Disclosure

The Social Security workshop is educational in nature and while specific claiming strategies may be discussed, please consult with a professional before taking action. Any returns referenced are hypothetical and not indicative of any one portfolio or investment. Returns are not guaranteed and a chance of loss does exist. The information and strategies presented are not an endorsement by the University of North Texas nor Grunden Financial Advisory, Inc.

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For additional questions or comments, contact Dave Ragan at 940.591.9007 or david.ragan@unt.edu

Dave Ragan

- CFP®, AIF®
- Joined Grunden Financial Advisory, Inc. in 2003
- Teach financial planning at UNT for the past 10 years
- Love traveling the US with my family in our RV
**A little Social Security then and now...**

**Social Security in 1937**
- Age to qualify for SS in 1937: 65
- Life expectancy in 1937: 60
- SS tax from 1937 to 1949: 1% (EE only)
- In 1945 there were 42 workers per retiree

**Social Security today**
- Average SS check is for $1,360 per person
- Age to qualify for SS today: 62 (early), 67 (NRA)
- Life expectancy today: 78
- SS tax: 6.2% EE and 6.2% ER = 12.4% Total
- In 2010 there were 3.2 workers per retiree
- By 2034 estimated to be 2.1 workers per retiree

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**Current Status of Social Security**

**2010:** First time expenses exceeded non-interest income  
**2020:** First time since 1982 expenses will exceed all income  
**2034:** SS runs out of cash and T-Bonds  
**2035+:** 77% of benefits are payable for the next 75 years

> *These balances [T-Bonds] are available to finance future benefit payments ... only in a bookkeeping sense. They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits, or other expenditures.***

Office of Management and Budget, Analytical Perspectives, Budget of the United States Government, Fiscal Year 2000, p. 337

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**Funding Solutions Ideas**

- Adjust COLA
- Increase Social Security tax  
  - Proposal in Congress to tax earnings above $400K  
  - Proposal in Congress to increase SS tax 20% from from 12.4% to 14.8%
- Increase Retirement Age  
  - Congress discussing raising FRA to 72
- Means tested
- Lower benefit calculation
Social Security Benefits Calculation

- Requires 40 quarters of earnings above a minimum threshold ($1,320 - 2019)
- Full Retirement age depends on year of birth
- Benefits based on Average Indexed Monthly Earnings (AIME)
  - 90% of the first $895 in AIME
  - 52% of the AIME between $895 and $5,397
  - 15% of the AIME greater than $5,397

<table>
<thead>
<tr>
<th>Year of Birth</th>
<th>Full Retirement Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1907 or earlier</td>
<td>65</td>
</tr>
<tr>
<td>1908</td>
<td>65 + 2 months</td>
</tr>
<tr>
<td>1909</td>
<td>65 + 4 months</td>
</tr>
<tr>
<td>1910</td>
<td>65 + 6 months</td>
</tr>
<tr>
<td>1911</td>
<td>65 + 8 months</td>
</tr>
<tr>
<td>1912</td>
<td>65 + 10 months</td>
</tr>
<tr>
<td>1913 - 1914</td>
<td>66</td>
</tr>
<tr>
<td>1915</td>
<td>66 + 2 months</td>
</tr>
<tr>
<td>1916</td>
<td>66 + 4 months</td>
</tr>
<tr>
<td>1917 - 1918</td>
<td>66 + 6 months</td>
</tr>
<tr>
<td>1919 - 1919</td>
<td>66 + 8 months</td>
</tr>
<tr>
<td>1920 - 1929</td>
<td>66 + 10 months</td>
</tr>
<tr>
<td>1930 and later</td>
<td>67</td>
</tr>
</tbody>
</table>

*If you were born on January 1st of any year, you should refer to the previous year. If you were born on the 1st of the month, subtract your birthday from your full retirement age as if your birthday were on the preceding month.*

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Principle 1

Get what you deserve from Social Security

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3 Major Categories

1. Retirement
2. Spousal
3. Survivor
Claiming at age 62

- Poor health or family history of poor health
  - breakeven ranges from age 77 to 83

- You need the money
  - you are unable to find work or forced to retire for health issues

- Worried about Social Security "going broke"
  - not a good reason to claim

The choice to claim early will reduce your FRA benefit by 30%!

