

# Social Security Seminar

**GELMAN, ROSENBERG  
& FREEDMAN**

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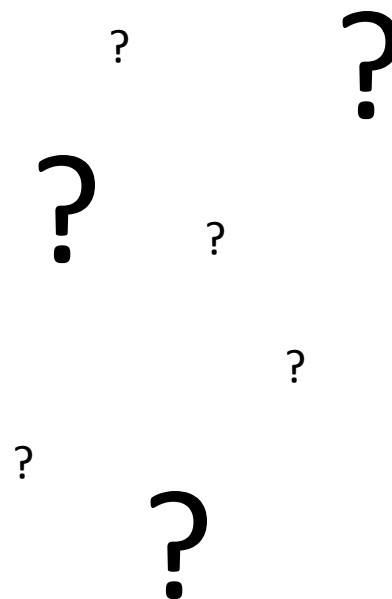
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## Social Security Questions

- How much will I get?
- When can I get it?
- Are there strategies I can use to maximize my benefits?





## Qualifying for Retirement Benefits



- 40 quarters
  - In 2012, you are awarded one quarter for every \$1,130 in earnings.



## Qualifying for Retirement Benefits (cont.)

- Average Indexed Monthly Earning (AIME)
  - Based on highest 35 years indexed Social Security (SS) income



## Qualifying for Retirement Benefits (cont.)

- Primary Insurance Amount (PIA)
- (90% of the first \$761 of AIME) + (32% of the next \$3,825 of AIME) + (15% of additional AIME)
- Bend points - \$761 and \$4,586

### Example: \$5,000 AIME

\$ 761 X .9 =	\$685
\$3,825 X .32 =	\$ 1,224
\$411 X .15 =	\$ 62
	\$ 1,971



## Three Steps to Receiving Your Maximum Benefits

1. Get 40 quarters.
2. Replace low years with higher years.
3. Review SS benefit statement annually.







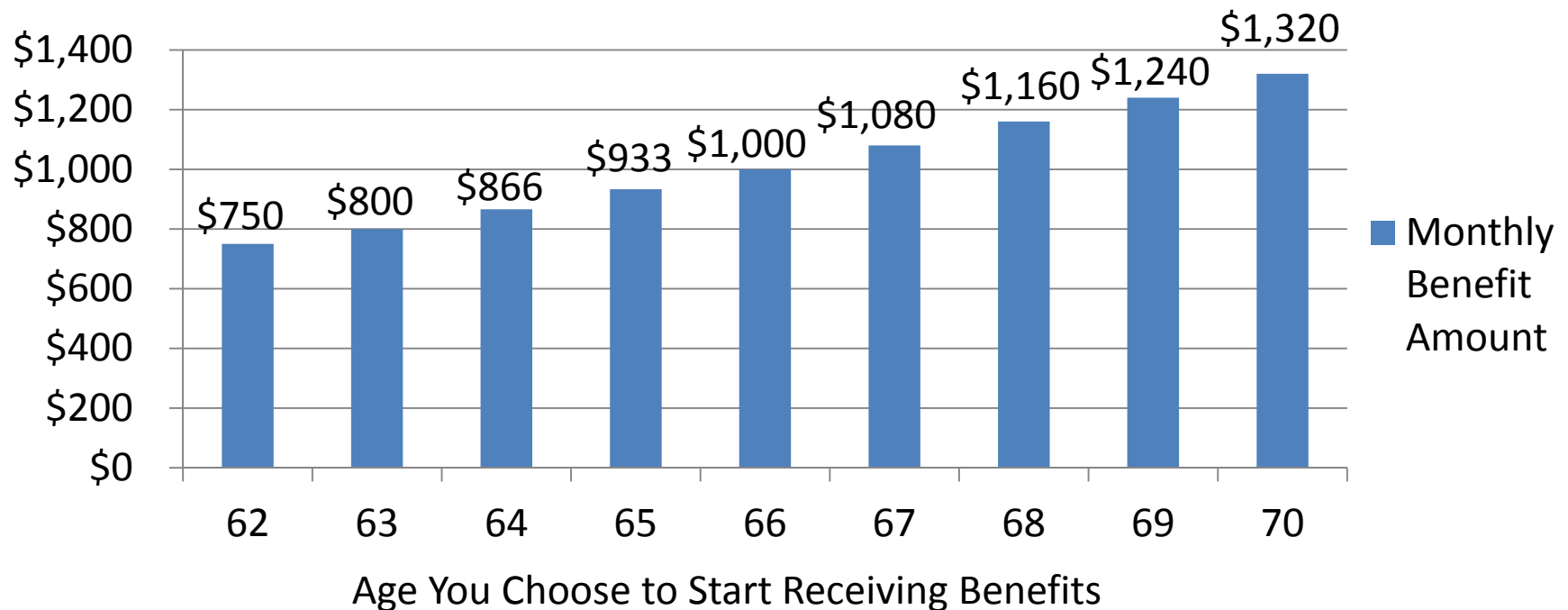
## When Can I Claim Retirement Benefits?

