

4 W's of Social Security 2.0

**Dallas Convergence
May 10th, 2024**

David P. Zander
CFP Board Emeritus ®
dzander@Back9Pro.com

1

1

Bar Napkin Approach



2

2

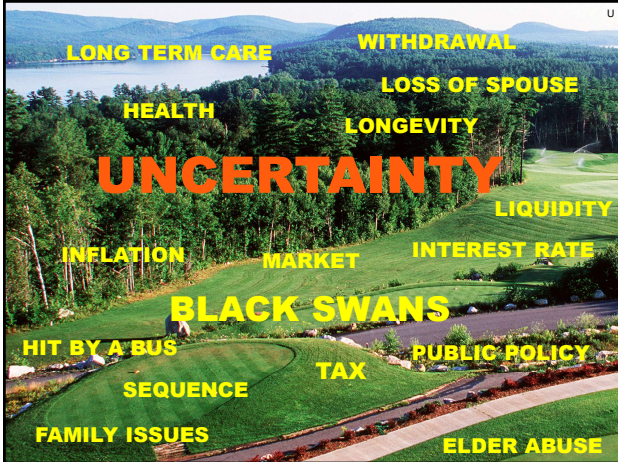
3 Truths in Life

- The Only Certainty in Life is Uncertainty
- Life's Not Fair
- You Have to Play the Hand Your Dealt

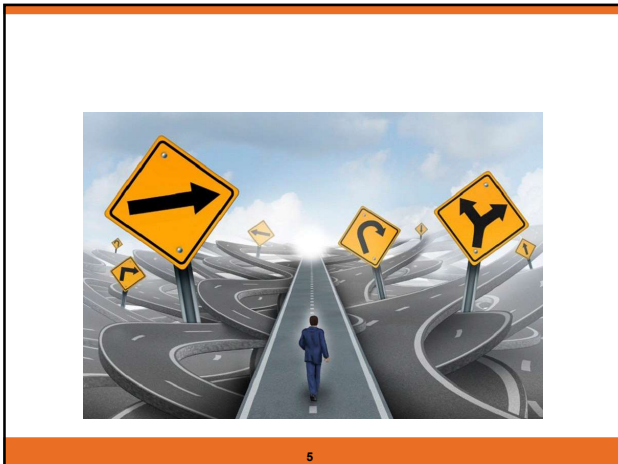


3

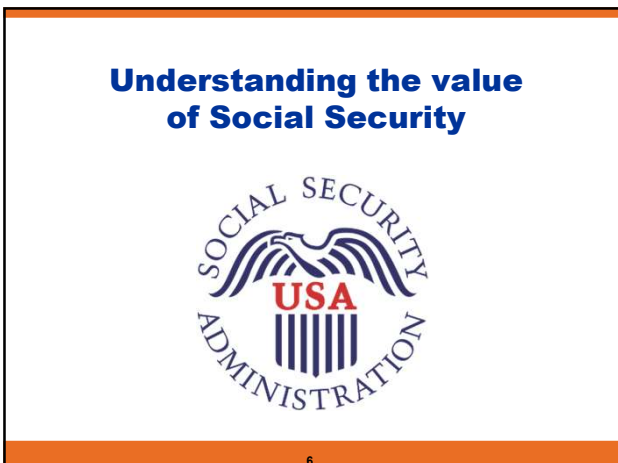
3



4



5



6

2024 Update

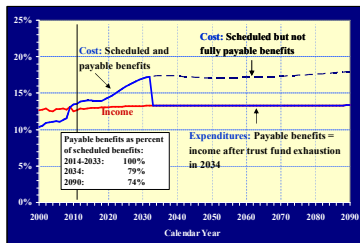
- 3.2% Increase in benefit
- Average check \$1,657
- Average couple check \$2753
- In 2022 American's collected \$1.22 Trillion
- Payroll taxes brought in \$1.11 in 2022
- FICA taxes in 2024 up to \$168,600
- 94% of American's earn less than \$168,600

7

7

Long-term projections: without reform, benefits fall to 79% in 2034

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



Source: 2019 OASDI Trustees Report

8

8

What Would It Take To Restore Solvency to the System?

