

# Social Security Benefits Workshop

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# What Would You Expect to Get with This Workshop?

- To help you make the best possible choice with your Social Security benefits.
- How much you can expect your monthly Social Security payments to be?
- Strategies you can use to Maximize the amount you get from Social Security.

# Decision to Choose the Right Time to Retire.

- When to retire?
  - @ 62
  - @ Full retirement age
  - @ 70
  
  - Breakeven analysis using Simulation
  
  - @ various ages
  - Assuming
    - Zero time value
    - 1 to 6 percent for time value of money

# Spousal and Survivor Benefits.

- How your spouse and children might be able to receive Social Security benefits based on your work record, before and after your death (Spousal Benefit).
- Strategies your family can use to maximize the total benefits you, your spouse, and your eligible children can get in benefits from Social Security (Survivor Benefits). 180 percent Rule

# How Can You Maximize Your Own Social Security Benefits?

- To work at least 35 years?
- Working longer will give you higher benefits (to you as well as to your spouse).
- Is the total benefit paid to all family members more than 150% to 180% of the worker's full retirement benefit?

# What Strategies Can You Use to Maximize Total Family Social Security Benefits?

- How much did the two spouses make compared to each others?
- Have you and/or your spouses reached full retirement age?
- How important is maximizing the lower-earning spouse's benefit?
- Do you have children eligible to receive benefits?

# Tax Implication of the Benefits.

- Do you earn enough outside income that your Social Security benefits will trigger income taxes?
- Assess your personal situation, taking into account personal life expectancy, financial resources outside Social Security, standard-of-living expectations and other needs. Do you want to maintain flexibility in your decision?

# Divorce Matters?

- How divorce affects your Social Security benefits and those of your former spouse?
- Were you married at least 10 years?
  - Yes
  - No ➡ You're not entitled to get benefits based on your ex-spouse's work record.



# Did You Remarry?

Yes

➔ You're not entitled to spousal benefits based on your ex-spouse's work record, but you may be entitled to survivor's benefits if you married after reaching age 60.

NO

➔ You're entitled to spousal and survivor's benefits based on your ex-spouse's work record.

- How to strengthen Social Security system to sustain future generations of retirees?
- Pro growth Tax?
- Who will pay for it?

# How Much will Social Security Pay Me?

➔ Average indexed monthly earnings

$$= \frac{[\text{Sums of the highest 35 years earnings}]}{\text{total \# of Months in those years Paid SS Tax}}$$

➔ PIA index

$$= 0.90 \times \$856 + 0.32 \times [5157 - 856] + 0.15 \times [X - 5157]$$

Where X is the average indexed monthly earnings (AIME) for Joe Subject to SS tax

# Primary Insurance Amount [PIA].

- a) 90 percent of the first \$856 of his/her average indexed monthly earnings, plus
- b) 32 percent of his/her average indexed monthly earnings over \$856 and through \$5,157, plus
- c) 15 percent of his/her average indexed monthly earnings over \$5,157.

## Determination of the PIA bend points for 2016

Amounts in formula		
	<u>Average wage indices</u>	
For 1977:	9,779.44	
For 2014:	46,481.52	
	Bend points for 1979	
First:	\$180	
Second:	\$1,085	
Computation of bend points for 2016	<u>First bend point</u> \$180 times 46,481.52 divided by 9,779.44 equals \$855.54, which rounds to \$856	<u>Second bend point</u> \$1,085 times 46,481.52 divided by 9,779.44 equals \$5,156.99, which rounds to \$5,157

