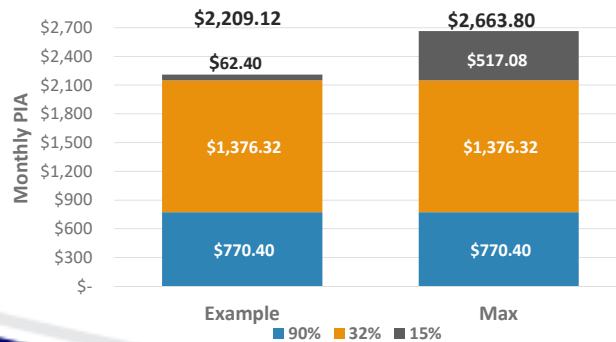
Bendpoints	Replacement Rate	Counted Income	Maximum Income
1 st Bendpoint	90%	\$856/month	\$856/month (\$10,272/year)
2 nd Bendpoint	32%	\$4,301/month	\$5,157/month (\$61,884/year)
3 rd Bendpoint	15%	\$4,718/month	\$9,875/month (\$118,500/year)

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SOCIAL SECURITY PLANNING FOR COUPLES

– Primary Insurance Amount (PIA)

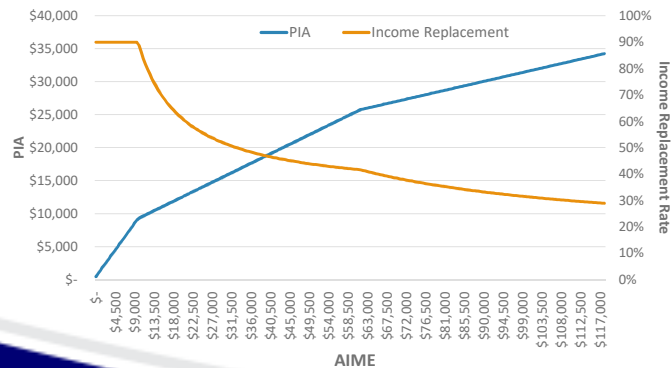
Primary Insurance Amount: Calculating Benefits



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SOCIAL SECURITY PLANNING FOR COUPLES

– Primary Insurance Amount (PIA)



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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)
 - 6.66%/year
- Reduced by 5/12 of 1% for each additional month early
 - 5%/year

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

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SOCIAL SECURITY PLANNING

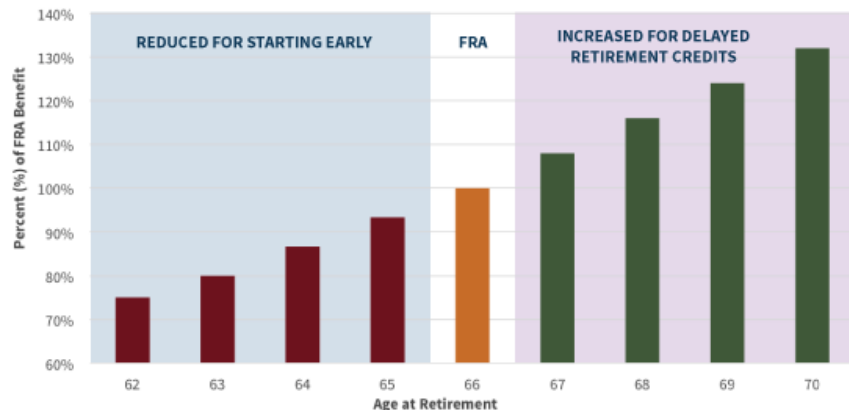
- Benefits Basics – Late Retirement
 - Workers eligible for late benefits