Reform Proposals Being Studied

- 1 Increase maximum earnings subject to Social Security tax (currently \$168,600 in 2024)
- 2 Raise the normal retirement age (currently 66 for individuals born between 1943 and 1954; 67 for those born in 1960 or later)
- 3 Lower benefits for future retirees (escalate benefits based on increases in consumer prices rather than wages)
- 4 Reduce cost-of-living adjustments (COLAs)
- 5 Increase the payroll tax

OR ANY COMBINATION OF THE ABOVE

9

History of Taxable Earnings

1950	\$3,000
1960	\$4,800
1970	\$7,800
1980	25,900
1990	\$51,300
2000	\$76,200
2010	\$106,800
2020	\$137,700

2024 \$168,600

In 1984 91% of all Earned Income was subjected to payroll taxes
In 2021 only 81% of Earned Income was subjected to payroll taxes

10

10

Individual Born in 2002 Future Projection of Taxable Earnings (assuming 3% annual increase)

2024	\$168,600
2030	\$201,317
2040	\$270,554
2050	\$363,601
2060	\$488,650
Maximum Employee	\$788,184
Maximum Employer	\$788,184
Total Paid	\$1,576,369

11

11

The bottom line for baby boomers

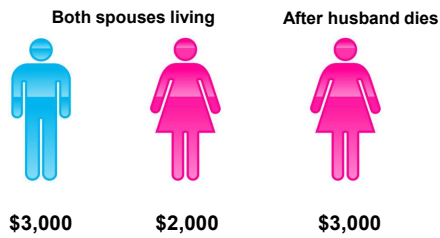
Your benefits are not likely to be affected by
Social Security reform



12

12

Social Security offers survivor benefits



13

13

How Social Security benefits are calculated

- At age 62, each year's earnings are tallied up and indexed for inflation
- Highest 35 years of earnings are averaged (AIME)
- AIME is divided by three "bend points" to determine your primary insurance amount (PIA). This is the amount you'll receive at full retirement age.
- Benefit is increased each year by cost-of-living adjustments (COLAs)

14

14

Example of benefit formula

- Baby Boomer born in 1962 – turns 62 in 2024
- Maximum Social Security earnings every year since age 22
- AIME = \$12,427
- PIA formula:
 - $\$1,174 \times .90 = \$1,056.60$
 - $\$5,904 \times .32 = \$1,889.28$
 - $\$6,022 \times .15 = \903.30
 - Total = \$3,849.18

PIA = \$3,849

Amount worker will receive at full retirement age

15

15

Employment Taxes Paid Maximum Earnings – Born 1962

- \$ 218,497 Paid by Employee
- \$ 218,497 Paid by Employer
 - Total Paid in \$436,993
- **Claims @ 67**
 - \$4,249 PIA \$50,995/yr.
 - Dies @ 85 \$1,164,761 Ck @ 85 \$6,069
 - Dies @ 90 \$1,551,372 Ck @ 90 \$6,701
 - Dies @95 \$1,978,221 Ck @ 95 \$7,399
 - Dies @100 \$2,449,497 Ck @100 \$8,169

16

16

Discussion

- Spousal Benefits
- Improving One's Benefits
- Ability to recategorize one's income

17

17

When to claim



18

18

When Full Retirement Age (FRA)

Year of Birth	Full Retirement Age
1943–54	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

19

What if You Apply for Early Benefits?

You will receive a percentage of your PIA

Apply at age	If FRA = 66	If FRA = 67
62	75.0%	70%
63	80.0%	75%
64	86.7%	80%
65	93.3%	86.7%
66	100%	93.3%
67		100%

20

Keep Working: Understand The Annual Earnings Test

If you apply for Social Security before full retirement age and you work:

- ▶ \$1 in benefits will be withheld for every \$2 you earn over \$21,240 in 2023
- ▶ Benefit will be adjusted at full retirement age
- ▶ Don't let annual earnings test discourage you from working
- ▶ To avoid the earnings test, wait until full retirement age or later to apply for benefits

21

What if You Apply After FRA?

You will earn 8% annual delayed credits

Apply at age	Benefit will be a % of PIA if FRA = 66	Benefit will be a % of PIA if FRA = 67
66	100%	93.3%
67	108%	100%
68	116%	108%
69	124%	116%
70	132%	124%

22

Why Delay Benefits?

Bigger checks to start

Age at which benefits are claimed	% of PIA if FRA = 67	Benefit without COLAs (\$)	Benefit with COLAs (\$)
62	70.00	2,100	2,100
63	75.00	2,250	2,295
64	80.00	2,400	2,497
65	86.67	2,600	2,759
66	93.33	2,810	3,042
67	100.00	3,000	3,312
68	108.00	3,240	3,649
69	116.00	3,480	3,997
70	124.00	3,720	4,359

23

Why Delay Benefits?