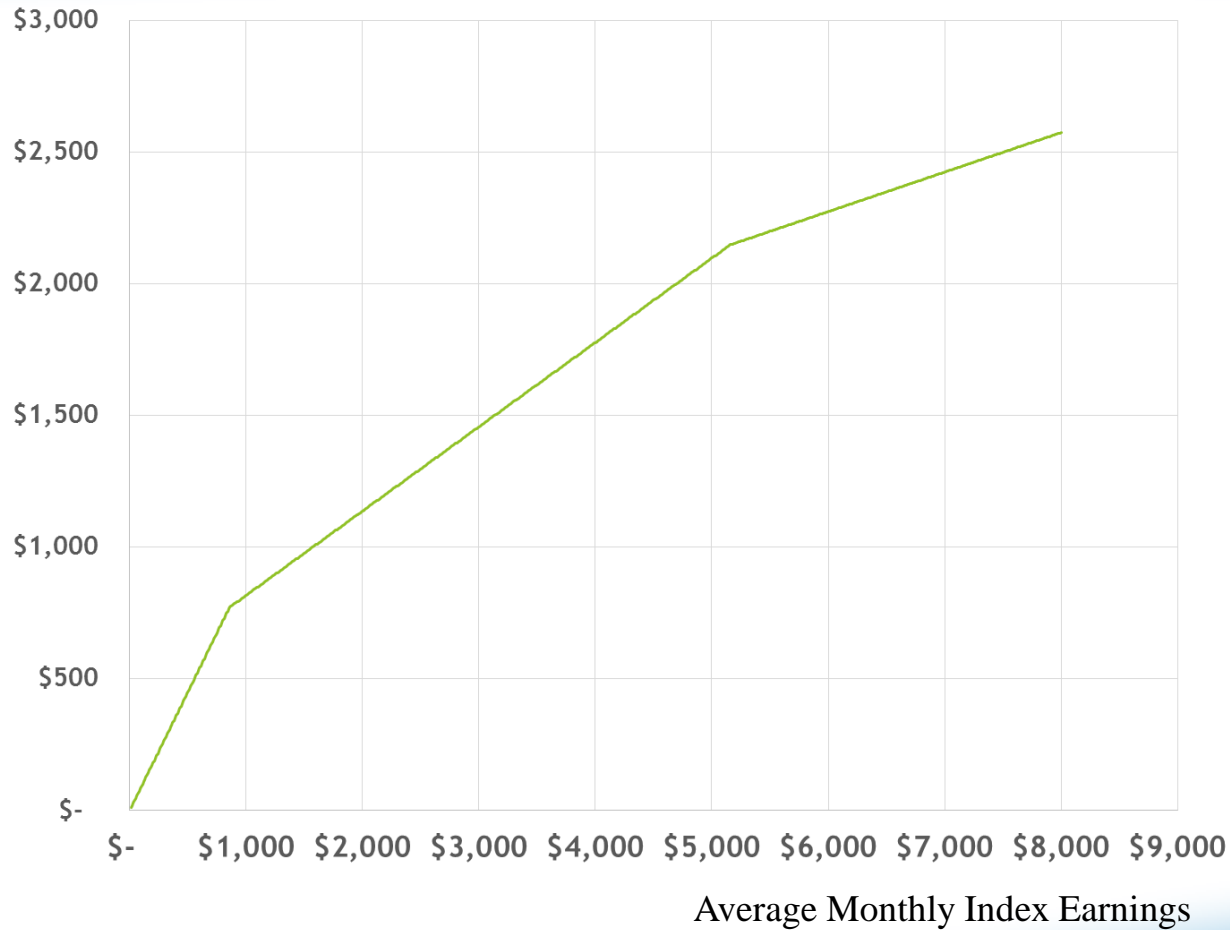
# Social Security Wage

# Medicare Wage

# Number of months in a year paid SS Tax

2015	\$117,883	\$152,755	\$34,872	9
2014	\$117,000	\$154,900	\$37,900	9
2013	\$113,700	\$161,070	\$47,370	8
2012	\$110,100	\$160,040	\$49,940	8
2011	\$106,800	\$154,025	\$47,225	8
2010	\$106,800	\$146,798	\$39,998	8
2009	\$106,800	\$154,216	\$47,416	8
2008	\$102,000	\$129,678	\$27,678	9
2007	\$97,500	\$142,492	\$44,992	8
2006	\$94,200	\$139,586	\$45,386	8
2005	\$90,000	\$128,154	\$38,154	8
2004	\$87,900	\$124,947	\$37,047	8
2003	\$87,000	\$120,756	\$33,756	8
2002	\$84,900	\$116,356	\$31,456	8
2001	\$80,400	\$112,237	\$31,837	8
2000	\$76,200	\$104,177	\$27,977	8
1999	\$72,600	\$96,477	\$23,877	9
1998	\$68,400	\$84,497	\$16,097	9
1997	\$65,400	\$83,572	\$18,172	9
1996	\$62,700	\$83,286	\$20,586	9
1995	\$61,200	\$78,211	\$17,011	9
1994	\$60,600	\$77,928	\$17,328	9
1993	\$57,600	\$75,854	\$18,254	9
1992	\$55,500	\$76,000	\$20,500	8
1991	\$53,400	\$68,188	\$14,788	9
1990	\$51,300	\$51,300	\$0	12
1989	\$48,000	\$48,000	\$0	12
1988	\$45,000	\$45,000	\$0	12
1987	\$43,800	\$43,800	\$0	12
1986	\$41,588	\$41,588	\$0	12
1985	\$39,026	\$39,026	\$0	12
1984	\$34,504	\$34,504	\$0	12
1983	\$30,876	\$30,876	\$0	12
1982	\$11,875	\$11,875	\$0	5

