Knowing the rules of the road

Social Security and YOUR RETIREMENT

Presented by:
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Workshop Objectives

1. Review the value of Social Security
2. Discuss the “rules of the road” for receiving Social Security benefits
3. Consider possible routes to take to maximize your benefits
4. Discuss the future of Social Security and the challenge of setting up a retirement income stream
5. Describe the retirement income planning process available through your financial institution
6. Review next steps
The Beginning of Social Security

- Established in 1935 during the Great Depression
- Designed to help alleviate the problems of poverty for seniors
Retirement Income Sources

- Social Security: 38%
- Earnings from Assets: 11%
- Pensions: 18%
- Employment: 29%
- Other: 4%

Average monthly benefit for a retired worker in January, 2013 was $1,261.

Need for a Better Understanding

- Roughly 70% of all retirees are receiving reduced Social Security benefits.
- Only 66% of workers remember ever receiving or reviewing a Social Security statement.
- Only about 33% of employees visit with a financial professional for help understanding the role of their Social Security benefits.

Value of Social Security

1. Pre-determined steady income
2. Income you can’t outlive
3. Annual inflation adjustments
4. Spousal and survivor benefits
Income for Life

Chart assumes $2,000 monthly payments

$2,000 per month

$2,636 per month

$3,474 per month

$4,580 per month

Assumes annual cost-of-living adjustments of 2.8%

1. Eligibility

- You become eligible for Social Security benefits by working in a Social Security-covered job for a minimum of 10 years.
- The typical threshold is that you must have **40 credits** to be eligible – you accumulate 4 credits a year by earning a minimum dollar amount at your job.
- In general, once you have 40 credits, you are insured under Social Security.
- Remember that your benefit amount is not based on credits, though, but your earnings history.

Where does the funding come from to pay out benefits?

Social Security benefits are funded by payroll taxes of 6.2% paid each year by employees and employers (employee rate was reduced to 4.2% for 2012)

Taxes are paid on earnings up to the taxable wage base for 2013 of $113,700

85 cents of every Social Security tax dollar goes to a trust fund that pays benefits to current retirees and their survivors and families – the other 15 cents pays benefits to those with disabilities

2. Your Insurance Amount

- Benefit formula first takes your 35 highest years of earnings and fills in any missing years with $0
- It adjusts or “indexes” those earnings for inflation, and then divides by 35 to get an average
- It divides again by 12 to calculate your Average Indexed Monthly Earnings (AIME)
- Then a 3-part formula is applied to your AIME to determine your Primary Insurance Amount (PIA)

### 3. Full Retirement Age

<table>
<thead>
<tr>
<th>Year of Birth</th>
<th>Full Retirement Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1937 and prior</td>
<td>65</td>
</tr>
<tr>
<td>1938</td>
<td>65 and 2 months</td>
</tr>
<tr>
<td>1939</td>
<td>65 and 4 months</td>
</tr>
<tr>
<td>1940</td>
<td>65 and 6 months</td>
</tr>
<tr>
<td>1941</td>
<td>65 and 8 months</td>
</tr>
<tr>
<td>1942</td>
<td>65 and 10 months</td>
</tr>
<tr>
<td>1943-54</td>
<td>66</td>
</tr>
<tr>
<td>1955</td>
<td>66 and 2 months</td>
</tr>
<tr>
<td>1956</td>
<td>66 and 4 months</td>
</tr>
<tr>
<td>1957</td>
<td>66 and 6 months</td>
</tr>
<tr>
<td>1958</td>
<td>66 and 8 months</td>
</tr>
<tr>
<td>1959</td>
<td>66 and 10 months</td>
</tr>
<tr>
<td>1960 and later</td>
<td>67</td>
</tr>
</tbody>
</table>

Those born on January 1 should use the full retirement age for the previous year.
4. Start Date

- Anyone can start receiving benefits as early as age 62.
- But if you do start before your full retirement age, your benefit will be reduced.
- And that reduction will continue for life … your benefit won’t go up once you reach full retirement age.

Full benefits available if you wait until full retirement age.

