

Social Security Planning

**What You Need to Know
Why You Need to Know It**



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When your parents retired, they probably didn't think too much about Social Security. They just went down to their local office as soon as they turned 65, or maybe 62 if they retired early, and applied for benefits. They took their benefits for granted and didn't ask very many questions.

But baby boomers are approaching the Social Security question in a very different way.

Questions needing answers

- Will Social Security be there for me?
- How much can I expect to receive?
- When should I apply for Social Security?
- How can I maximize my benefits?
- Will Social Security be enough to live on in retirement?

Will Social Security be there for me?

You've been told for years that the system is "going broke." But now that it's almost your turn to collect, is that really true?

How much I can expect to receive?

Before you can retire, you've got to know how you are going to support yourself. That means doing a budget, lining up all your income sources and knowing how much you can expect to receive from each. Social Security, because it is a relatively known quantity, represents the foundation of that plan.

When should I apply for Social Security?

You may have heard that if you apply early your benefit will be lower than if you apply later. But is it worth missing out on all those extra checks to have a higher benefit later on? We're going to shed some light on this important question today.

How it is possible to maximize benefits?

There is absolutely nothing wrong with using the Social Security rules to your advantage. Today we're going to talk about five ways you can maximize your Social Security benefits simply by knowing the rules and making smart decisions.

Will it be enough to live on in retirement?

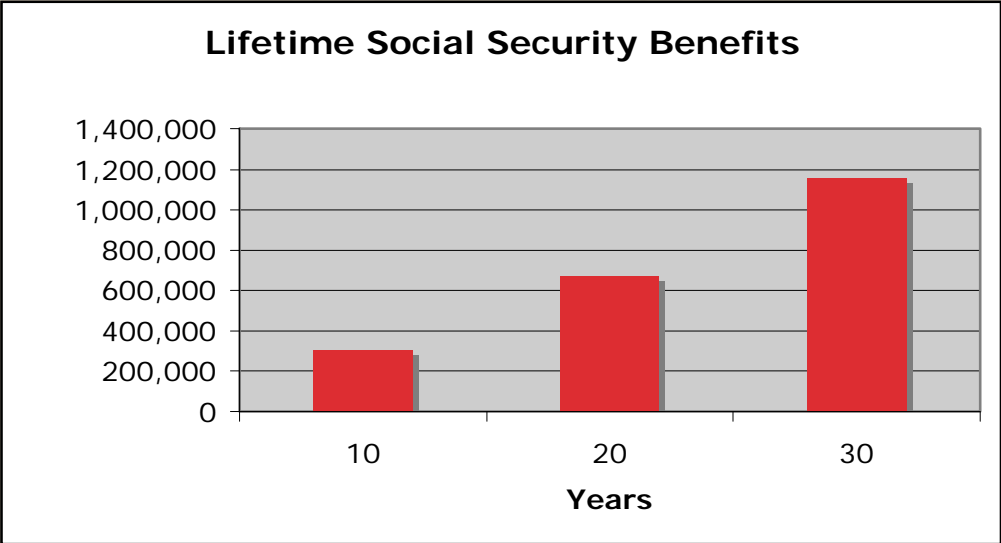
You probably already know the answer to this. Social Security represents about 40 percent of the average retiree's total income. But by coordinating Social Security with the rest of your retirement income plan, you can pursue the universal dream of a comfortable, worry-free retirement.

If your benefit starts out at \$2,000 per

Most people tend to mentally discount the value of Social Security. If they understand that they are likely to get something back from the system at all, they think it will be a minimal amount, not really enough to count on.

But Social Security is far more valuable than most people realize.

Social Security offers income you can't outlive



month, and if you live 10 more years, you will receive over \$300,000 in lifetime benefits. If you live 20 more years you'll receive over \$600,000 in lifetime benefits. And if you live 30 more years, you'll receive over \$1 million over your lifetime. This assumes annual cost-of-living adjustments of 2.8%.

If your monthly benefit today is \$2,000 and you live:

10 more years	You'll receive a total of	\$304,256	in lifetime benefits
20 more years		\$673,622	
30 more years		\$1,160,479	

Assumes 2.8% annual COLAs

First, Social Security is one of the few sources of income you can't outlive. If you are worried about running out of personal assets in your old age, you need not have that fear with Social Security, because it continues until you die. And, of course, the longer you live, the more you will extract from the system.