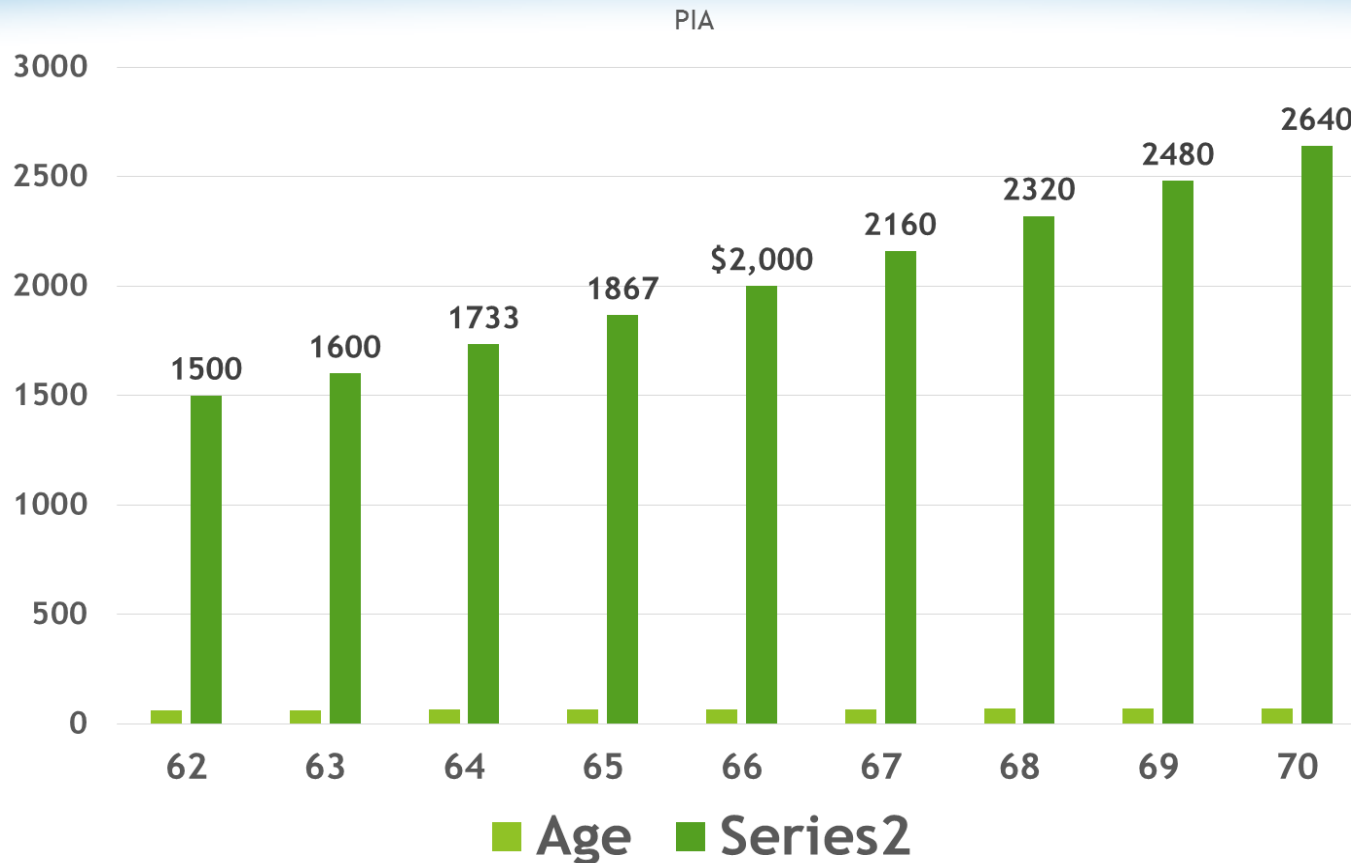
## Social Security Primary Insurance Amount and Bend Points