Claiming at age Full Retirement Age

- No Reduction in benefits

- Benefits begin when you stop working

- Protect investments by spending Social Security first

Claiming at age 70

- Increased life expectancy
  - with modern medicine and technology, people are living longer

- 8% guarantee return
  - 8% per year past full retirement age

- Going to continue working into your retirement years
  - Claiming early can increase tax bill if funds are not needed

Case Study #1

Husband

Your Estimated Benefits

<table>
<thead>
<tr>
<th>Retirement</th>
<th>Your full retirement age (66 years), your payment would be about</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$2,429 a month</td>
</tr>
</tbody>
</table>

Wife

Your Estimated Benefits

<table>
<thead>
<tr>
<th>Retirement</th>
<th>Your full retirement age (66 years), your payment would be about</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$2,379 a month</td>
</tr>
</tbody>
</table>

Both retired at 66 and wanted to start their respective SS benefits at that time
Case Study #1 Results

- Qualified for Restricted Application
- Wife filed for benefits at 66 ($2,429/mo)
- Husband filed a Restricted Application for spousal benefits at 66 ($1,214/mo)
- Husband allowed his own benefits to grow at 8% then switches to his own benefits ($3,396/mo)
- SS benefits at 66 are $3,640/mo
- SS benefits at 70 are $5,825/mo
- Compare to if SS started at 66 for both: $4,910/mo
- Breakeven was age 78

Case Study #2

Husband currently receiving $2,218/mo

Wife was eligible for spousal of $1,109/mo

Thought about delaying spousal benefits until 70 - analysis said otherwise Spousal benefit doesn’t grow beyond age FRA

Wife filed for spousal at 66 and received $1,109/mo for 48 months prior to when she would have started. “Found” $53,232.

Case Study #3

Husband

Your Estimated Benefits

*Retirement

You have earned enough credits to qualify for benefits. At your current earnings rate, if you continue working until:

- your full retirement age (67 years), your payment would be about $536 a month
- age 70, your payment would be about $670 a month
- age 62, your payment would be about $372 a month

Wife

*Retirement

You have earned enough credits to qualify for benefits. At your current earnings rate, if you continue working until:

- your full retirement age (67 years), your payment would be about $536 a month
- age 70, your payment would be about $670 a month
- age 62, your payment would be about $372 a month

Case Study #3 Results

- Wife was younger and lower benefits
- Need to maximize survivor benefits in all likelihood
- If would have started at 62, wife would only receive $2,122/mo as a survivor
- Waiting until at least FRA means survivor benefit is much greater
- Breakeven was his age 84; her age 75
- Odds of either living to B/E: 89%
Everyone's Situation is Different

Switch Strategies may provide larger benefits:

Married Couples
- Claim your own, then add Spousal
- Claim your Spousal, then switch to your own

Divorced Individuals
- Same options, but ex’s actions are irrelevant (Independently Entitled)

Survivors
- Claim Widow, then Retirement
- Claim Retirement, then Widow

Switch Strategies - The Golden Years

As part of a law passed in 2015, people born after 1/1/1954 cannot file a Restricted Application.

If you are 65 or older today, the Restricted Application strategy is no longer available for you.

How to Decide?

1. Figure out if any switch strategies are appropriate for you
2. Analyze your other income sources, expenses, investments and goals to see which strategy produces the highest lifetime income (net of tax)
3. Take into consideration the break-even of 77-82 and family health
Principle 2

Your health impacts your wealth

Are You Exposed?

Pre-65
- If possible, you want to be on an employer sponsored healthcare plan before you turn 65

Medicare
- If you’re no longer covered by your employer plan and aging into Medicare at 65. You will want to sign up

Employed after 65?
- There’s no hard and fast answer, you need to compare the explanation of benefits

Medigap or Advantage?
As with most things...it depends.

<table>
<thead>
<tr>
<th>Part A</th>
<th>Hospital $0/mo.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part B</td>
<td>Medical $135/mo. (income based)</td>
</tr>
<tr>
<td>Medigap</td>
<td>Part F or G</td>
</tr>
<tr>
<td>- $160/mo. premium</td>
<td></td>
</tr>
<tr>
<td>- $0 Out-of-pocket available</td>
<td></td>
</tr>
<tr>
<td>- Freedom of choice</td>
<td></td>
</tr>
<tr>
<td>Part D</td>
<td>Drug Plan</td>
</tr>
<tr>
<td>- ~$20-50/mo.</td>
<td></td>
</tr>
<tr>
<td>Advantage</td>
<td>Part C</td>
</tr>
<tr>
<td>- Often $0/mo. premium</td>
<td></td>
</tr>
<tr>
<td>- Increased Out-of-pocket expenses</td>
<td></td>
</tr>
<tr>
<td>- Drug Plan (Part D) often included</td>
<td></td>
</tr>
<tr>
<td>- Defined Network</td>
<td></td>
</tr>
</tbody>
</table>

How to Decide?

1. Analyze your current healthcare plan for gaps
2. Look at your health history and where you will be living
3. Evaluate plans that meets your budget and needs
4. Consult a Medicare specialist
Principle 3

Prepare for the storm

#1 Risk to Baby Boomers

Sequence of Returns

The risk that the market drops or has early negative returns in the first few years of retirement.

Storm made worse by the fact that...