*Social Security offers annual inflation adjustments**

If your monthly benefit today is \$2,000 and annual COLAs are 2.8%

In 10 years	Your monthly benefit will be	\$2,636
In 20 years		\$3,474
In 30 years		\$4,580

Assumes 2.8% annual COLAs

Second, Social Security offers annual inflation adjustments. So if your benefit starts out at \$2,000 per month, and if annual COLAs are 2.8%, in 10 years you will be receiving \$2,636 per month. In 20 years your benefit will be \$3,474, and in 30 years your check will be \$4,580.

There is no way of knowing exactly what future COLAs will be, but 2.8% seems to be a reasonable estimate. It's what the Social Security trustees use to project costs and benefits under their intermediate-cost scenario.

**It should be noted that no COLA increases were granted for 2010 or 2011 due to an absence of inflationary pressures*

Social Security offers survivor benefits

The third key benefit of Social Security is that it offers survivor benefits. If you die, your spouse and dependent children may receive benefits based on your work record. It's like an automatic life insurance policy.

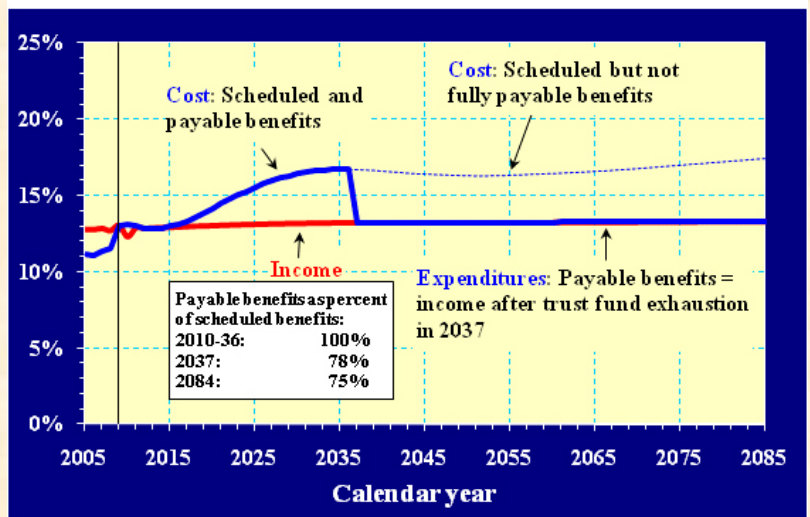
Survivor benefits are especially important for families with young children in case the breadwinner dies. But they are important for retirees as well. In the case of married couples, the surviving spouse can switch to the higher of the two benefits. If her husband was receiving \$2,000 and he dies, she will trade her \$1,200 benefit for his \$2,000 benefit. This helps relieve some of the financial strains of widowhood.

Will Social Security be there for me?

About 20 years ago the financial services industry starting sounding the alarm about Social Security. In an effort to get baby boomers to save for retirement, we pointed out that when Social Security was first instituted in 1935, there were some 40 workers paying into the system for every retiree drawing benefits out. But when baby boomers go to retire, there will just 2 or 3 workers paying in for every retiree drawing benefits out. This simple math was enough to scare baby boomers into saving for retirement. That was a good thing.

Since then, the alarms have gotten have gone so far as to say the system is "broke." This has led to lots of

OASDI Income, Cost, and Expenditures as Percentages of Taxable Payroll
[Under Intermediate Assumptions]



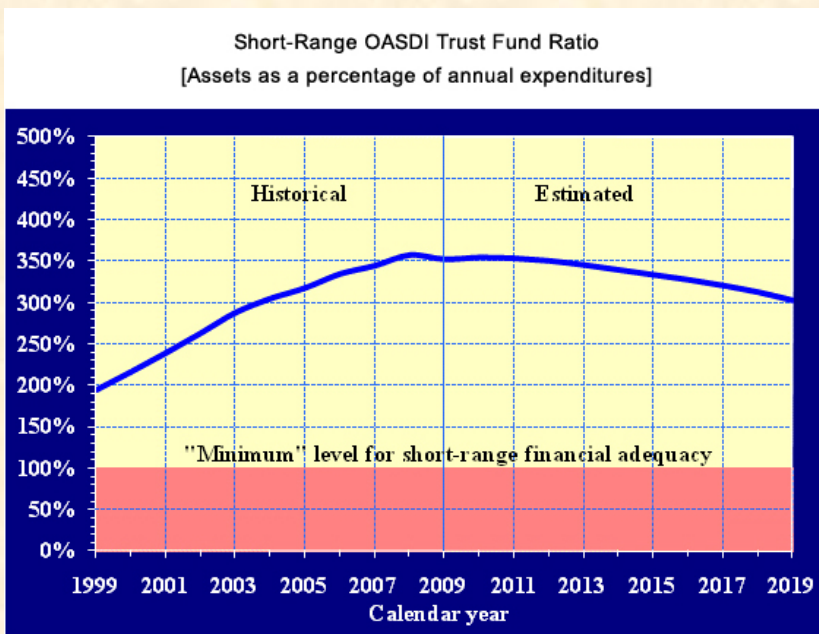
misunderstandings and irrational fears about the solvency of the Social Security system. Let's look now at what the Social Security trustees say. Every year, they publish a comprehensive report showing the long-range outlook for Social Security.