# Your Monthly Benefit Based on PIA.

Age	Addition / (Reduction)	Percentage of PIA you will receive	
62	(25%)	75%	
63	(20%)	80%	
64	(13 1/3%)	86 2/3%	
65	(6 2/3%)	93 1/3%	
66	0%	100%	Full Retirement Age
67	8%	108%	
68	16%	116%	
69	24%	124%	
70	32%	132%	





Assuming PIA is \$2,000 at full retirement age of 66

- The PIA is an important number from which one gets his/her SS benefits based on one's own work, or spousal benefits, as well as survivors benefits based your spouse's work.
- In practical terms, if your full retirement age is 66 and you retire at age 62, your benefits will be 25% less than your PIA.
- Beyond full retirement age to claim benefits, you'll get delayed retirement credits of 8% more per year up to 32% at age 70.

- There are three requirements to get SS Benefits:
  - ✓ Earning 40 credits
  - ✓ To reach minimum age of 62
  - ✓ To be a U.S. citizen or be lawfully present within the U.S. as a permanent resident, or with a legally protected status like political asylum.

# Am I Eligible for Social Security?

- Workers needing to collect 40 credits in order to qualify for retirement benefits.
- At least 40 calendar quarters of earnings needed during your career in order to collect Social Security.
- For 2015, each \$1,220 you earn gets you a credit, so working \$4,880 gets you the maximum for four credits and puts you on track to become eligible within 10 years.

## What if You Worked for a Public Employer and didn't Pay Social Security Taxes for Part of Your Career?

- If you get pension benefits from a private or public employer where you paid SS tax, then it doesn't affect your Social Security benefits.
- However, some government and public-sector workers don't pay Social Security taxes (not entitled to SS benefits).
- When you worked part of your career for a private employer and part for a public employer. In that case, you might well have earned Social Security benefits under your own work record.
- As a result, a provision called the **Windfall Elimination** Provision reduces the amount of Social Security benefits that you're allowed to receive.

## What if.....

- For those who've worked at least **30 years** in private sector and paid SS tax, no reduction occurs.
- But for those who've had 20 or fewer years of substantial earnings from private sector work, reductions can be as much as **\$408** per month.
- In no event, though, will your Social Security be reduced by more than **half** of the amount of the pension you receive.

# Now or Later?

- Tradeoff between smaller amount over longer period versus larger amount over shorter period.
- Taking smaller amount gives the recipient the option to do things that was not possible such as:
  - Investing
  - Financing
  - Pleasure

# Taking SS at 62 V Full Retirement Age.

- There is a cost associated for taking SS benefits at early age of 62.
- At an income level of over \$15,720 for 2015, you will lose \$1 for every \$2 you earn over and above your income exceeded the SSA limit.
- For example, if you earn \$25,000 income, you will lose, half of \$9,280 that is \$4,640 in your annual SS benefits.