Assumes an individual born between 1943 and 1954 with a full retirement age of 66.
Early Retirement

- For example, if you were born between 1943 and 1954 your benefit would be reduced by less the closer you get to your full retirement age of 66.
- Let’s assume our $2,320 PIA at full retirement age from the earlier example:

<table>
<thead>
<tr>
<th>START AGE</th>
<th>PERCENTAGE APPLIED TO PIA</th>
<th>REDUCED LIFETIME BENEFIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>75.0%</td>
<td>$1,740</td>
</tr>
<tr>
<td>63</td>
<td>80.0%</td>
<td>$1,856</td>
</tr>
<tr>
<td>64</td>
<td>86.7%</td>
<td>$2,011</td>
</tr>
<tr>
<td>65</td>
<td>93.3%</td>
<td>$2,166</td>
</tr>
<tr>
<td>66</td>
<td>100.0%</td>
<td>$2,320</td>
</tr>
</tbody>
</table>
Delaying Retirement

- If you delay the onset of Social Security benefits past full retirement age, you earn delayed credits.
- Delayed credits increase your benefit by 8% per year.
- You can earn delayed credits up to age 70; after that no further credits can be earned.
Delayed Retirement Credits

• For example, if you were born between 1943 and 1954 your benefit would be increased more for each year you delay the start of benefits after full retirement age

• Let’s again assume our $2,320 PIA at full retirement age:

<table>
<thead>
<tr>
<th>START AGE</th>
<th>PERCENTAGE APPLIED TO PIA</th>
<th>INCREASED LIFETIME BENEFIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>66</td>
<td>100%</td>
<td>$2,320</td>
</tr>
<tr>
<td>67</td>
<td>108%</td>
<td>$2,506</td>
</tr>
<tr>
<td>68</td>
<td>116%</td>
<td>$2,691</td>
</tr>
<tr>
<td>69</td>
<td>124%</td>
<td>$2,877</td>
</tr>
<tr>
<td>70</td>
<td>132%</td>
<td>$3,062</td>
</tr>
</tbody>
</table>
Estimating Your Benefit

Go to www.ssa.gov and click on “Estimate Your Retirement Benefits”

Or use one of the more detailed calculators on the www.ssa.gov site for a more precise estimate

Review your own annual Social Security statement
5. Spousal Benefits

Ted’s personal benefit: $2,000 per month
Ted’s spousal benefit (50% of Sarah’s benefit): $400 per month
Sarah’s personal benefit: $800 per month
Sarah’s spousal benefit (50% of Ted’s benefit): $1,000 per month

Your spouse is entitled to receive up to 50% of your benefit. Your spouse would still claim their own benefit if it was higher than their spousal benefit.

Rules for Spousal Benefits

• Spouse receives higher of own benefit or spousal benefit
• Primary worker must have applied for benefits before spouse can claim spousal benefits
  > Primary worker can claim and then suspend if over full retirement age to allow spouse to receive spousal benefits
  > If primary worker does claim and suspend, they can then earn delayed credits
• Same age rules apply when receiving spousal benefits – spouse must be at least 62 for reduced benefits or full retirement age for full benefits
• No opportunity for delayed retirement credits on a spousal benefit

Divorced Spouses

• Divorced spouses can also claim spousal benefits as long as:

   - The marriage lasted 10 years or more
   - Person receiving divorced spouse benefits remains unmarried

Rules for Ex-Spouses

- Same spousal benefit calculations apply when determining benefits for an ex-spouse (note that worker isn’t notified when an ex-spouse applies for benefits on their earnings record)
- An ex-spouse can claim benefits if divorced more than 2 years and both worker and ex-spouse are age 62+ … even if the worker hasn’t retired
- More than one ex-spouse can receive benefits on the same worker’s record – benefits paid to one ex-spouse don’t affect those paid to the worker, the current spouse or other ex-spouses
- Divorced spouse benefits stop once they remarry

Worker benefit $2,000
Spousal benefit $1,000
Ex-spouse benefit $1,000
Ex-spouse benefit $1,000

6. Survivor Benefits

- At death, survivor can switch and receive the benefit for the spouse who has passed if it’s higher than their own.
- Survivor must be at least age 60 for reduced benefits (50 if disabled).
- Survivor benefits are not available for same-sex couples.
- Couple must have been married for at least 9 months before survivor benefits will be paid, except in case of accident.
- Ex-spouse survivor benefits are also available if marriage lasted more than 10 years.
Continuing to Work

- Claiming and retiring are not the same thing – you can continue to work while you receive Social Security benefits
7. Earnings Test

$15,120 in 2013

- If you receive benefits before full retirement age and continue working, some of your benefits may be withheld.
- Maximum amount you can earn before benefits are withheld is called the earnings test, and the amount is adjusted each year for inflation.
- Up until the year you turn full retirement age, for every $2 you earn over the earnings test, Uncle Sam will withhold $1.
- At full retirement age, your benefit is increased to account for the months when benefits were withheld.

From 62 to FRA: Give up $1 for every $2 earned over $15,120.
In the year you turn FRA: Give up $1 for every $3 earned over $40,080.
After your FRA: No benefits withheld.

8. Pension Income

- If you receive a pension from a former employer, your Social Security benefits are not affected as long as you contributed to Social Security while at that job.

- Other income like distributions from your IRAs and 401(k) plans also do not affect Social Security.

