Advanced Sales Forum

How to Start the Conversation on Social Security

LIMRA LOMA
Navigate With Confidence

SECURITY MUTUAL LIFE
The Company That Cares.®

William F. Rainaldi, CFP®, AEP

Senior Financial Services Consultant

Security Mutual Life Insurance Company of New York

Navigate With Confidence

LOGO

How to Start the Conversation on Social Security

- Why Social Security?
  - Whether you have an initial meeting to discuss other issues– buy/sell, family needs, long term care, trust planning– or you’re engaged in a casual conversation…
  - Social Security is a topic that can be brought up without meeting resistance.
  - It can be great door opener, even for a wealthy client.
  - Almost everyone has an opinion on whether it will still be there in the future.

How to Start the Conversation on Social Security

Maximize Clients' Social Security Benefits, Win Them For Life

NOVEMBER 10, 2021 • JENNIFER LEA REED

There's a huge disconnect between how most pre-retirees perceive Social Security and the importance actual retirees place on this benefit. For example, the average pre-retiree expects Social Security will replace 60% of their income, when in fact that number is closer to 46%, according to a 2020 survey by Nationwide Retirement Institute. And 80% of soon-to-retire workers are entering retirement without any specific strategy at all.

Yet, 74% of actual retirees would switch their financial professional in order to maximize their Social Security. What this says is there is a lot of room for financial advisors to show their worth, increase trust and build their relationships with their clients by addressing this critical component to retirement income—and addressing it thoroughly and early.

That was the advice of Aimee Johnson, a vice president at Allianz Life Insurance Company of North America with a specialty in retirement income strategies and managing risk in retirement, especially for women.

"There is a lack of clarity as to how social security is going to fit into their overall retirement income plan," Johnson said today during a breakout session at FA's Invest in Women conference. That lack of clarity even extends to workers not knowing when they would receive full retirement benefits, with only 20% guessing correcting, she said, adding that 73% thought they'd be eligible for full benefits much

https://www.fa-mag.com/news/advisors-who-maximize-social-security-benefits-keep-their-clients-64846.html?section=

How to Start the Conversation on Social Security

- Why Social Security?
  - Almost every client over age 55 has at least taken a look at their projected Social Security benefits.
  - Chances are they know something but are also confused about what they’ve been told.
  - You can establish credibility and value with your clients in a simple, casual five minute conversation.
  - Can build immediate rapport and credibility.
  - And it’s easy to get them interested in meeting again.

How to Start the Conversation on Social Security

- Probing, Open-Ended Questions
  - Usually start with a casual and simple open-ended question: “I know we’re here to talk about ______, but before we begin, have you thought at all about your Social Security benefits?”
  - Or “What have you done with Social Security?”
  - Almost always gets a response; very often a detailed one.
  - Odds are that the client knows at least something about their Social Security.
  - From our experience, client often seems more willing to talk about Social Security than say, family needs planning.

How to Start the Conversation on Social Security

- Probing, Open-Ended Questions
  - Next step is trickier, but it’s where you can get your client’s attention and help generate his or her interest: “Have you thought at all about your Spousal or Survivor Benefits?”
  - Note: a divorced spouse who was married for at least ten years could be entitled to a spousal and/or Survivor Benefit.

How to Start the Conversation on Social Security

- Probing, Open-Ended Questions
  - It is the coordination of spousal and (especially) Survivor Benefits that really generates value for clients.
  - It’s unlikely that they have given this any serious thought. This is where some technical knowledge is required, but not too much.
  - If you do it right, you may have just found money for the client. Money they had no idea they were entitled to. And you’ve enhanced your credibility before the meeting itself has actually started.

How to Start the Conversation on Social Security

- Recent Survey[1]
  - An online poll about Social Security commissioned by MassMutual of 1,500 Americans nearing retirement who have not filed for Social Security retirement benefits.
  - Questions involved the timing, eligibility and taxation of Social Security benefits,
  - 13 true/false questions. Only 1% got all questions right.
  - Nearly 70% either failed or barely passed. More than a third received a failing grade of 54% or lower.