Social Security trust fund through 2015: flush with cash

Source: 2010 OASDI Trustees Report

According to the 2010 Trustees Report, more money is coming into the Social Security system than is being paid out in benefits. The Social Security trust fund now holds about \$2 trillion in reserve and is expected to grow to nearly \$4 trillion by

The long-range outlook isn't so bright. With baby boomers retiring, in 2015 costs will begin to exceed income. Still, there are enough reserves that the system will be able to pay 100% of promised benefits until 2037. After that, if nothing is done to reform the system, income will be sufficient to cover just 78% of promised benefits.



2015.

Cost vs. benefits through 2085: running a little short

Source: 2010 OASDI Trustees Report

What would it take to restore solvency to the system?

Reform proposals being studied

- Increase the maximum earnings subject to Social Security tax (currently \$106,800)
- Raise the normal retirement age (currently 66 for individuals born between 1943 and 1954; 67 for those born in 1960 or later)
- Lower benefits for future retirees (escalate benefits based on increases in consumer prices rather than wages)
- Reduce cost-of-living adjustments (COLAs) for all retirees

Although the Social Security system is not in imminent danger, most people agree that the earlier reforms are instituted, the less painful they will be on everyone. Here are just a few of the ideas that have been proposed:

One is to increase the maximum earnings subject to Social Security tax. Currently, \$106,800 in earnings are subject to the 6.2% tax paid by you and your employer.

Another reform proposal calls for raising the normal retirement age as life expectancies increase. Currently, full retirement age is 66 for people born between 1943 and 1954, and 67 for people born in 1960 or later.

Still another reform proposal would change the benefit formula so that future increases would happen at a slower pace. This would affect the benefits of future retirees.

And some are talking about changing the formula for cost-of-living adjustments. This could give retirees smaller benefit increases going forward, although the changes are expected to be minimal.

You can learn more about Social Security reform proposals from the American Academy of Actuaries at their website: actuary.org.

The bottom line for baby boomers

Your benefits are not likely to be affected by Social Security reform
[Image: couple with blue sky.]

The bottom line for baby boomers is that your benefits are not likely to be affected by much, if at all. So you can stop worrying that Social Security won't be there for you in the future.

Baby Boomer Social Security question #2

How much can I expect to receive?
[Image: money, check and calculator.]

Now that we've addressed the solvency issue, let's look at how much you can expect to receive from the system.

Your benefit will depend on:

- How much you earned over your working career
- The age at which you apply for benefits

When your Social Security benefit is calculated, it will be based on how much you earned over your working career and the age at which you apply for benefits.

How Social Security is calculated

- Formula includes your highest 35 years of earnings (missing years counted as zeroes)
- Earnings are indexed for inflation and averaged (AIME)
- Formula is applied to your AIME to determine your primary insurance amount (PIA). This is the amount you'll receive at full retirement age (FRA is 66 for baby boomers born between 1943 and 1954)
- Benefit is increased each year by cost-of-living adjustments (COLAs)

The formula for calculating Social Security is pretty complex. You may or may not want to follow along with this. Some people find the formula interesting. But there are several other ways to estimate your benefits which we'll talk about in a moment.

The general process goes like this. First Social Security looks at your annual earnings over your entire lifetime, indexes them for inflation, and picks the 35 highest years' earnings to include in the formula. The indexed earnings are totaled and divided by 35 to come up with an average. If you do not have 35 years of earnings, the missing years will be filled in with zeroes. This has the effect of lowering Social Security benefits for women who have taken time out of the work force to raise children. However, they may be eligible for spousal benefits, which we'll cover in a moment.

Next, a formula is applied to your average indexed monthly earnings to determine your primary insurance amount. This is the amount you will

receive when you reach full retirement age. As mentioned earlier, if you were born between 1943 and 1954, your full retirement age is 66.