## Breakeven Analysis (62, 66, 70)

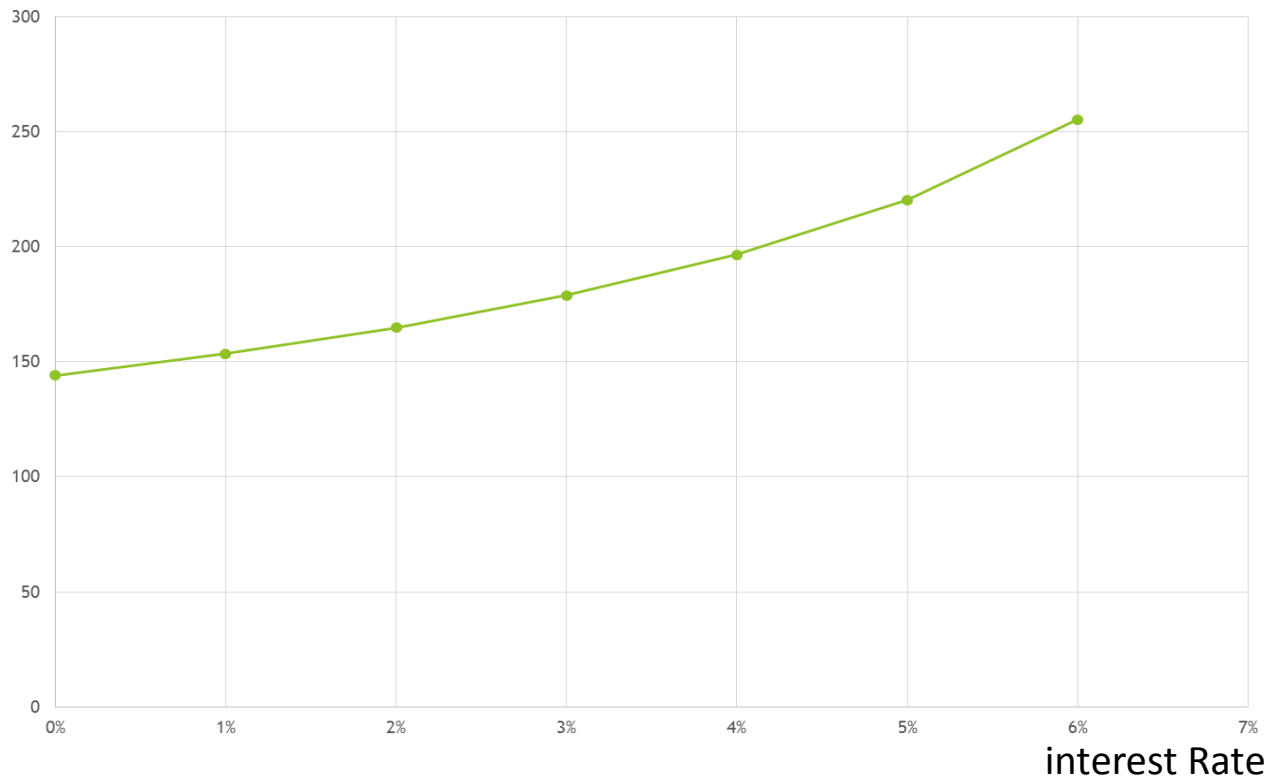
- Consider an individual who has PIA of \$2,000 per month at full retirement age.
- This individual can retire early at 62 and receives  $0.75 \times 2000 = \$1,500$
- Can delay retirement until 70 and receives  $1.32 \times 2000 = \$2,640$

## Breakeven Analysis Continued...

- Ignoring time value of money, there is a tradeoff of \$1,500 per month for 48 month at age 62, that is \$72,000 foregone Versus collecting \$500 more per month at full retirement age.
- It takes **144** months to breakeven.
- Similarly, waiting to retire at 70, requires foregoing \$2,000 per month for 48 months, that is \$96,000 versus receiving \$640 more at age 70.
- It takes **150** months to breakeven, ignoring time value of money

# Breakeven Analysis Continued...

# of Months to Breakeven



It takes 144 months to breakeven at zero percent interest rate

# Rules for Withdrawal and Suspension.

- According to current rules, you can file a SS claim and start collecting benefits, and then change your mind before 12 months.
- The other strategy involves filing for benefits at full retirement age or later but then immediately suspending them.
- In the future, you then have two choices: collecting higher delayed benefits at a later age, or **suspended** benefits be paid to you as **lump sum**.
- In case you have family members who can also claim benefits on your behalf -- then the question gets to be a lot more complicated.

# What Social Security Benefits are My Family Members Entitled to Receive?

- Social Security can also provide benefits to **spouses** and **children**, and therefore, **maximizing** Social Security benefits requires understanding how your decisions can affect **them**.
- The lawmakers in the 1960s, created new categories of beneficiaries. Now, family members can get benefits under certain circumstances both during your **lifetime** and after your **death**.