[1]massmutual.com/global/media/shared/doc/2023_security_retirement_benefits_report.pdf

How to Start the Conversation on Social Security

- Additional findings[1]
  - 42% believe Social Security will be their largest source of income in retirement.
  - 27% believe that their income can sustain them 10 or fewer years in retirement.
  - Only 24% have documented their financial information and online usernames and passwords as part of their estate plans.

[1]massmutual.com/global/media/shared/doc/2023_security_retirement_benefits_report.pdf

What to Watch Out for:

Five Common Mistakes
When Claiming Social Security

How to Start the Conversation on Social Security

Mistake #1: Relying on SS personnel only

How to Start the Conversation on Social Security

Revised Social Security Statement

Previous Version

* Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2035, the payroll taxes collected will be enough to pay only about 79 percent of scheduled benefits.

Current Version

We base benefit estimates on current law, which Congress has revised before and may revise again to address needed changes. Learn more about Social Security's future at ssa.gov/ThereForMe.

How to Start the Conversation on Social Security

How to Start the Conversation on Social Security

Taxes Paid

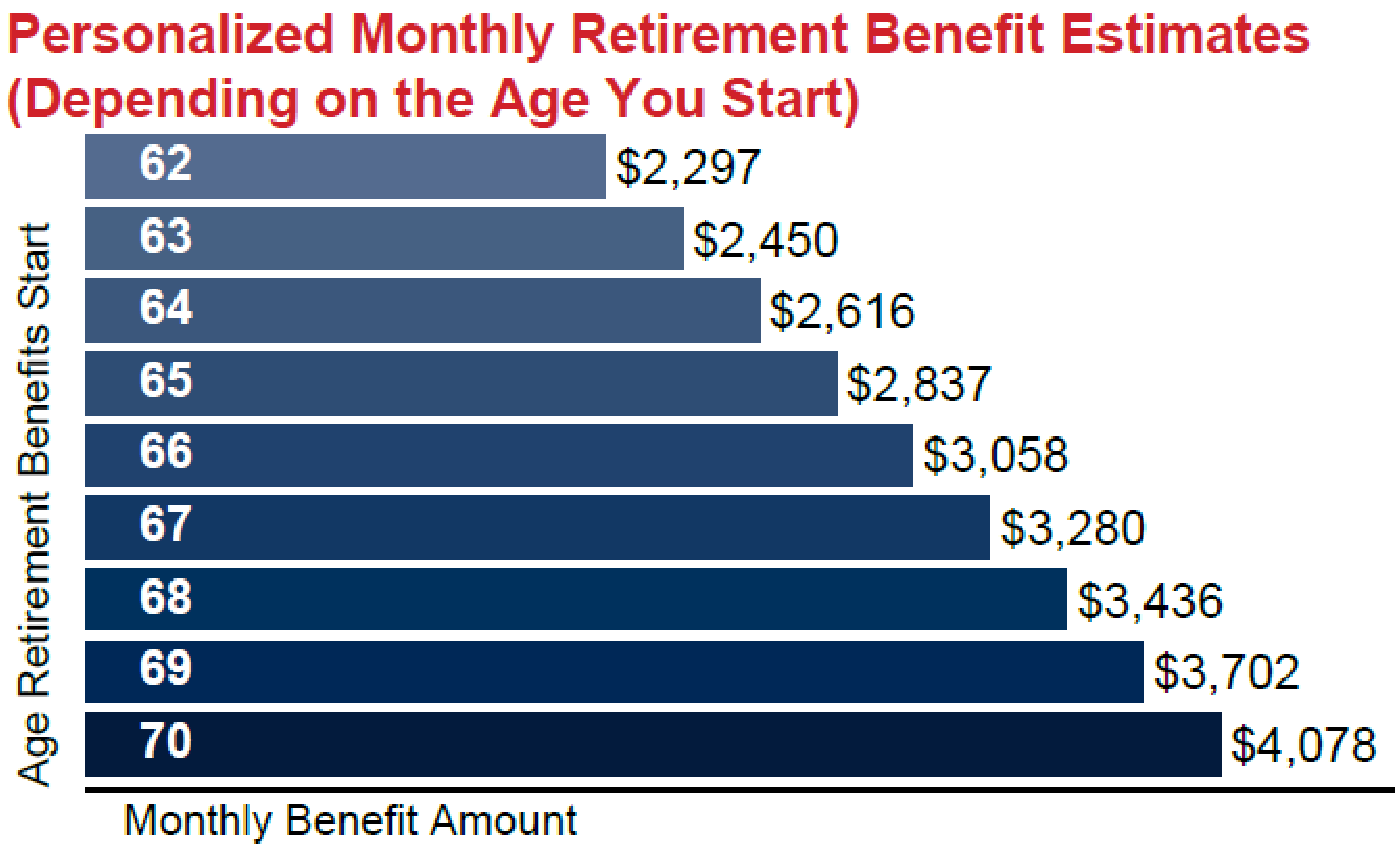
Total estimated Social Security and Medicare taxes paid over your working career based on your Earnings Record:

Social Security taxes	**Medicare taxes**
You paid: $186,651	You paid: $87,328
Employer(s): $191,262	Employer(s): $87,328

How to Start the Conversation on Social Security

Work Year	Earnings Taxed for Social Security	Earnings Taxed for Medicare (began 1966)
1971-1980	$5,977	$5,977
1981-1990	$325,283	$325,283
1991-2000	$633,597	$1,699,122
2001-2010	$937,499	$2,387,827
2011	$106,800	$168,769
2012	$110,100	$142,514
2013	$113,700	$120,323
2014	$105,910	$105,910
2015	$118,499	$122,169
2016	$118,500	$133,724
2017	$127,200	$133,823
2018	$128,399	$413,654
2019	$132,900	$133,095
2020	$137,700	$142,823

How to Start the Conversation on Social Security



How to Start the Conversation on Social Security

Survivors Benefits

You have earned enough credits for your eligible family members to receive survivors benefits. If you die this year, members of your family who may qualify for monthly benefits include:

Minor child:	**$2,449**
Spouse, if caring for a disabled child or child younger than age 16:	**$2,449**
Spouse, if benefits start at full retirement age:	**$3,265**
Total family benefits cannot be more than:	**$5,715**

Your spouse or minor child may be eligible for an additional one-time death benefit of $255.

How to Start the Conversation on Social Security

Basics

- Withholding: 6.2% of income up to $160,200 (2023 figure).
- Also 6.2% paid by employer.
- Must work equivalent of 10 years to qualify for a personal benefit (does not apply to Spousal or Survivor Benefits).
- Highest 35 years of earnings are counted.

How to Start the Conversation on Social Security

Year of birth	Full retirement age	Age 62 adjustment	Age 70 adjustment
1943 - 1954	66	-25.00%	+32.00%
1955	66 and 2 months	-25.83%	+30.67%
1956	66 and 4 months	-26.67%	+29.33%
1957	66 and 6 months	-27.50%	+28.00%
1958	66 and 8 months	-28.33%	+26.67%
1959	66 and 10 months	-29.17%	+25.33%
1960 and later	67	-30.00%	+24.00%

How to Start the Conversation on Social Security

Maximum Retirement Benefit Payable for 2023*

- Retirement at age 62, $2,572 per month
- Retirement at age 66, $3,506 per month
- Retirement at age 70, $4,555 per month

Note: Does not include any reduction for Medicare Part B premium.

* Source: SSA.gov

How to Start the Conversation on Social Security

Mistake #1: Relying on SS personnel only

Mistake #2: Not considering Survivor Benefits

How to Start the Conversation on Social Security

- In most cases, once spouses are past age 70, the higher of the two benefits becomes the Survivor Benefit.
- It often makes sense for the spouse with the higher benefit to delay until age 70.
- Will result in a higher benefit as long as either spouse is still living.
- If a spouse dies prior to Full Retirement Age, it gets complicated.