Year of Birth	Full Retirement Age (FRA)	Per Month Reduction If Benefits Begin Prior to Full Retirement Age	Age 62 Benefits as a % of PIA	Per Month Delay Retirement Credits	Age 70 Benefits as % of PIA
1943 - 1954	66	5/9% for 36 mos. + 5/12%/mo.	75%	2/3%	132%
1955	66 and 2 mos	5/9% for 36 mos. + 5/12%/mo.	74 1/6%	2/3%	130 2/3%
1956	66 and 4 mos	5/9% for 36 mos. + 5/12%/mo.	73 1/3%	2/3%	129 1/3%
1957	66 and 6 mos	5/9% for 36 mos. + 5/12%/mo.	72 1/2%	2/3%	128%
1958	66 and 8 mos	5/9% for 36 mos. + 5/12%/mo.	71 2/3%	2/3%	126 2/3%
1959	66 and 10 mos	5/9% for 36 mos. + 5/12%/mo.	70 5/6%	2/3%	125 1/3%
1960 - on	67	5/9% for 36 mos. + 5/12%/mo.	70%	2/3%	124%



## Monthly Benefit Amounts Differ Based on the Age You Decide to Start Receiving Benefits

*(This example assumes a benefit of \$1,000 at full retirement age of 66)*







## Cumulative Lifetime Benefits through Ages 70 to 100 if Social Security Benefits Begin at Age 62 through 70

Ages	70	75	80	85	90	95	100
62	<b>\$144,000</b>	<b>\$234,000</b>	\$324,000	\$414,000	\$504,000	\$594,000	\$684,000
63	\$134,400	\$230,400	\$326,400	\$422,400	\$518,400	\$614,400	\$710,400
64	\$124,800	\$228,801	\$332,801	\$436,802	\$540,802	\$644,802	\$748,803
65	\$112,000	\$223,999	\$335,999	\$447,998	\$559,998	\$671,998	\$783,997
66	\$96,000	\$216,000	\$336,000	\$456,000	\$576,000	\$696,000	\$816,000
67	\$77,760	\$207,360	<b>\$336,960</b>	\$466,560	\$596,160	\$725,760	\$855,360
68	\$55,680	\$194,880	\$334,080	\$473,280	\$612,480	\$751,680	\$890,880
69	\$29,760	\$178,560	\$327,360	<b>\$476,160</b>	\$624,960	\$773,760	\$922,560
70	0	\$158,400	\$316,800	\$475,200	<b>\$633,600</b>	<b>\$792,000</b>	<b>\$950,400</b>



## The Payoff from Different Retirement Dates

1. Determine your full retirement age.
2. Determine your full retirement benefit at that retirement age by going to [www.ssa.gov/estimator](http://www.ssa.gov/estimator).
  - For example, say your full retirement benefit at 66 is \$1,500 per month.
3. Determine your benefit at 62 by going to [www.ssa.gov/estimator](http://www.ssa.gov/estimator).
  - In this example, if you claim benefits at 62, your monthly payment is \$1,125.



## The Payoff from Different Retirement Dates (cont.)

4. Figure out how much you would take home in the 48 months between age 62 and your full retirement age (66) if you started collecting at 62.
  - In this example, you're taking home \$1,125 per month and you're doing that for 48 months so  $\$1,125 \times 48 = \$54,000$ .



## The Payoff from Different Retirement Dates (cont.)

5. Now figure out how many months you would have to survive beyond age 66 in order to break even.
  - In this example, the difference in monthly payment taken at age 62 (\$1,125 per month) and 66 (\$1,500 per month) is \$375.
  - Divide the amount from Step 4 (\$54,000 in this example) by the difference in monthly payments (\$375 in this example) and you get the number of months you'd have to survive beyond age 66 in order to break even (in this case, 144 months or 12 years).
  - In this example if you live past age 78 you come out ahead by starting your benefits at the full retirement age of 66.