Each year, annual COLAs are applied to your benefit to help you keep up with the cost of living.

Example of benefit formula

- Baby boomer age born in 1946
- Maximum Social Security earnings every year since age 22
- AIME = \$7,260
- PIA formula:

\$711 x .90 =	\$639.90
\$3,577 x .32 =	1,144.64
\$2,972 x .15 =	<u>445.80</u>
Total	\$2,230.34

PIA = \$2,230.30

Amount worker will receive at full retirement age (66)

Here is an example of how the benefit formula would work for a baby boomer who was born in 1946 and who earned the Social Security maximum every year since the age of 22. His average indexed monthly earnings would work out to be \$7,260. In calculating his primary insurance amount, the first \$711 would be multiplied by 90%. The amount between \$711 and \$4,288, or \$3,577, would be multiplied by 32%. And the amount over \$4,288, or \$2,972, would be multiplied by 15%. These amounts would be totaled to come up with a PIA of \$2,230.30. This is the amount the worker would receive at full retirement age.

I told you this was complicated. Fortunately, you don't have to figure this out yourself.

What if you apply for early benefits?

You will receive a percentage of your PIA if you were born between 1943 and 1954:

Apply at age	Benefit will be % of PIA	Example if PIA is \$2,230
62	75.0%	\$1,672
63	80.0%	\$1,784
64	86.7%	\$1,933
65	93.3%	\$2,080

Now, remember that I said that your primary insurance amount, or PIA, is the benefit you will receive at full retirement age. So what happens if you apply for Social Security before you turn 66?

Well, your benefit will be reduced. You will receive a percentage of your PIA depending on when you apply. If you apply at age 62, you will receive 75% of your PIA. At 63, 80% and so on. These amounts are actually prorated monthly, so you can apply anytime between the ages of 62 and 66 and your benefit will be reduced by the appropriate amount.

What if you apply after FRA?

You will earn delayed credits if you were born between 1943 and 1954:

Apply at age	Benefit will be % of PIA	Example if PIA is \$2,230
66	100%	\$2,230
67	108%	\$2,408
68	116%	\$2,587

69	124%	\$2,765
70	132%	\$2,943

Note: COLAs are not factored into these amounts

If you apply for Social Security after you turn 66, you will earn delayed credits of 8% for each year you delay. So if you apply at 67, your benefit will be 108% of your PIA. At 68 it will be 116%, and so on. After age 70 you can't earn any more delayed credits, so it doesn't pay to wait until after age 70 to apply for Social Security.

How to estimate your Social Security benefits

- Refer to your annual Social Security statement
- Go to www.socialsecurity.gov, click on "Estimate Your Retirement Benefits"
- Use one of the calculators on the SSA website (may be more accurate)

I'm guessing you're probably not too interested in calculating by hand your AIME and your PIA and the reductions and credits for early or late filing, or the annual COLAs that could raise your benefit in the future. So you can find out approximately how much you can expect to receive in benefits in one of several ways.

One, you can refer to your annual Social Security statement. If you don't have your latest statement you can call 1-800-772-1213 or go online to request a current statement.

Two, you can try out the Social Security website's newest calculator, the

Retirement Estimator. This calculator taps into your specific earnings history after you enter your personal identifying information including your birth date, Social Security number, and mother's maiden name. Don't worry. The site is secure.

Please note that the annual statement and the Retirement Estimator do not factor COLAs into your age-70 benefit. This means your actual benefit will likely be higher than they indicate.

For the most accurate estimate of your benefits -- if you are willing to do a little work -- use one of the three calculators on the Social Security website at www.ssa.gov/planners/benefitcalculators.htm.

Spousal benefits

Spousal benefit = 1/2 the primary worker's benefit

Example:

- John's benefit is \$2,000
- Jane's benefit is \$800
- Jane's spousal benefit is \$1,000
- Jane will receive her spousal benefit of \$1,000 because it is higher than her own benefit

Social Security was instituted in an earlier era, when most married women did not work. To give women a measure of financial security in their old age, the program offers spousal benefits equal to one-half the primary worker's benefit.

Social Security is gender neutral, so any benefit that applies to a wife also applies to a husband. But since the overwhelming number of people receiving spousal benefits are women, we will use old stereotypes in our language and refer to the higher-earning

spouse as the husband and the lower-earning spouse as the wife. Of course, one of the ways baby boomers have transformed our society is the vast migration of women into the work force, so spousal benefits are not as relevant for this generation as for the older generation. But I'll go over them quickly because they may be applicable for some of you.