- People are living longer
- We are 10 years into a bull market
- Healthcare has never been more expensive
- Taxes may rise in the future
- There's rising uncertainty in political and economic environment
How Do you Weather the Storm?

Need to use the bucket strategy

But How Much Do You Put in Each?

...it depends
Principle 4

Watch out for leaky buckets

Watch Out For Holes in Your Bucket!
The IRS has a way of poking holes in your buckets
Social Security is TAXABLE
Other Social Security laws can ELIMINATE benefits
Increased Medicare Premiums (withdrawal order & Roth Conversions)

How is Social Security taxable?

Calculating your Social Security income tax

<table>
<thead>
<tr>
<th>Provisional income amounts if you file as</th>
<th>Single, head of household</th>
<th>Married, filing jointly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $25,000</td>
<td>Less than $32,000</td>
<td>Social Security income is tax-free</td>
</tr>
<tr>
<td>$25,000 to $34,000</td>
<td>$32,000 to $44,000</td>
<td>Up to 50% of Social Security income is taxable</td>
</tr>
<tr>
<td>More than $34,000</td>
<td>More than $44,000</td>
<td>Up to 85% of Social Security income is taxable</td>
</tr>
</tbody>
</table>

Provisional Income =
+ AGI
+ Non-exempt interest
+ One-half of the taxpayer’s SS benefits

Earnings Limit

How does working in retirement affect benefits?

Source: Fidelity Investments
WEP and GPO = big, leaky holes

Windfall Elimination Provision (WEP)
- Doesn’t apply to survivors benefits
- Won’t reduce SS benefits by more than half your pension
- Affects how SS calculates your retirement if you work for an employer who doesn’t withhold Social Security taxes and you qualify for SS benefits
- The longer you work in a job that pays SS tax, the lower a WEP reduction

Government Pension Offset (GPO)
- Affects spouses and window benefits
- Will reduce your SS benefit by 2/3rds your government pension
- SS benefits could be totally eliminated
- Affects many Texas teachers who paid into TRS

Watch out for Roth Conversions

- Medicare Part B premiums are income based
- Performing a Roth conversion increases your AGI which can potentially increase your Medicare premiums

<table>
<thead>
<tr>
<th>If your yearly income in 2017 (or what you pay in 2019)</th>
<th>File individual tax return</th>
<th>File joint tax return</th>
<th>You pay each month in 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>$89,200 or less</td>
<td>$150,000 or less</td>
<td>$150,000 or less</td>
<td>$135.00</td>
</tr>
<tr>
<td>above $89,200 and less than $189,200</td>
<td>above $150,000 and less</td>
<td>$150,000 or less</td>
<td>$150,000 or less</td>
</tr>
<tr>
<td>above $189,200 and less than $289,200</td>
<td>above $225,000 and less</td>
<td>$225,000 or less</td>
<td>$225,000 or less</td>
</tr>
<tr>
<td>above $289,200 and less than $389,200</td>
<td>above $325,000 and less</td>
<td>$325,000 or less</td>
<td>$325,000 or less</td>
</tr>
<tr>
<td>above $389,200 and less than $489,200</td>
<td>above $425,000 and less</td>
<td>$425,000 or less</td>
<td>$425,000 or less</td>
</tr>
<tr>
<td>above $489,200 and less than $589,200</td>
<td>above $525,000 and less</td>
<td>$525,000 or less</td>
<td>$525,000 or less</td>
</tr>
<tr>
<td>above $589,200 and less than $689,200</td>
<td>above $625,000 and less</td>
<td>$625,000 or less</td>
<td>$625,000 or less</td>
</tr>
<tr>
<td>above $689,200 and less than $789,200</td>
<td>above $725,000 and less</td>
<td>$725,000 or less</td>
<td>$725,000 or less</td>
</tr>
<tr>
<td>$789,200 or above</td>
<td>$750,000 or above</td>
<td>$750,000 or above</td>
<td>$750,000 or above</td>
</tr>
<tr>
<td>$750,000 or above</td>
<td>$750,000 or above</td>
<td>$750,000 or above</td>
<td>$750,000 or above</td>
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</tr>
</tbody>
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How to Patch The Holes

Withdrawing from your investment accounts in the WRONG order can increase of tax you pay over your lifetime
- Not all accounts are created equal
- The order in which the accounts are tapped, matters
- The order can impact SS taxation and Medicare premiums

Order of Withdrawals

- Cash Holdings
- Brokerage Accounts & Trusts
- IRAs

With one exception! You should save all ROTH accounts for last.
Actionable Steps

1. Keep abreast of SS laws
2. Maximize 3 categories of SS benefits (retirement, spousal, survivor)
3. Do switch strategies, like Restricted Application, apply?
4. Consider family health, JOINT life expectancy, and breakeven
5. Know Medicare options and coverages
6. Leverage bucket strategy
7. Watch out for leaks in your bucket (taxes!)

Thank you for attending

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