## Strategy for a Single Person

Born between 1943 and 1954, here are some general guidelines:

- If you're comparing retirement at 62 with full retirement at 66, your break-even age is typically around 77 or 78.
  - If you die earlier, you could end up with more money by claiming early retirement benefits.
  - If you live longer, you could be better off taking your benefits at 66.



## Strategy for a Single Person (cont.)

- If you're comparing full retirement at 66 with delayed retirement at 70, your break-even age is typically around 82.
  - If you die before 82 or so, you could end up with more money by beginning benefits at 66.
  - If you live past 82, you could be better off delaying your retirement benefits until you turn 70.

*These numbers are only estimates and do not include cost-of-living hikes, which could make the break-even age come earlier.*



## Strategy Lessons

1. If a single person lives to age 80, there is no difference in taking benefits between 62 and 70.
2. Life expectancy  $< 75$ , take at 62
3. Life expectancy  $> 83$ , take at 70
4. Longevity risk





## Qualifying for Retirement Benefits

- Possible reductions to benefits
  1. Windfall Elimination provision
  2. Working while receiving benefits



## Earnings Test – Annual Earnings Limit

- If you get benefits but also earn money and you are collecting SS but haven't reached full retirement age, the SSA will reduce your benefit by \$1 for every \$2 you earn in excess of \$14,640 (2012).
- In the year in which you reach full retirement age, the SSA will reduce your benefit by \$1 for every \$3 you earn in excess of \$38,880 (2012).
- Typically goes up every year



## Spousal Benefits and Survivor Benefits

- Spousal benefits are benefits one spouse receives based on the other spouse's earnings record when he/she is alive.
- Survivor's benefits are benefits one spouse receives based on the other spouse's earnings record after the spouse has died.



## Dual Entitlement

- A spouse is entitled to the larger of benefits based on their own earning record or, if eligible, spousal benefits, which is up to 50% of the other spouse's PIA.



## Spousal Benefit Rules

- In order for a spouse to receive spousal benefits, the other spouse must have “filed for benefits based on his/her earnings record.”



## Spousal Benefit Rules (cont.)

- If a spouse applies for benefits before attaining Full Retirement Age (FRA) and he/she is eligible for spousal benefits, then he/she is deemed to be applying for both his/her own benefits and spousal benefits.
- This spouse will receive the larger of the two – his/her own benefits or spousal benefits (if eligible) – but not both.
- Thus before attaining FRA a spouse cannot apply for spousal benefits only and later switch to his/her own benefits or vice versa.



## Spousal Benefit Rules (cont.)

- If a wife has attained FRA (and her husband has filed), then she can make a restricted application for spousal benefits only and receive 50% of his PIA. Meanwhile, benefits based on her record would continue to accrue delayed retirement credits.





## Spousal Benefit Rules (cont.)

- Spousal benefits are reduced if the spouse claiming them has not attained FRA.



## Survivor Benefits

- The FRA for survivor's benefits can be different from the FRA for benefits based on her\* earnings record or spousal benefits.

\* Presenting as if the husband dies but rules are parallel



## Dual Entitlement

- She is entitled to the larger benefits based on her earning record or survivor's benefits based on his records.



## Survivor Benefit Rules

- She can receive full survivor's benefits when she attains FRA for widows or reduced benefits as early as age 60.



## Survivor Benefits Rules (cont.)

- If she begins after attaining her FRA for widows then she is entitled to the larger of
  1. 82% of his PIA or
  2. Deceased spouse's monthly benefit where the latter would include any delayed retirement credits.



## Survivor Benefits Rules (cont.)

- If she begins her survivor's benefits before attaining her FRA, her survivor's benefits will be reduced.
- If she begins benefits at 60, she will receive 71.5% of his full benefits.
- If she begins benefits at FRA for widows, she will receive 100% of his full benefits.



## Rules for Divorced Spouses

- Marriage must have lasted 10 years.
- You are currently unmarried.
- You are 62 or older.
- Your ex is entitled to benefits.
- If you want to receive survivor benefits, you must wait until age 60 to remarry.