# Spousal Benefits Alive.

- Under current law, your spouse can receive retirement benefits based on your work history.
- Spousal benefits generally supplement any benefits earned under your spouse's own work history.

# Spousal Benefits Alive...

Age	Addition / (Reduction) from Normal Benefit	Percentage of PIA You'll Receive
62	(30%)	35%
63	(25%)	37 1/2%
64	(16 2/3%)	41 2/3%
65	(8 1/3%)	45 1/3%
66	0%	50%

- One thing to understand is that you **don't** simply **add** spousal benefits on **top of the regular benefits** you're entitled to receive on your own work history. Limiting spouse to the **larger of the two**.

# Spousal Benefits Alive Continued...

- At **full retirement age and beyond**, spouse has more latitude. At that point, he/she can apply for **spousal benefits only** and allow any benefit from **own work** history to keep growing due to delayed retirement credits.
- In addition to spouses, eligible children can receive Social Security benefits on your work record.



## Child Benefits/ Disability Benefits.

- To qualify, the **child** must be unmarried and either under age **18 or no more than 19** years old and a full-time high-school student.
- For disabled children, SS pays benefits to adult children if the **disability began** before the child reached **age 22**.
- Social Security imposes a family limit of **150% and 180%** of the PIA of the any one family member's work history.

# Family Benefits After Your Death.

- If a spouse is at **full retirement age**, the benefit is **100%** of the **deceased benefit** amount.
- Those claiming at the earliest age of **60** getting **71.5%** of your benefit amount.
- Disabled widows and widowers get the same **71.5%** between age **50 and 59**, and surviving spouses caring for **children under 16** are eligible to receive **75%**.

# Survivor Benefits When You are Alive.

- For children, rules for survivors benefits, while you're still living is as follows:
- Children under age 18, or up to age 19 for full-time high-school students, can get a **75% benefit**.
- The same provisions for disabled adult children also apply.
- Social Security imposes family **maximums** of **180% of the diseased PIA**.

# One-Earner Families.

- For one earner families, **both spouses** can only **claim** on the **working spouse's** work history.
- Therefore, the question becomes **when the working spouse** should claim **regular retirement** benefits and when the **non-working spouse** should claim **spousal benefits**.

## Two-Earner Families.

- When both spouses work, Social Security strategies get more complicated.
- Each **spouse** becomes eligible **both** for retirement benefits on their **own work** record and for **spousal benefits** on their **spouse's** work record.
- Then, the question becomes how their retirement benefit amounts compare.

# Two-Earner Families Continued...

- When the lower-earning spouse is entitled to just a tiny fraction of the benefits of the higher-earning spouse, then you'll typically use strategies similar to those that one-earner families use.
- When benefit amounts are not much close together, the opportunities for taking your own benefit but later switching to spousal benefits—or vice versa—expand substantially.

# Two-Earner Families Continued...

- One question that couples have to consider is **whose work record** to use to claim benefits.
- **Pick** whichever benefit will **pay** you the **most** money.
- Since spousal benefits are **1/2** of your spouse's benefit at the limit, compare **own benefits** against your **spousal benefit**.

# Two-Earner Families Continued...

- For example, if you file for a spousal benefit when you turn 62, SSA treats it as if you had also filed for your own retirement benefit at the same time.
- Therefore, your benefit will be composed of two parts:
- your own retirement benefit, and any additional spousal benefit to which you're entitled.



# Two-Earner Families Continued...

- Consider a couple, where one of them is higher earner. Suppose the higher earner has PIA of \$2,500 at his full retirement age of 66.
- The lower earning spouse, choose to get benefit at age 62. Once the lower earner applies for benefit on his/her work record, the SSA treats it as if the spouse applied for both.