How to Start the Conversation on Social Security

- Since the end of "File and Suspend," there are very few options to switch from one benefit to another. Survivor Benefits are the exception.
- Example: If Mrs. K is eligible, but not receiving any benefits at Mr. K's death, she may start with her personal benefit at age 62 and later switch to her Surviving Spouse's Benefit at Full Retirement Age (subject to the Excess Earnings Test).
- Could also apply for a Survivor Benefit at 60, then switch to Personal Benefit at age 70.

How to Start the Conversation on Social Security

- Just as before, it often makes sense for the spouse with the higher PIA to delay until age 70.

- Will result in a higher benefit as long as either spouse is still living.

How to Start the Conversation on Social Security

- If one of the spouses dies before Full Retirement Age, calculating the benefit becomes very complicated.

- This is especially true if the deceased spouse started collecting before Full Retirement Age.

Calculating the Benefit

Reduction for Taking Survivor Benefits Prior to FRA (Based on age of surviving spouse) Born 1962 or later	
60	71.50%
61	75.57%
62	79.64%
63	83.71%
64	87.79%
65	91.86%
66	95.93%
67	100%

How to Start the Conversation on Social Security

"Husbands do not seem to consider the prospective drop in income experienced by their widows when choosing a Social Security claiming age."*

*Study by the Center for Retirement Research, October 2018: "Would Greater Awareness of Social Security Survivor Benefits Affect Claiming Decisions?"

Note on Survivor Benefits

- While the Survivor Benefit is often the higher of the two benefits, the second (lower) benefit is eliminated.

- Must be planned for. Life insurance can be used to replace lost income.

How to Start the Conversation on Social Security

Mistake #1: Relying on SS personnel only

Mistake #2: Not considering Survivor Benefits

Mistake #3: Not applying for all the supplemental benefits

Spousal Benefits

- An extra benefit payable to a non-working spouse.
- Not always made apparent to applicant.
- Spousal Benefit is generally 50% of working spouse's benefit.
- Example: Working spouse retires at 66 with a $2,000 PIA. Non-working spouse gets a benefit of $1,000 per month.
- Benefit is 50% of Primary Insurance Amount (benefit at Full Retirement Age), not 50% of the actual SS benefit.

Spousal Benefits

- Benefit is 50% of "Primary Insurance Amount," not the actual SS benefit.

- Example 1: Both spouses are age 66. Working spouse started at age 62 with a reduced benefit of $1,500. Spousal Benefit for non-working spouse at 66 is <u>not</u> $750. It is $1,000, 50% of the $2,000 PIA.

- Example 2: Both spouses are age 70. Working spouse starts at age 70 with an increased benefit of $2,640. Spousal Benefit at 70 is <u>not</u> $1,320. It is $1,000.

Spousal Benefits

- Same sex couples that are legally married are entitled to SS Spousal Benefits.

- A spouse may receive a Spousal Benefit only if the other spouse is receiving or has filed to receive his/her own benefits.

- Only one spouse can receive Spousal Benefits at a same time.

Spousal Benefits

- If the spouse qualifies for his/her personal SS benefit, it will be deducted from the Spousal Benefit.

- Example 1: Both age 66. Mr. K has a PIA of $2,000. Mrs. K never worked outside the home. A Spousal Benefit of $1,000 would be available to Mrs. K.

Spousal Benefits

- Example 2: Both age 66. Mrs. K worked part time and has a PIA of $600. When she retires at 66, the personal benefit of $600 will be paid first. A net Spousal Benefit of $400 would be payable. (50% of $2,000) - $600 = $400.

Spousal Benefits

- Example 3: Both age 66. Mr. K has a PIA of $2,000. Mrs. K worked and has a PIA of $1,200. When she retires at 66, the personal benefit of $1,200 will be paid first.

- In most circumstances, no Spousal Benefit would be payable.

Potential Reasons to Collect Earlier: Supplemental Social Security Benefits

- Children's benefits. Benefits are paid directly to a representative for each child. Potentially up to 50% of eligible worker's PIA. Terminates when child reaches age 18 (19 if still in high school).
- Age exception for disabled children.
- Based on PIA, not actual benefit. Worker must have filed.
- All supplemental benefits are subject to Excess Earnings test.