## Couple Strategies

Name	Age	PIA	FRAs	Life Expectancy
Mike	62	\$2,000	66	80
Frances	58	\$1,600	66	95

Let's assume the first month that benefits would be paid is January so there are 12 monthly payments in the first year.





Frances/ Mike's Ages	Year	Strategy 1	Strategy 2	Difference ( S2 - S1)
58/62	1	\$1,500		- \$1,500
59/63	2	\$1,500		- \$1,500
60/64	3	\$1,500		- \$1,500
61/65	4	\$1,500		- \$1,500
62/66	5	\$1,200 + \$1,500	\$1,200 + \$800	- \$700
63/67	6	\$1,200 + \$1,500	\$1,200 + \$800	- \$700
64/68	7	\$1,200 + \$1,500	\$1,200 + \$800	- \$700
65/69	8	\$1,200 + \$1,500	\$1,200 + \$800	- \$700
66/70	9	\$1,200 + \$1,500	\$1,200 + \$2640	\$1,140
67/71	10	\$1,200 + \$1,500	\$1,200 + \$2640	\$1,140



Frances/ Mike's Ages	Year	Strategy 1	Strategy 2	Difference
...	...	....	...	...
75/79	18	\$1,200 + \$1,500	\$1,200 + \$2,640	\$1,140
76/	19	\$1,650	\$2,640	\$990
77/	20	\$1,650	\$2,640	\$990
78/	21	\$1,650	\$2,640	\$990
...	...	....	...	...
94/	37	\$1,650	\$2,640	\$990

Cum Lifetime Benefits	Strategy 1	Strategy 2	Difference
	\$901,800	\$1,158,720	\$257,040



## Lesson Learned from Mike and Frances

- The relevant life expectancy for the decision of when the spouse with the HIGHER PIA should begin benefits based on his earnings is the lifetime of the second spouse to die.
- While the relevant life expectancy for the decision as to when the spouse with the LOWER PIA should begin benefits based on her record is the lifetime of the first spouse to die.



## Lesson Learned from Mike and Frances

- If at least one spouse lives well beyond the age that the higher earner turns 80, the couple's cumulative lifetime benefits will usually be highest if he delays benefits based on his record until age 70.



## Claim Now and More Later

- Lower-earning spouse claims benefits as soon as possible. Higher-earning spouse claims a spousal benefit when they reach FRA and switch to benefits based on earnings record at age 70.
- Both must have their own earned records.



## Claim and Suspend

- Higher-earning spouse claims and suspends when reaching full retirement age.
- Lower-earning spouse claims spousal benefit.
- It works best with one breadwinner families where the breadwinner is 3-5 years older.





## Survivor Strategies

- Paying back benefits





## Taxation of Social Security Benefits

	Single MAGI	Married MAGI
No tax	<\$25K	<\$32K
Tax on 50% of benefits	\$25K-\$34K	\$32K-\$44K
Tax on 85% of benefits	>\$34K	>\$44K



## Next Steps

- Visit SS website.
  - [www.ssa.gov](http://www.ssa.gov)
- Recover your benefit statement.
- Take appropriate actions based on statement.
- As you approach age 62 formulate benefit strategy.



## Social Security Administration (SSA)

- Runs the basic Social Security protection for retirement, survivors and disability
- Runs SSI for the poor
- Handles application for Medicare and deduction in benefits that pay Medicare premiums (doesn't run the actual program)

**Field Offices:** 1,258 locations

[www.ssa.gov](http://www.ssa.gov) --> click "Locate a Social Security Office" --> enter your zip code

**Toll-Free Phone:** 800-772-1213

(M-F: 7 a.m. to 7 p.m.)

**Online:** [www.ssa.gov](http://www.ssa.gov)

You can find forms and applications for certain benefits.



## Applying for Social Security Benefits

- Time your application for benefits.
  - Three months prior to you wanting to receive them
- Know where to go.
  - In person, by phone, online
- Find out what's required to apply.
  - Originals or official copies (no notarized photocopies)
  - Recent earning, marital history, military background, if you qualify for federal pension and possible eligibility of any family members for SS benefits (based on your own work record)
    - Social Security number, birth certificate, Form W-2 earnings statement, military discharge papers, proof of U.S. citizenship
- Discover how and when your payment will arrive.