- 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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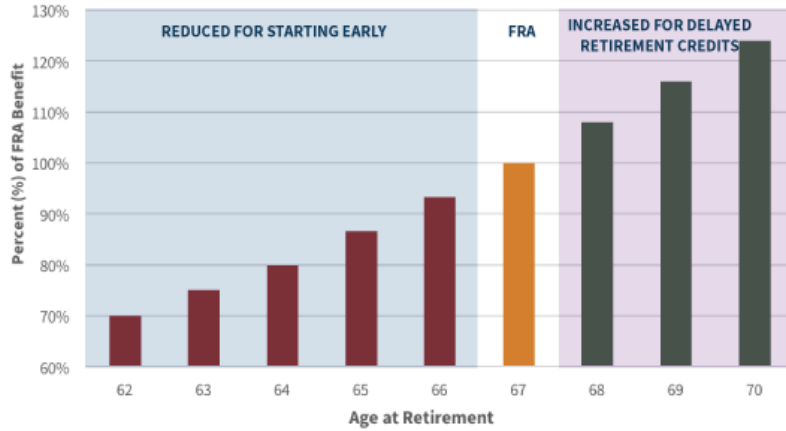
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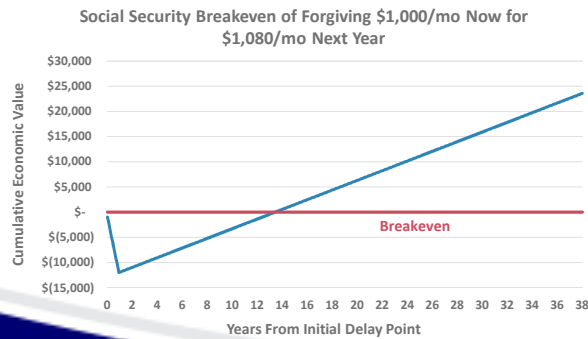
SOCIAL SECURITY PLANNING



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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



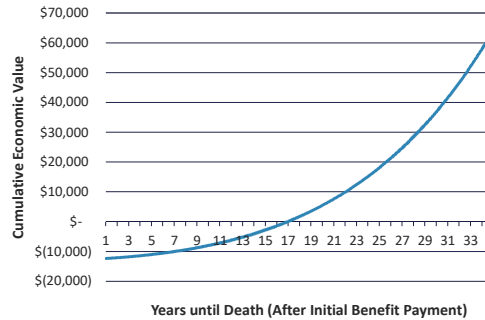
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SOCIAL SECURITY PLANNING FOR COUPLES

- Understanding Social Security Breakevens

- Example:

- 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 be entitled to a “spousal benefit” based on 50% of the working spouse’s PIA
 - Receive spousal benefit *or* personal benefit, not both
 - Filing for one is “deemed filing” for all!
 - Early/late benefit elections that alter working spouse’s PIA *do not* impact spousal benefit

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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

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SOCIAL SECURITY PLANNING FOR COUPLES

- Spousal Benefits – Entitlement vs Eligibility

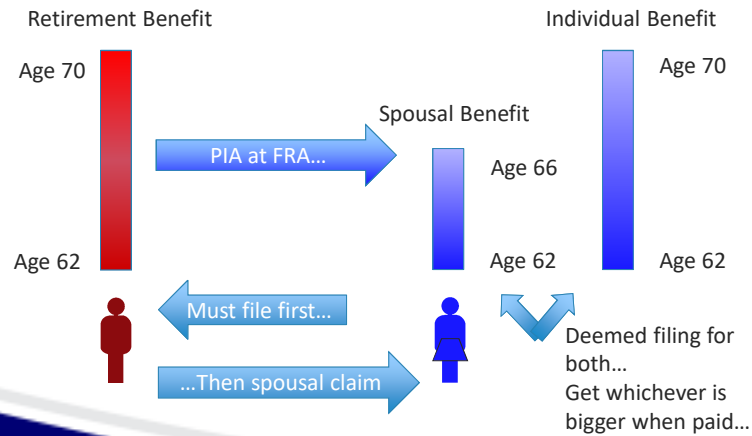
Spousal Benefits		
Benefit Amount: 50% of worker's PIA		
Entitled		Eligible
Married	Divorced	Full benefit at Full Retirement Age (FRA) Can start as early as age 62 (reduced by 8.33%/year, plus 5%/year beyond 3 years early) No delayed retirement credits past FRA
Worker must have filed for his/her own benefit Must have been married for at least 1 year Must still be currently married	Worker must be at least age 62 Must have been married for at least 10 years Must be currently unmarried	

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SOCIAL SECURITY PLANNING FOR COUPLES

- Unique Benefits for Spouses – Spousal Benefit



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SOCIAL SECURITY PLANNING FOR COUPLES

- Unique Benefits for Spouses – Survivor Benefit
 - Spouses can be entitled to a “survivor benefit” based on 100% of the working spouse’s PIA
 - Reduced if worker starts early; increased if worker delays
 - Can be claimed *independently* of retirement benefit
 - Full benefit at survivor’s Full Retirement Age
 - 28.5% reduced benefit as early as age 60
 - No increase for survivor delaying past FRA

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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

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SOCIAL SECURITY PLANNING FOR COUPLES