Potential Reasons to Collect Earlier: Supplemental Social Security Benefits

- Spousal Benefit. Potentially up to 50% of eligible worker's PIA. Other spouse must have filed.
- Special "Child in Care" benefit. Spousal Benefit payable regardless of age. Potentially up to 50% of eligible worker's PIA. Terminates when child reaches age 16.
- Parents benefit. Parents being supported at least 50% by the worker may qualify.

Supplemental Social Security Benefits

- “Child in Care” benefit. Spousal Benefit payable regardless of age. Potentially up to 50% of eligible worker’s PIA. Terminates when child reaches age 16.
- Single benefit, regardless of number of children.
- Based on Primary Insurance Amount (PIA), not actual benefit. Worker must have filed.
- Subject to Excess Earnings test.

Maximum Family Benefit (MFB)

- SS rules may limit the total amount of supplemental benefits payable to a family.
- From SSA.gov: “The maximum family benefit is the maximum monthly amount that can be paid on a worker's earnings record. There is a special formula for computing the maximum benefits payable to the family of a disabled worker.”
- Complicated calculation, often results in a maximum total benefit between 150% and 175% of worker’s PIA.

How to Start the Conversation on Social Security

Mistake #1: Relying on SS personnel only

Mistake #2: Not considering Survivor Benefits

Mistake #3: Not applying for all the supplemental benefits

Mistake #4: Not considering the earnings test

Earnings Test

- Earnings in excess of the earnings limit of $21,240 (for 2023) will cause a benefit reduction of $1 for every $2 of excess earnings until January of the year FRA is reached.
- In year FRA is reached, the benefit reduction is $1 for every $3 and the earnings limit is $51,960.
- Not all types of income count.

Earnings Test

- Earnings test no longer applies when you reach Full Retirement age.
- Applies to all types of Social Security benefits (personal, spousal, survivor, children's benefits, etc.)

Types of Income that Generally Apply Towards Excess Earnings Test

YES:

- Gross wages (W-2 Income)
- Net self-employment income

NO:

- 401(k) or IRA distributions
- Annuity income
- Social Security income
- Interest income
- Dividends

Simplified Example

- Mr. K has a Primary Insurance Amount of $2,000, but files at 62 for a reduced benefit $1,500 per month.
- Based upon his income estimate, the first-year benefit will be reduced by one-half.
- This does not mean he will receive 12 payments of $750 apiece. He will receive $0 for the first six months, then $1,500 for the second six months.

Note on Excess Earnings

- If the excess earnings reduce the benefits during the pre-Full Retirement Age (FRA) years, the reduced benefit will be used to provide an adjusted higher benefit at Full Retirement Age.

- If the total reduction is equal to six months of benefits, then at FRA Mr. K's effective start date would be moved back six months, and the monthly benefit check would be adjusted accordingly.

Note on Excess Earnings

- Example: Assume Mr. K applied at age 62, but lost 50% of his first-year benefit due to excess earnings. Also assume that he stopped working at age 63. His actuarially reduced benefit– the one he would have gotten at age 62– will be paid from age 62½.
- At FRA, the benefit will be adjusted upward to what it would have been had he applied at age 62½. The monthly benefit check would be adjusted accordingly.

Note on Excess Earnings

- Earnings Test also applies to Spousal Benefits, Children's benefits and Survivor Benefits.
- "Double whammy" on Spousal Benefits.

One-Year Payback Option

- A worker may choose early retirement and subsequently change his mind. In this and other situations, the worker may want to consider the one-time “restart program.” If the worker has not received benefits for longer than 12 months, he/she has the option to pay back the retirement benefits received.

- Click to edit Master title style

One-Year Payback Option

- In effect, the one-year payback option provides a retroactive termination of the benefits received. The worker's Social Security retirement program will be reinstated as though the benefits were never paid. The worker has a choice of taking an itemized deduction on the Social Security income he paid back, or a tax credit on the tax that is paid on the benefits received.