The key thing to note is that the spousal benefit only comes into play if the wife's own benefit would be lower. So if John's benefit is \$2,000 and Jane's benefit is \$800, her spousal benefit of \$1,000 would be higher, so that's the one she would receive.

Rules for spousal benefits

- Spouse will receive the higher of own benefit or spousal benefit
- Primary worker must have applied for benefits (but can suspend to build delayed credits if over FRA)
- Spouse must be at least 62 for reduced benefit or 66 for full benefit
- No delayed credits on spousal benefits after 66

Here are the basic rules for spousal benefits.

The low-earning spouse receives either her own benefit or her spousal benefit, but not both. Technically, she will receive her own benefit, plus enough to equal the spousal benefit. So in the previous example, Jane would receive her own benefit of \$800 plus another \$200 to equal the \$1,000 spousal benefit. Most people don't need to worry about this

distinction, but it comes into play under certain strategies.

The primary worker must be eligible for benefits, which means he must either be age 62 and receiving reduced benefits, or age 66 and have applied for benefits. If he wants to delay benefits until age 70 in order to receive a higher amount, he can apply for benefits at age 66 and ask that they be suspended.

The low-earning spouse must be at least 62 for a reduced benefit or 66 for the full spousal benefit.

Spousal benefits do not earn delayed credits after age 66.

I'm sure you have lots of questions about spousal benefits, and we will return to this a little later, but let's move on to divorced-spouse benefits.

Divorced-spouse benefits

Same as spousal benefits if:

- Marriage lasted 10 years or more
- Person receiving divorced spouse benefit is currently unmarried

A woman can receive Social Security based on her ex-husband's work record, providing the marriage lasted 10 years or more and she is currently unmarried.

Rules for divorced-spouse benefits

- More than one ex-spouse can receive benefits on the same worker's record
- Benefits paid to one ex-spouse do not affect those paid to the worker, the current spouse, or other ex-spouses

- The worker will not be notified that the ex-spouse has applied for benefits
- Divorced-spouse benefits stop upon remarriage

Here are the rules for divorced-spouse benefits.

More than one ex-spouse can receive benefits on the same worker's record. So if your ex-husband has remarried a couple of times, all three ex-wives can claim divorced-spouse benefits, as long as the marriages lasted at least 10 years.

The benefits paid to one ex-spouse do not affect those paid to the worker, the current spouse, or the other ex-spouses.

The worker will not be notified that the ex-spouse has applied for benefits. So you need not worry that your long-lost ex-husband will find out that you applied for benefits based on his work record. You do not need to know his whereabouts, only enough identifying information that the Social Security people can look up his records.

If you are receiving divorced-spouse benefits and you remarry, your divorced-spouse benefits will stop. However, you may then be eligible for spousal benefits based on your new husband's work record. Or you can switch to your own benefit, of course, if that would be higher.

Survivor benefits

When one spouse dies, surviving spouse receives the higher of the two benefits

Example 1:

- Joe and Julie are married.
- Joe's benefit is \$2,000, Julie's benefit is \$1,200.
- Joe dies.

- Julie notifies Social Security and her \$1,200 benefit is automatically replaced with her \$2,000 survivor benefit.

Example 2:

- Same circumstances except Julie dies.
- Joe retains his \$2,000 benefit.

The important thing to know about survivor benefits is that when one spouse dies, the surviving spouse receives the higher of the two benefits.

Let's say Joe and Julie are married. Both are currently receiving Social Security benefits. Joe's benefit is \$2,000 and Julie's benefit is \$1,200. If Joe dies, Julie's \$1,200 benefit will stop and she will start receiving \$2,000.

If Julie dies first, her \$1,200 benefit will stop and Joe will keep receiving his \$2,000 benefit.

One important note about survivor planning is the loss of one benefit. Most widows and widowers need at least two-thirds of the amount of income they were receiving as a couple, so it is important to plan for the loss of one spouse's Social Security benefit. Even though it is the higher benefit that will be retained, the death of a spouse means the loss of one Social Security check.

Rules for survivor benefits

- Couple must be a legally married man and woman (no same-sex marriage). Common-law marriages recognized in some instances.

- Must have been married at least 9 months at date of death (except in case of accident).
- Survivor must be at least 60 for reduced benefit (50 if disabled).
- Divorced-spouse survivor benefit available if the marriage lasted at least 10 years.