More income later on

Benefit at age	If claim at 62	If claim at 67	If claim at 70
70	\$2,460	\$3,515	\$4,359
75	\$2,717	\$3,881	\$4,812
80	\$2,999	\$4,285	\$5,313
85	\$3,311	\$4,731	\$5,866
90	\$3,656	\$5,223	\$6,477
95	\$4,037	\$5,767	\$7,151
100	\$4,457	\$6,367	\$7,895

Assuming \$3,000 PIA

24

When should I apply for benefits?



- **What's your check out date?**

- 26

 Male
 Female



27

Factors to Consider **When** Deciding When to Apply



1
Health Status



2
Life Expectancy



3
Need for Income



4
Whether or not
you plan to
work



5
Survivor Needs

28

Who Spousal Benefits

29

29

What - Rules for Spousal Benefits



- ▶ Primary worker must have filed for benefits
- ▶ Spouse must be at least 62 for reduced benefit or FRA for full benefit
- ▶ No delayed credits on spousal benefits after FRA

30

How Leave it to Beaver Scenario



Spousal benefit = 50% of the primary worker's PIA if started at full retirement age (35% if started at 62)

Example:

- Ward's PIA is \$2,000
- June does not qualify for Social Security on her own work record
- If June applies at FRA, her spousal benefit will be \$1,000 (50% of Ward's PIA)
- If she applies at 62, her spousal benefit will be \$700 (35%)



Ward must have filed for benefits to entitle June to claim

31

31

How - Maximization strategy

- Both high earning spouses delay to age 70
- Maximizes lifetime benefits over average or long life expectancies

32

32

How – Hedging Strategy

- Where lower-earning spouse's PIA is less than 50% of higher-earning spouse's PIA
 - Lower-earning spouse claims early
 - Higher-earning spouse claims at 70
- Generates income sooner while maximizing higher-earning spouse's benefit over both lifetimes

33

33

Exceptions

- High earner whose spouse **doesn't qualify** for their own benefits
- Example:
 - Jim 67 PIA is \$3,460 – Diane 65
 - Claim now \$3,575 – Diane \$1,502 = \$5,077
 - Jim @ 70 = \$4,749 – Diane \$1,836 = \$6,585
 - Breakeven Age 82
- Claim @ 67 and Reinvest @ 6%
 - \$200,000 Account Balance
 - Breakeven Age 93

34

34

Who Survivor Benefits

35

35

What – Rules for Survivor Benefits



- ▶ Couple 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), or FRA for full benefit.
- ▶ **Survivor benefit not available if widow(er) remarries before age 60 (or 50 for disabled survivor), unless that marriage ends.**
- ▶ Divorced-spouse survivor benefit available if the marriage lasted at least 10 years.

36

How – Maximizing Benefits

If survivor benefit is **HIGHER** than retirement benefit:

Claim retirement benefit at 62,
claim survivor benefit at FRA

- Gail's PIA is \$1,000.
- Her survivor benefit is \$2,200.
- Gail would claim her own benefit at 62 ($\$1,000 \times 75\% = \750), and switch to the survivor benefit at 66 ($\$2,200 \times 100\% = \$2,200$).

37

37

How – Maximizing Benefits

If survivor benefit is **LOWER** than retirement benefit:

Claim survivor benefit at 60,
claim retirement benefit at 70

- Dora's PIA is \$2,000.
- Her survivor benefit is \$1,800.
- Dora would claim her survivor benefit at 60 ($\$1,800 \times 71.5\% = \$1,287$), and switch to her retirement benefit at 70 ($\$2,000 \times 132\% = \$2,640$).

38

38

Who Divorced-Spouse Benefits

39

39

Divorced-Spouse Benefits



Same as spousal benefits if:

- ▶ Marriage lasted 10 years or more
- ▶ Person receiving divorced-spouse benefit is currently unmarried
- ▶ The ex-spouse is at least age 62
- ▶ If divorce was more than two years ago ex-spouse does not need to have filed for benefits

40

How

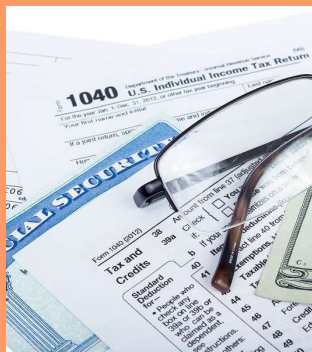
Rules for divorced-spouse benefits

- 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
- Divorced-spouse benefits stop upon remarriage of spouse collecting benefits (not upon remarriage of primary worker spouse)