How to Start the Conversation on Social Security

Mistake #1: Relying on SS personnel only

Mistake #2: Not considering Survivor Benefits

Mistake #3: Not applying for all the supplemental benefits

Mistake #4: Not considering the earnings test

Mistake #5: Trying too hard to maximize your benefit

Basics

- 35 years of annual earnings are used to calculate Average Indexed Monthly Earnings (AIME)
- AIME is used to calculate Primary Insurance Amount (PIA)
- PIA is used to calculate benefit
- Benefit is adjusted up or down based upon age at time of collection

Pertinent Information

- Mr. K was born in 1956 and will reach Full Retirement Age in 2023. Assume his employment earnings have always been near the SS maximum during the 35 years prior to 2023 (1988 through 2022).

- Mr. K has decided to collect Social Security at Full Retirement Age, 66 and 4 months. He is trying to decide whether working an extra year will have a significant impact of his benefit.

- Using SML's *Social Security Evaluator*, his Average Indexed Monthly Earnings (AIME) are calculated to be $10,132.

Pertinent Information

- Social Security benefits are calculated by applying a series of “bend points” to the AIME.
- This will produce a PIA (retirement benefit) of $2,956 under the following Three-Tiered formula.
- Note: under SSA rules, bend points are frozen at age 62, and COLAs are applied beginning at same age. Thus the bend points used in this calculation are from 2018 when he turned 62.

The Impact of Post-Retirement Social Security Earnings on a Workers' Retirement Benefits

- SSA Benefit calculation:

First Tier Calculation	90% of $895	=	$806
Second Tier	32% x $4,502 ($5,379 - $895)	=	1,441
Third Tier	15% x $4,735 ($10,132 - $5,379)	=	710
PIA		=	$2,956

- The AIME is calculated over his highest 35 years of earnings. If Mr. K chooses to work one more year, his higher earnings will replace his lowest earnings year.

- The recalculated PIA will increase, but by how much?

The Impact of Post-Retirement Social Security Earnings on a Workers' Retirement Benefits

- The benefit increase will occur because the higher earnings (in excess of $160,200) in a post-retirement year (2023) will replace the lowest earnings year in his 35 year AIME calculation. One of the earlier of his highest 35 years (1988 through 2022) will often be the lowest earnings year.

- SML's *Social Security Evaluator* estimates that be working the extra year, his Average Indexed Monthly Earnings (AIME) will increase to $10,186, an increase of $54.

The Impact of Post-Retirement Social Security Earnings on a Workers' Retirement Benefits

- Since Mr. K has already reached Tier Three of the PIA calculation, his benefit will increase by 15% of the $54 increase in his monthly average. In his case, the increase will be approximately $8.10 per month (15% of $57). If applicable, Mrs. K's Spousal Benefit will automatically increase by an additional $4.05 by per month (50% of Mr. K's increase).

- For older high earners, payment of SS tax often produces a minimal benefit increase.

- How much did it cost? The Social Security withholding tax rate is 6.2%. Mr. K would pay $9,932 based on $160,200 earnings in the year 2023. His annual benefit increase $97 ($8.10 x 12 months) is just under 1% of the SS tax paid.

The Impact of Post-Retirement Social Security Earnings on a Workers' Retirement Benefits

- If Mr. K is self-employed, he would also pay the 6.2% Social Security tax applicable to the employer. The combined 12.4% Social Security tax would be $19,864. His $97 benefit increase would then be 0.5% of the tax paid.
- In either case the benefit increase would be minimal. If Mr. K had a choice (he doesn't) he would forego paying the Social Security tax. The post-retirement benefit increase is simply not worth it. This is especially true if he is self-employed, or if the additional earnings will not generate a benefit increase.

The Impact of Post-Retirement Social Security Earnings on a Workers' Retirement Benefits

- Greater increase if less than 35 years of Social Security earnings: Assume Mr. K had only 34 years of earnings. The additional $160,200 of Social Security earnings in the year 2023 would be used to replace a zero earnings year. In that situation, his retirement benefit would increase by a higher amount.

- Significant increase if the worker has not reached Tier Three of the PIA calculation: Assume the worker's PIA calculation places him in the Second (32%) Tier of the PIA calculation. This will produce a more substantial benefit.