Here are some of the rules for survivor benefits.

Social Security does not recognize same-sex marriages, even if such marriages took place in states that have legalized them.

In order for the surviving spouse to receive survivor benefits, the marriage must have lasted at least 9 months, except in case of accident.

The survivor must be at least 60, or 50 if disabled. However, if the widow or widower applies before full retirement age, the benefit will be reduced, as it is for regular retirement benefits. Some of the same principles that go into deciding when to apply for regular retirement benefits also apply to survivor benefits.

Divorced-spouse survivor benefits are available if the marriage lasted at least 10 years.

Baby Boomer Social Security Question #3

When should I apply for benefits?

[Image: hourglass filled with money on calendar.]

The obvious advantage to delaying benefits is that your monthly benefit will be higher. Using the example of a baby boomer born in 1946 who had maximum

You probably have a lot more questions at this point, but let's move on to Baby Boomer Social Security Question #3. When should you apply for benefits?

Factors to consider when deciding when to apply

- Health status
- Life expectancy
- Need for income
- Whether or not you plan to work
- Survivor needs

Age at which benefits are claimed	% of PIA	Benefit without COLAs	Benefit with COLAs
62	75	\$1,672	\$1,672
63	80	1,784	1,834
64	87	1,933	2,043
65	93	2,081	2,261
66	100	2,230	2,491
67	108	2,408	2,765
68	116	2,587	3,053
69	124	2,765	3,355
70	132	2,944	3,672

The decision of when to apply for benefits is one of the most important and most complicated questions. It can literally make the difference of thousands of dollars over your lifetime.

Before we get into the number crunching, it's important to realize that the decision of when to apply for Social Security depends on many factors unique to your situation. These include your health status, your life expectancy, your need for income, whether or not you plan to work, and, if you are a surviving spouse, whether you have other personal resources.

Why delay benefits?

If PIA = \$2,230:

PIA = \$2,230
2.8% annual COLAs

earnings, he would receive \$1,672 per month if he applied at age 62, but \$2,944 if he waited until age 70. The difference becomes even more dramatic if we multiply these amounts by 2.8% annual COLAs. If cost-of-living adjustments average 2.8% over the next 8 years, his age-70 benefit jumps to \$3,672.

Delayed benefits pay off later in life

It might be hard to pass up Social Security checks when you can start receiving them as early as age 62. But if you live a long time, you will be very glad you waited. As you can see, the longer you live, the more total benefits you will receive by waiting until age 70 to apply. The crossover point, or breakeven age, is generally around 77 or 78, assuming the benefits are spent and not invested. If you have other resources and would be investing your Social Security benefits instead of spending them, we can do a different kind of analysis that will help you decide when to apply.

When to apply for Social Security: Key points to remember

- If you apply early, your benefit starts lower and stays lower for life. It does not go up when you reach age 66
- COLAs magnify the impact of early or delayed retirement. The longer you live, the more beneficial it is to delay benefits
- Decision impacts survivor benefits as well: delaying benefits gives survivor more income

The "when to apply" question is very complex and really requires a customized analysis. But here are a few points to remember.

If you apply early, your benefit starts out at some fraction of your PIA -- 75% or 80% or whatever -- and remains at that percentage for the rest of your life. It does not go up to 100% when you reach full retirement age.

COLAs magnify the impact of early or delayed retirement because the annual cost-of-living adjustment is applied to either the lower or higher amount. This causes the disparity to increase with each passing year.

The "when to apply" question impacts survivor benefits as well. High-earning husbands are therefore encouraged to delay benefits to age 70, because that will give their wives the highest benefit after they die.

Baby Boomer Social Security Question #4

How can I maximize my benefits?

[image: pencil & computer]

OK. Moving on to baby boomer Social Security question #4: How can you maximize your benefits? To answer this we are going to cover 5 different strategies.

Strategy #1 for maximizing your benefits

Improve your earnings record
Examine your earnings record from your latest Social Security statement:

- Is it accurate?
- Any missing years?
- Can you improve it by working longer?

The first thing you can do, while you still have time, is improve your earnings record. First check your annual statement to make sure your earnings record is accurate. Mistakes are rare, because the earnings kept on file at Social Security were reported by employers when they submitted your Social Security taxes. But mistakes can happen, especially for self-employed individuals, whose earnings records are taken from tax returns.

The next thing is to consider how you might be able to improve your earnings record. If you do not have 35 years of earnings, can you work a few more years so they will not be filled in with zeroes? If you had several years of low earnings early in your career, can you work a few more years now, while you are in your peak earnings years, so those low-earning years will be replaced with high-earning ones?