## Navigating the System

- Keep good records of correspondence.
- Have someone by your side.
- Keep SSA in the loop.
  - Death, divorce, birth/adoption, name change, earning more money, non-SS payments for disabilities (worker's compensation), citizenship status changes, criminal conviction, Railroad Retirement benefits, work outside the US and younger than full retirement age



## Medicare

- Automatically enrolled in Medicare when you turn 65 if you have been collecting SS
  - If not, apply for Medicare (3-4 months prior)
- Eligible at any age after 24 months of approved Social Security Disability Insurance or certain diseases (ALS, end-stage renal [kidney] disease)
  - If not, apply for Medicare (3-4 months prior)
- Made up of four parts
  - A and B make up the “traditional” or “original” Medicare program
  - Each has its own fee structure



## Medicare (cont.)

### A. Hospital insurance

- Some expenses – may cover temporary rehabilitation or skilled care
  - Basic hospital services, including semi-private room, regular nursing care, hospital meals and other hospital services (medications, lab tests, medical supplies, etc.)
- Face a deductible (\$1,156) for each “benefit period”
  - Begins on the day you’re admitted to the hospital and ends when you’ve been out of the hospital for 60 days in a row





## Medicare (cont.)

### B. Medical insurance

- Covers 80% of the cost of most services
  - Doctor visits, outpatient care, certain tests conducted outside hospitals and some done inside the hospital such as surgery
- Monthly premium (higher-income seniors charged more)
  - Set at \$99.90 in 2012 and annual deductible (\$140 in 2012)
  - Typically pay 20% of the cost of approved services
    - Annual wellness visits, preventive screenings, oxygen equipment, outpatient mental-health services, etc.



## Medicare (cont.)

### C. Medicare Advantage

- Run by private insurance companies and you must accept their rules
  - Must offer all the benefits of traditional Medicare (A and B) but may charge lower copays and offer some additional services (hearing, vision, dental)
- Must pay Part B in addition to what Medicare Advantage plan charges you
  - Company has the right to drop out of plan or change cost and coverage every calendar year



## Medicare (cont.)

### D. Prescription-drug coverage

- Handled by private plans that have been approved by Medicare and varies widely
  - Must offer all the benefits of traditional Medicare (A and B) but may charge lower copays and offer some additional services (hearing, vision, dental)
- Premiums range from \$35 to \$50 per month and deductible of up to \$320 in 2012 (some have none)
  - Deductible - \$320
  - Coverage - Up to \$2,930
  - Doughnut hole - 50% discount on brand name and 14% discount on generics until \$4,700
  - Catastrophic protection – pays 5% until end of the year



## Medicare (cont.)

- What parts to enroll in:
  - Everyone should sign up for Part A even if you have other coverage.
  - Sign up for Part B if you have no health insurance and if it makes sense.
  - Keep track of enrollment periods.
    - Avoid late fees.



## The Windfall Elimination Provision: If You Qualify for a Pension as well as Social Security

- For an employee who earned a pension from an employer that wasn't part of the Social Security system
- SSA will use a different formula to compute your benefit and your benefit will be reduced.
- Complex and various exceptions



## The Windfall Elimination Provision (cont.)

- May apply if you turn 62 or became disabled after 1985 and you first qualified for a pension based on work in which you did not pay SS taxes after 1985
- Does not apply to federal workers hired after December 31, 1983
- Capped at 50 percent of your uncovered pension



## The Government Pension Offset Provision

- Your social security may be reduced (significantly).
- Two-thirds of the amount of your government pension
  - Example: You have a government pension of \$900 per month and you're eligible for a Social Security widow's benefit of \$1,200 per month. SS may reduce your widow's benefit to \$600.



## The Government Pension Offset Provision (cont.)

Several factors can preserve your full Social Security benefit such as the following:

- Your government pension is not based on earnings.
- Your government pension is based on a job in which you paid Social Security taxes and you filed for Social Security benefits before April 1, 2004 or you paid SS taxes on your earnings during the last five years of government work.





## The Government Pension Offset Provision (cont.)

- You're a federal employee who switched from civil service retirement to the Federal Employees Retirement System (FERS) after December 31, 1987 and you filed for Social Security spousal or widow/widower benefits before April 2004; your job ended before July 1, 2004, or you paid Social Security taxes on five years of earnings from the government between January 1988 and when you became entitled to benefits.

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## Connect with Us



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