- But if you're receiving a pension from a job where you didn't contribute to Social Security (i.e., a civil service job) and then also worked 10 years or more in a job where you did contribute, your benefits may be reduced under what's called the Windfall Elimination Provision or the Government Pension Offset.
9. Taxation

• Your Social Security benefits may be taxable, depending on how much other income you earn

<table>
<thead>
<tr>
<th></th>
<th>Single or head of household</th>
<th>Married, filing jointly</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• 50% taxable if you have $25,000 combined income</td>
<td>• 50% taxable if you have $32,000 combined income</td>
</tr>
<tr>
<td></td>
<td>• 85% taxable if you have $34,000 combined income</td>
<td>• 85% taxable if you have $44,000 combined income</td>
</tr>
</tbody>
</table>

**Combined income** is defined as your adjusted gross income plus nontaxable interest plus 1/2 of your Social Security benefits


This is not tax advice. Consult your tax advisor.
10. Inflation Adjustments

- Cost-of-living adjustments (COLAs) are announced each year in October for the following January.
- COLA is based on increase in the Consumer Price Index (CPI) from the third quarter of one year to the next.
- If there’s negative inflation (deflation), your Social Security benefit will not decrease.
### History of COLAs

<table>
<thead>
<tr>
<th>Year</th>
<th>COLA</th>
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<tbody>
<tr>
<td>1976</td>
<td>8.0%</td>
</tr>
<tr>
<td>1977</td>
<td>6.4%</td>
</tr>
<tr>
<td>1978</td>
<td>5.9%</td>
</tr>
<tr>
<td>1979</td>
<td>6.5%</td>
</tr>
<tr>
<td>1980</td>
<td>9.9%</td>
</tr>
<tr>
<td>1981</td>
<td>14.3%</td>
</tr>
<tr>
<td>1982</td>
<td>11.2%</td>
</tr>
<tr>
<td>1983</td>
<td>7.4%</td>
</tr>
<tr>
<td>1984</td>
<td>3.5%</td>
</tr>
<tr>
<td>1985</td>
<td>3.5%</td>
</tr>
<tr>
<td>1986</td>
<td>3.1%</td>
</tr>
<tr>
<td>1987</td>
<td>1.3%</td>
</tr>
<tr>
<td>1988</td>
<td>4.2%</td>
</tr>
<tr>
<td>1989</td>
<td>4.0%</td>
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<tr>
<td>1990</td>
<td>4.7%</td>
</tr>
<tr>
<td>1991</td>
<td>5.4%</td>
</tr>
<tr>
<td>1992</td>
<td>3.7%</td>
</tr>
<tr>
<td>1993</td>
<td>3.0%</td>
</tr>
<tr>
<td>1994</td>
<td>2.6%</td>
</tr>
<tr>
<td>1995</td>
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<td>1996</td>
<td>2.6%</td>
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<td>1997</td>
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<td>1998</td>
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<td>1999</td>
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<td>5.8%</td>
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<td>2010</td>
<td>0.0%</td>
</tr>
<tr>
<td>2011</td>
<td>0.0%</td>
</tr>
<tr>
<td>2012</td>
<td>3.6%</td>
</tr>
<tr>
<td>2013</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

Improve Your Earnings Record

If you have the option, you may want to look at ways to increase your earnings record and, therefore, your Social Security benefit amount.

If you **work longer**, you may be able to increase your AIME by filling in any missing zeros in your 35-year earnings history or raising average earnings.

And always **check your statement** of Social Security benefits, to ensure there are no discrepancies in your work record that might reduce your benefit.
Optimal Time to Start Benefits

• Applying for benefits at the “optimal time” can make a big difference
• But what is the “optimal time?”

“As you approach retirement, how long you work and when you claim will usually have a far greater impact on how much income you’ll have in retirement than how much you save or how you invest.”

No one knows the right time for certain, but checking the breakeven crossover point may be a start – there are calculators that can help you evaluate your breakeven age.

- Assumes top wage earner turning 62 this year with monthly benefits of:
  - $1,803 if starting at 62
  - $2,442 if starting at 66
  - $3,256 if starting at 70

- Comparing 62 to 66, breakeven age is between ages 76 and 77

- Comparing 62 to 70, breakeven age is between ages 78 and 79

- Comparing 66 to 70, breakeven age is around 81

• When you’re deciding between two retirement ages, if you believe you’re likely to live longer than the breakeven age, it might make sense to delay Social Security
Coordinate Benefits With Your Spouse

The rules for spousal and survivor benefits can help raise the benefits of the lower-earning spouse – most often the wife.

That means claiming later is generally an attractive option for married men.
Coordinate Benefits With Your Spouse

- Since wives often make less and live longer than their husbands, as widows they generally move up to their husband’s higher benefit.