Even if you start receiving Social Security and continue to work, your earnings record will be updated. However, it's important to know that if you start receiving Social Security before reaching full retirement age, and if you earn over 14,160 a year, or \$1,180 a month, one dollar in benefits will be withheld for every 2 dollars you earn over the threshold amount. We'll talk more about this in a moment.

Strategy #2 for maximizing your benefits

Apply for Social Security at the optimal time

Consider:

- Your breakeven age
- Your life expectancy
- Your income needs

Strategy #2 for maximizing Social Security is to apply for benefits at the optimal time. We've been making a case today for delaying benefits because that will result in the highest lifetime benefit for you and your survivor as long as one of you lives longer than your breakeven age. But there is no one-size-fits-all answer to this question. The important thing is to apply at the time that is optimal for you.

Strategy #3 for maximizing your benefits

Coordinate spousal benefits

[Image: couple meeting with advisor]

Strategy #3 for maximizing your benefits is to coordinate spousal benefits. The goal is to maximize income for both of

you while you are alive and maximize income for the survivor after one of you dies. It can be quite complicated. But by understanding all of the considerations and doing some calculations, it is possible for married couples to come up with the right solution for their needs.

"Claim and suspend"

At FRA, higher-earning spouse applies for his benefit and asks that it be suspended

Lower-earning spouse files for spousal benefit

Higher-earning spouse claims benefit at 70

Example:

- Bob and Barbara are 66
- Bob's PIA is \$2,000; Barbara's PIA is \$800 (less than her spousal benefit of \$1,000)
- If Bob waits until age 70 to apply, his benefit will increase to \$2,640. However, Barbara may not claim her spousal benefit until Bob files for benefits
- Bob "files and suspends" at 66. This entitles Barbara to her spousal benefit, while Bob's benefit continues to earn delayed credits

Caution: "File and suspend" may not be done before FRA

Lots of smart people have been at work figuring out how couples can maximize their benefits. Here is one strategy that has come out of the Center for Retirement Research at Boston College. It's called "claim and suspend," also known as "file and suspend."

Here's how it works. Bob and Barbara are married. Both are 66. Bob's PIA is \$2,000. Barbara's PIA is \$800, which is

less than her spousal benefit of \$1,000. If Bob waits until age 70 to apply, his benefit will increase to about \$2,640. But if he delays his own benefit, Barbara can't file for her spousal benefit. So he files and suspends at 66. This entitles Barbara to her spousal benefit, while Bob's own benefit continues to earn delayed credits.

Please note that this does not work if Bob is under full retirement age. It is only after full retirement age that a person may voluntarily suspend their benefit in order to earn delayed credits. The lower-earning spouse may, of course, apply for her spousal benefit anytime after the age of 62. If she applies before full retirement age, she will receive a lower amount. In order to receive the full 50% of her husband's PIA, she must apply at full retirement age.

"Claim now, claim more later"

At FRA, higher-earning spouse applies for his spousal benefit only (spouse must be receiving benefit on her record)

At 70, higher-earning spouse switches to his own higher benefit

Example:

- Mike and Mary are 66
- Mike's PIA is \$2,000; Mary's PIA is \$800
- Mary files for her benefit at 66; Mike files for his spousal benefit at the same time and begins collecting \$400 (half of Mary's PIA)
- When Mike turns 70, he switches to his own higher benefit
- Result: Mike receives an additional \$400/month from age 66-70

Cautions:

- *Higher-earning spouse may not do this before FRA*
- *Language to use when applying: Higher-earning spouse says he is "restricting" his application to his spousal benefit*
- *Only one spouse may do this (both spouses can't be receiving spousal benefits)*
- *Spousal planning analysis can determine which of the various spousal strategies will work best for your situation*

Here's another strategy that has come out of the Center for Retirement Research at Boston College. It's called "claim now, claim more later," and it has been blessed by the Social Security Administration, even if all the local Social Security personnel are not quite up to speed on it.

Here's how it works. At full retirement age, the higher-earning spouse applies for his spousal benefit only. His spouse must already be receiving benefits on her record. When he turns 70, he files for his own benefit, which will include the maximum delayed credits.

For example, let's say Mike and Mary are 66. Mike's PIA is \$2,000; Mary's PIA is \$800. Mary files for her benefit at 66. Mike files for his spousal benefit at the same time and begins collecting \$400 (half of Mary's PIA). When Mike turns 70, he switches to his own higher benefit. The result is that Mike receives an additional \$400 per month from age 66 to 70.