- Survivor Benefits – Entitlement vs Eligibility

Survivor Benefits		
Benefit Amount: 100% of worker's PIA, reduced if worker claimed early, increased if worker delayed		
Entitled		Eligible
Married	Divorced	
Worker must be deceased Must have been married for at least 9 months before death*	Worker must be deceased Must have been married for at least 10 years	Full benefit at Full Retirement Age (FRA) Can start as early as age 60 (reduced pro-rata for starting early, up to maximum of 28.5%) No delayed retirement credits past FRA
Must be unmarried, or remarried after age 60	Must be unmarried, or remarried after age 60	

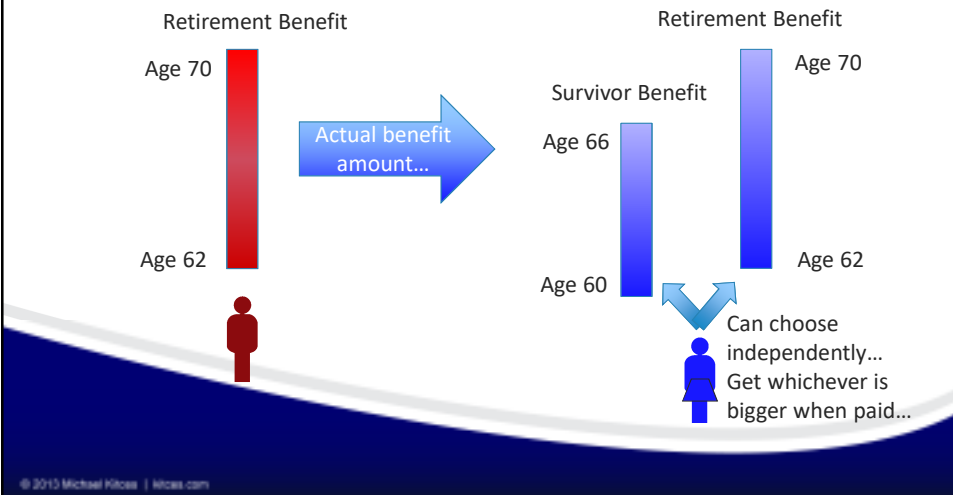
*Certain exceptions apply for shorter marriages if death was accidental

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SOCIAL SECURITY PLANNING FOR COUPLES

- Unique Benefits for Spouses – Survivor Benefit
 - 100% of the deceased spouse's *benefit* (not PIA)



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 PLANNING FOR COUPLES

- Interplay of Individual, Spousal, & Survivor Benefits
 - Fred & Ethel are both full retirement age
 - Fred's PIA is \$2,000/month, Ethel not entitled
 - Fred wishes to delay until age 70...
 - But this prevents Ethel from being entitled to spousal benefits!
 - Increases the "cost" to delay!
 - Waiting 4 years would normally cost \$2,000/month x 4 years
 - But now it's \$3,000/month for 4 years instead!
 - For the same 32% increase!
 - But it continues for *both* of their lives!

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SOCIAL SECURITY PLANNING FOR COUPLES

- Interplay of Individual, Spousal, & Survivor Benefits
 - Brad & Angie are both full retirement age
 - Brad's PIA is \$2,000/month, Angie's is \$2,000/month, too!
 - The \$1,000/month spousal benefit is irrelevant now!
 - Even a survivorship benefit doesn't matter "much"?
 - However, if Brad (or Angie) delays...
 - Brad's benefit is increased to \$2,640/month
 - And so is Angie's survivor benefit!
 - But only if Angie doesn't delay, too!

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SOCIAL SECURITY PLANNING FOR COUPLES

- Interplay of Individual, Spousal, & Survivor Benefits
 - Delaying one spouse's benefit can help both members
 - A higher individual benefit, *and* a higher survivor benefit
 - But delaying the *second* spouse's benefit is limited
 - Only helps if *both* survive!
 - Still only helpful if at least *one* person lives a long time!