That means a husband can often increase the monthly survivor benefit for his wife simply by claiming later:

- If he claims at 66 rather than 62: By more than 20%
- If he claims at 70 rather than 62: By more than 60%

Claim and Suspend

Higher-earning spouse has opportunity to claim benefits, but then suspend – this allows lower-earning spouse to start their spousal benefits while the higher earner continues to build delayed credits.

- Claim and suspend may **not** be done before full retirement age.
- Remember spousal benefits can’t be claimed until age 62.
Bob and Betty, Both Age 66

**IF BOTH CLAIM AT 66**
- Bob claims his full retirement age PIA of $2,000 at 66
- Betty has her own PIA of $800, but begins the higher $1,000 spousal benefit at age 66 based on Bob’s benefit
- At 66, Bob and Betty have a combined payment of $3,000 – 20 years later at age 86, they will have received a total of $720,000

**IF BOB CLAIMS AND SUSPENDS TO 70**
- Because Bob claimed his PIA of $2,000 at 66 but suspended it until age 70, at 70 he’s earned delayed credits that increase his PIA to $2,640
- Because Bob claimed at age 66 but suspended, Betty could still begin her spousal benefit of $1,000 at 66
- At 70, their combined payment is now $3,640 – 20 years later Betty will have received $240,000 and Bob $506,880, for a total of $746,880

Assumes no cost-of-living adjustments (COLAs).
At full retirement age, higher-earning spouse can claim spousal benefit only, letting their own benefit grow with delayed credits – then later at age 70 they can switch to claim their primary benefit.

- Lower-earning spouse must have already started their own benefit.
- Higher-earning spouse **cannot** do this until full retirement age.
- Only one spouse may use this strategy.
- Specific language is required – higher-earning spouse must say he or she is “restricting” their application to spousal benefits.
Consider ways to reduce taxes by reducing taxation on Social Security benefits, reducing overall income subject to taxation or delaying your benefits … and therefore your taxes.

Roth IRA distributions are non-taxable and not included in combined income for determining taxation of Social Security benefits (unlike non-taxable interest on municipal bonds).

Since distributions from a Roth IRA are non-taxable, rolling income-generating assets into a Roth could also help lower your overall income and keep you out of a higher tax bracket.

Generating income from other assets allows you to delay benefits that gives benefits time to grow and delays potential taxes on those benefits.
Collect and Invest

Even if you don’t need income now, you can always start collecting Social Security and invest it – could be a strategy if you believe your life expectancy may be shorter than average.
Most aren’t aware that even if you do begin reduced benefits at age 62, you can change your mind in the first year – allows you to make a “U-turn” if you decide you’d like to take a different route.

You can pay back benefits received to date and then wait to start higher benefits down the road.
Don’t Start Early Because You’re Worried

YIELD

Slow down before you decide to start benefits early just because the Social Security Trust Fund has money problems – nearly all proposals to fix Social Security would protect those 55 and older.

Most prominent proposals:

- Increase full retirement age
- Freeze benefits
- Cut benefits for high earners
- Raise taxes
Will Social Security Be Around?

The current trust fund holds $2.7 trillion in reserve, which should cover benefits in the coming years.

Will Social Security Be Around?

The fund can pay promised benefits until 2033 – after that income will only cover 75% of benefits unless changes are made.

In the long-term, though, the picture becomes more complicated as more boomers retire.

Payable benefits as percent of scheduled benefits:
- 2011-2032: 100%
- 2033: 75%
- 2086: 73%

Expenditures: Payable benefits = income after trust fund exhaustion in 2033.

Will Social Security Be Enough?

Probably not.

“More than 9 out of 10 people age 65 and older receive Social Security, and for more than one-third of these people, it makes up 90% or more of their income.

Replacement Ratios vary by income, but are typically around 78%. Social Security can be counted on to provide less than half of your needed dollars, particularly at higher income levels.

How much income you’ll need in retirement to maintain your standard of living is referred to as your replacement ratio.
We can help you develop an income plan for your personal situation that considers:

- Your plan for drawing Social Security benefits
- Income from your investments and any other income sources like a pension
- Potential use of annuities to guarantee retirement income for life

Annuities are long-term insurance products that can be used for a savings vehicle and to create a regular income stream for retirement purposes. Before you consider purchasing an annuity, you may wish to review a hypothetical illustration. And if purchasing a variable annuity, you should review a prospectus. Read it carefully before you invest or send money. Consider the investment objectives, risks, charges and expenses of the investment carefully before investing. The prospectus contains this and other information about the investment company. All annuity and insurance guarantees are based on the claims-paying ability of the issuer.
Confidence and peace of mind on your road to retirement is the most important goal.
Evaluation