It is important to follow the rules carefully, or this strategy could backfire. First, you cannot do it before full retirement age. If Jim walks into his Social Security office

before he turns 66, they will compare his own benefit to his spousal benefit and give him the higher of the two. He will be given his own benefit, and it will be reduced for early claiming. It is only after full retirement age that he can "restrict" his application to his spousal benefit. And that's the language he should use. Social Security personnel are accustomed to giving people the highest benefit they are entitled to, but if he restricts his application to his spousal benefit, his own higher benefit will not be part of the application. That way, it can continue to earn delayed credits until he turns 70.

Another important note is that both spouses cannot do this. The explanation is complicated, but suffice it to say that if one spouse is claiming spousal benefits the other spouse must be receiving benefits on his or her own record.

And finally, spousal strategies may vary depending on the ages and PIAs of the respective spouses. We have a special Spousal Planning Calculator that will help us analyze the possible strategies for your situation and come up with a plan that fits your circumstances.

Strategy #4 for maximizing your benefits

Minimize taxation of benefits
[Image of 1040]

Did you know that Social Security benefits may be taxable? Strategy #4 for maximizing your benefits is to minimize this tax.

Taxation of benefits

Social Security benefits are not tax free

- Up to 85% of your benefits may be taxable
- Amounts to a surtax for retirees

You'll be happy to know that we don't have time to go into great detail on the taxation of Social Security benefits except to say that up to 85% of your benefits may be taxable and that this amounts to a surtax for retirees, because it's really a tax on your other income. In other words, if Social Security were your only income, the benefits would not be taxable, but if you have enough other income, your Social Security may be taxed.

Ways to minimize taxes on Social Security benefits

- Reduce other income with tax-advantaged investments (but not municipal bonds!)
- Anticipate IRA RMDs, which may put you in a higher tax bracket and subject Social Security benefits to taxation

You can minimize taxes on Social Security by lowering your other income, especially investment income. But you should be aware that municipal bond interest, which is usually tax free, counts as income for the purpose of calculating the tax on Social Security benefits. Also, it's important to look ahead and plan for required minimum distributions from IRAs. Whether you like it or not, these can raise your taxable income and cause your Social Security benefits to be subject to tax. Please consult with your own tax advisor about your individual situation.

Strategy #5 for maximizing your Social Security benefits

Coordinate Social Security with your overall retirement income plan
[Image: financial plan]

Strategy #5 for maximizing Social Security benefits is to coordinate Social Security with your overall retirement income plan. This brings us to Baby Boomer Social Security Question #5.

Baby Boomer Social Security Question #5

Will Social Security be enough to live on in retirement?

Answer: Probably not.

Will Social Security be enough to live on in retirement? Probably not.

Consider Social Security in the context of:

- Pensions
- IRAs and 401(k)s
- Required minimum distributions at age 70-1/2
- Investment portfolio
- Work

It is important to consider Social Security in the context of your other retirement resources, including pensions, IRAs and 401(k)s, the required minimum distributions you'll be needing to take at age 70-1/2, your overall investment portfolio, and your plans for working in retirement. All of these resources should

be coordinated to give you the income you need for the rest of your life.

Please don't be afraid to ask for help. Retirement planning is easy when it's a matter of stashing part of your salary into a 401(k) or IRA. But when the time comes for you to convert your nest egg into an income stream, you want to make sure it doesn't run out. Social Security may be the bedrock of your retirement income plan, but it must be coordinated with your other resources to give you the stability and security you deserve.

You have questions. We can help.

- When should I apply for Social Security?
- What if I want to keep working?
- What if I've already applied?
- How much will my benefit be?
- How can I coordinate spousal benefits?
- What's the best long-term strategy for my situation?
- What do I do next?

You have questions. We can help.

We've covered a lot of ground today, but you probably still have questions.

When should you apply for Social Security?

What if you want to keep working?

What if you've already applied?

How much will your benefits be?

How can you coordinate spousal benefits?

What's the best long-term strategy for your situation?

What should you do next?

SOCIAL SECURITY PLANNING

We would be glad to help you consider each of these questions individually and help you come up with a plan for your personal situation.

***Social Security is too
important for
guesswork***

[Image: golden egg]

Let us help you protect your nest egg
and maximize your income in retirement

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guesswork.

Let us help you protect your nest egg
and maximize your income in retirement.

Thank you.