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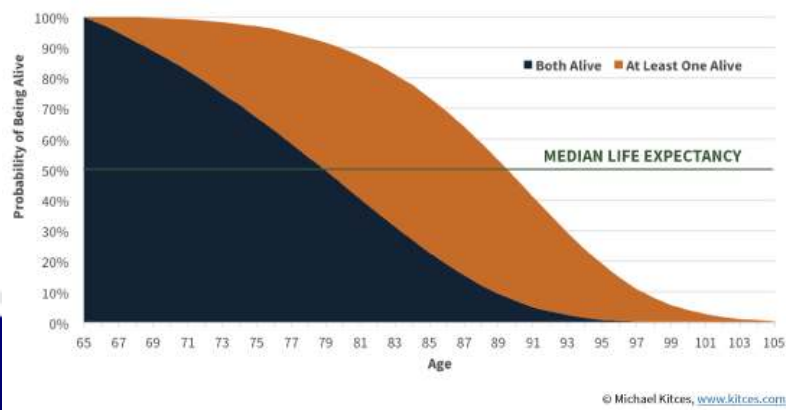
SOCIAL SECURITY PLANNING FOR COUPLES

- Interplay of Individual, Spousal, & Survivor Benefits
 - Four fundamental claiming choices for couples
 - Husband Delays
 - Wife Delays
 - Both Delay
 - Neither Delay

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- When Couples Should Both Delay
 - When *both* have very good health



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- When Only One Person Should Delay
 - Delay the higher earner
 - Works best with normal/average life expectancy
 - Or one person with longevity
 - Doesn't actually matter which one is the "healthy" one!
 - Once the higher earner delays, the lower earner takes as *early as possible*
 - Since delayed benefit will be lost if *either* passes away!

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SOCIAL SECURITY PLANNING FOR COUPLES

- When Only One Person Should Delay
 - Restricted Application Opportunities
 - Claim a spousal benefit *at full retirement age* while delaying individual benefits (to age 70)
 - Must be entitled to a spousal benefit in the first place
 - Increasing value of second spouse starting early!
 - Must have been born in 1953 or earlier
 - Enhances the value of delaying when you can get benefits along the way, too!

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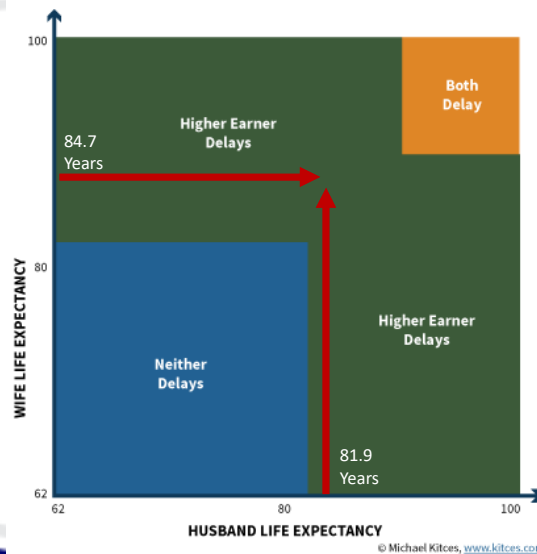
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- When Neither Person Should Delay
 - If both are in poor health...
 - And *neither* is expected to reach the breakeven period!

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SOCIAL SECURITY PLANNING FOR COUPLES

- Maximizing Couples
 - Husband Delays
 - Wife Delays
 - Both Delay
 - Neither Delay



SOCIAL SECURITY PLANNING FOR COUPLES

- Exceptions to the Delay Decision – Earnings Test
 - Social Security Earnings Test applies for anyone who claims benefits *before* Full Retirement Age
 - Reduces benefits \$1 for every \$2 over \$15,720 threshold
 - Threshold increased to \$41,880 in the year of FRA
 - Applies to Retirement, Spousal, and Survivor benefits!
 - Re-adjusts benefits upon reaching FRA
 - Effectively a system of “forced delayed” benefits
 - Don't start early if it will be lost anyway!

SOCIAL SECURITY PLANNING FOR COUPLES

- Exceptions to the Delay Decision – Single Income
 - Delaying higher earner may be less valuable in a single income household
 - Because it “holds hostage” the spousal benefit
 - William was the primary breadwinner, Catherine stayed home to raise the family
 - William’s benefit at FRA is \$2,200/month
 - But if William waits to age 70, Catherine loses \$1,100/month as well!

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SOCIAL SECURITY PLANNING FOR COUPLES

- Bipartisan Budget Act of 2015
 - Killed the File-and-Suspend strategy
 - After April 29, suspending a benefit suspends *all* entitled benefits based on that person’s record!
 - Though voluntary suspension remains an option...
 - Phasing out Restricted Application
 - Based on birth year (1953 & earlier still eligible)
 - Must be full retirement age at the time (and entitled)
 - Relevant for divorcees, too!

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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?
 - But the tools must be updated for the new rules!

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QUESTIONS?

Handouts & additional materials:
www.kitces.com/FPAMN17

Contact: questions@kitces.com

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