The Impact of Post-Retirement Social Security Earnings on a Workers' Retirement Benefits

- There may be other reasons the worker may decide to continue working for an extra year (additional income, job satisfaction, etc.), but in most cases, an increased Social Security benefit is not one of them.

Bonus Mistake: Not understanding income taxes in retirement

Social Security Taxation Basics

- Up to 85% of SS distributions can be taxable
- 100% for 401(k)s, etc.
- Some planning opportunities
- “Tax Torpedo”

Social Security Taxation Basics

- Up to 85% of Social Security distributions can be taxable
- 100% for 401(k)s, etc.
- Some planning opportunities
- “Tax Torpedo”

How to Start the Conversation on Social Security

Social Security Retirement Benefits Included as Reportable Income

Single Taxpayer Calculation

- First step: AGI ($15,000) plus tax-exempt interest ($1,000), plus 50% of $24,000 Social Security benefit ($12,000). The total Modified Adjusted Gross Income (MAGI) is $28,000.
- Note: AGI includes W-2 income, K-1 income (self-employed) and taxable income from Qualified Retirement Plans and IRAs.

Adjusted Gross Income (AGI)	$15,000
Plus tax exempt income	1,000
Plus 50% of $24,000 Social Security benefit	12,000
Modified Adjusted Gross Income (MAGI)	$28,000

How to Start the Conversation on Social Security

- Second step: For a single taxpayer, the following two thresholds are established:
  - First threshold amount: $25,000
  - Second threshold amount: $34,000

How to Start the Conversation on Social Security

- The amount of taxable Social Security income will be the lesser of the following three calculations:
  - The first part of the calculation produces potential taxable Social Security income of $1,500
  - 50% of the $3,000 Modified Adjusted Gross Income (MAGI) above the $25,000 first threshold = $1,500
  - Plus 35% of excess over $34,000 second threshold = $0

How to Start the Conversation on Social Security

- The second part of the calculation produces potential taxable Social Security income of $20,400
  - 85% of the $24,000 Social Security benefit amount = $20,400

- The third part of the calculation produces potential taxable Social Security income of $12,000
  - 50% of the $24,000 Social Security benefit = $12,000.
    Plus 85% of the excess MAGI over the $34,000 second threshold = $0

Comparison

- The lowest of the three calculations is the $1,500 produced in part one. This equals 6.25%.
  - Part one: $1,500
  - Part two: $20,400
  - Part three: $12,000

Single vs. Married

- Single taxpayer:
  - First threshold amount: $25,000
  - Second threshold amount: $34,000
- Married Taxpayer:
  - First threshold amount: $32,000
  - Second threshold amount: $44,000

Note that thresholds are not indexed for inflation

Case Studies

Example 1

- Married couple
  - Social Security Income: $40,000 per year
  - W-2 Income: $30,000
  - Tax-Free Income: $2,000
- Results:
  - Taxable amount of Social Security: $12,800 (32%)

Case Studies

Example 2

- Married couple
  - Social Security Income: $40,000 per year
  - W-2 Income: $30,000
  - Tax-Free Income: $0
- Results:
  - Taxable amount of Social Security: $11,200 (28%)

Case Studies

Example 3

- Married couple
  - Social Security Income: $40,000 per year
  - Pension Distribution: $30,000
  - Tax-Free Income: $0
- Results:
  - Taxable amount of Social Security: $11,200 (28%)

Case Studies

Example 4

- Married couple
  - Social Security Income: $40,000 per year
  - Roth Distribution: $30,000
  - Tax-Free Income: $0

- Results:
  - Taxable amount of Social Security: $0

Case Studies

Example 5

- Married couple
  - Social Security Income: $40,000 per year
  - Life Insurance cash value withdrawal: $30,000
  - Tax-Free Income: $0
- Results:
  - Taxable amount of Social Security: $0

Bill Rainaldi

607-760-3315

SML Planning Minute Podcast

https://smlny.com/smlpodcast/

LIMRA LOMA
Navigate With Confidence

SECURITY MUTUAL LIFE
The Company That Cares.®

Thank You

Navigate With Confidence

LOGO