41

41

Taxation of benefits



42

WHAT - Taxation of Benefits

Filing status	Provisional income*	Amount of SS subject to tax
Married filing jointly	Under \$32,000 \$32,000-\$44,000 Over \$44,000	0 Up to 80% Up to 85%
Single, head of household, qualifying widow(er), married filing separately & living apart from spouse	Under \$25,000 \$25,000-\$34,000 Over \$34,000	0 Up to 80% Up to 85%
Married filing separately and living with spouse	Over 0	85%

Provisional income = AGI + one-half of SS benefit + tax-exempt interest

43

How - 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; consider drawing down IRAs before 73
- ▶ **Convert traditional IRA to Roth**
- ▶ **Delay Social Security**: reduces number of years benefits are subject to tax
- ▶ Reduce expenses: pay down debt, adopt simpler lifestyle
- ▶ Continue to manage taxes throughout retirement

44

WEP & GPO

**WINDFALL ELIMINATION
PROVISION
GOVERNMENT PENSION
OFFSET**

45

WEP

- **WEP** think of the **WORKER**
- If you worked for a government agency or an employer who does not withhold Social Security taxes
- Any pension you get based upon that work **MAY** reduce your Social Security Benefits
- If you qualify for Social Security Benefits as well (40 Quarters) **ON YOUR OWN RECORD**
- Substantial Earnings

46

Example of benefit formula

- Baby Boomer born in 1960 – turns 62 in 2022
- Maximum Social Security earnings every year since age 22
- AIME = \$11,430
- PIA formula:
 - $\$1,024 \times .40 = \$ 409.60$ **WEP (\$512 Reduction)**
 - $\$5,148 \times .32 = \$1,647.36$
 - $\$5,258 \times .15 = \$ 788.70$
 - Total = $\$ 2,845.66$

PIA = \$2,845.60

Amount worker will receive at full retirement age

47

47

Substantial Earnings

- Less than 20 years = **Maximum WEP Reduction**
- Between 20 & 30 years = 5% reduction per year
- Over 30 years = **NO WEP Reduction**

48

GPO

- **GPO** is for **Spousal Benefits**
- Affects Spouses, Widows & Widowers
- You receive a pension based upon work where you did not pay FICA
- Your SPOUSAL Social Security benefits will be reduced by **2/3 of your Pension**

49

GPO Example

Policeman has a \$6,000/mo. pension
2/3 or \$4,000 must be subtracted from Spousal Social Security Benefits

- Spousal Benefits
 - Wife has \$3,000 PIA (Check @ 67)
 - Normally you would get \$1,500 (50% @ 67)
- GPO Formula
 - **\$1,500 - \$4,000 = ZERO (Spousal Benefit)**
 - Survivorship same formula
- What if Husband died 1st?
 - Wife gets PENSION & 100% Social Security

50

50

What - Key insights

1. Social Security offers inflation-protected income you can't outlive, including benefits for survivors
2. Your monthly benefit will be reduced if you claim "early"
3. Couples should always maximize the higher earner's benefit for the surviving spouse
4. If you're widowed or divorced, you may be eligible for benefits that can increase your check

51

51

3 Stages of Retirement

- Go Go Years
- Slow Go Years
- No Go Years

52

52

Future of Retirement

Phased Retirement

53

53

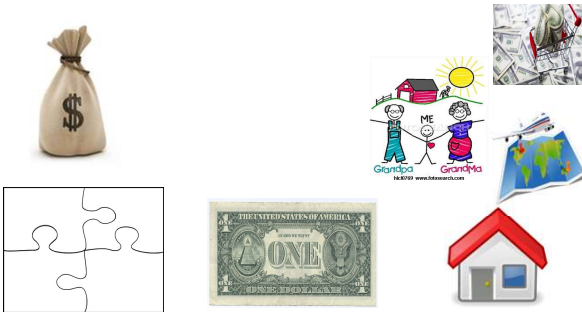
Why People Work in Retirement

- Longevity
- Pensions – or lack thereof
- Economic Uncertainty
- Revisioning Later Life – Flunked Retirement
 - Staying Mentally Sharp
 - Staying Physically Active
 - Challenging Oneself
 - Avoiding Boredom
 - Living Longer
- Gray Divorce – 25% of Baby Boomers

54

54

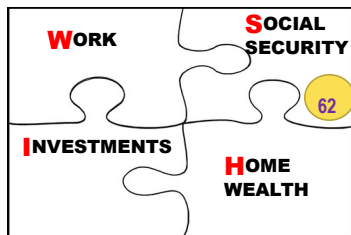
WISH4Income



55

55

WISH4Purpose



56

David P. Zander, CFP®
Boerne, Tx

260-615-0078
dzander@Back9Pro.com
Back9Pro.com (Monthly Newsletter)



57