# Two-Earner Families Continued...

- Applying at 62 will reduce benefits by  $\frac{25}{36}$  of 1-percent per month for 36 months, and  $\frac{5}{12}$  of 1-percent per month thereafter. For example, if the full retirement age is 66.5. The benefits will be reduced by 25% for the first three years and 7.5% for the 1.5 year.
- The spousal benefit will be:  $0.325 \times 2500 = \$812.50$
- In the event the benefits based on his/her work at 62 is \$700. The spouse will get the higher of the two that is \$812.50

# Two-Earner Families Continued...

- The spousal and survivors benefits are essentially a free extra Social Security benefit that married couples receive.
- Those extra benefits have no value for a single person, so they don't enter into the decision-making process.
- However, when there's a spouse to receive those extra benefits, they can dramatically affect the calculations in favor of waiting.

# The File-and-Suspend Strategy.

- The idea behind the file-and-suspend strategy is simple. Using two earners as an example, the couple has two competing interests: they want the lower-earning spouse to get spousal benefits as soon as possible but also for the higher-earning spouse to maximize benefits at full retirement age or 70.
- These two interests conflict, because in order for lower earner to collect spousal benefits, higher earner must file for regular benefits.

# Filing As a Spouse First Strategy.

- The strategy often works, when lower earning spouse files to receive regular Social Security retirement benefits.
- Meanwhile, higher earning spouse delays taking Social Security in order to earn delayed retirement credits.
- When higher earner reaches full retirement age, he/she can file for benefits as a spouse first, restricting the scope of the Social Security application to spousal benefits only.
- Doing so still allows higher earner to earn delayed retirement credits on his/her own Social Security benefit, but it also produces what amounts to a free spousal benefit for higher earner based on lower earner work history.

Another option you have once you reach full retirement age is to suspend your early benefit payments. Doing so will allow you to receive delayed retirement credits later.

Age When Un-Suspend	Addition / (Reduction) from Normal Benefit	Percentage of PIA You'll Receive
67	8%	81%
68	16%	87%
69	24%	93%
70	32%	99%

For Example, say you claimed benefits at age 62 and decide to suspend them at age 66. Because you claimed early, your payments were reduced to 75% of your primary insurance amount.

# How Does Divorce Affect Social Security Benefits?

- How divorced spouses are treated under Social Security.
- SSA rules govern how benefits for divorced spouses work.
- The most important rule divorced spouses need to know about Social Security is the 10-year rule.
- In the event married couple divorced after 10 years or more, the rules for spousal benefits apply.

# How Does Divorce Affect Social Security Benefits?

- The lower earner spouse can claim spousal benefits based on higher earner work history as long as he/she meets some other requirements.
- The lower earner can claim benefits at age 62 as long as he/she hasn't remarried.
- If he/she does remarry, then he/she can typically get benefits based on his/her new spouse's work history, but lower earner rights to get benefits on higher earner work history usually go away.



# Risk Free Arbitrage.

- How to get a one-year, interest-free “loan” from Social Security?

SSA-521

# What Ways are There to Apply?

- ✓ Apply online at <http://www.socialsecurity.gov/retireonline/> within 3 months of turning 62 or older, and want to get benefits no more than four months in the future.
- ✓ Toll-free: 800-772-1213
- ✓ In person at the Social Security Office

# Maximum Taxable Earnings Each Year

1937 - 50	\$3,000	1982	\$32,400	1998	\$68,400	2014	\$117,000
1951 - 54	3,600	1983	35,700	1999	72,600	2015	118,500
1955 - 58	4,200	1984	37,800	2000	76,200	2016	118,500
1959 - 65	4,800	1985	39,600	2001	80,400		
1966 - 67	6,600	1986	42,000	2002	84,900		
1968 - 71	7,800	1987	43,800	2003	87,000		
1972	9,000	1988	45,000	2004	87,900		
1973	10,800	1989	48,000	2005	90,000		
1974	13,200	1990	51,300	2006	94,200		
1975	14,100	1991	53,400	2007	97,500		
1976	15,300	1992	55,500	2008	102,000		
1977	16,500	1993	57,600	2009	106,800		
1978	17,700	1994	60,600	2010	106,800		
1979	22,900	1995	61,200	2011	106,800		
1980	25,900	1996	62,700	2012	110,100		
1981	29,700	1997	65,400	2013	113,700		

# How to Strengthen Social Security?

# of Filers	Incremental income ST SS tax	Tax revenue at 6.2%
4,488,110	\$300,000	83478846000
724,251	\$800,000	35922849600
156,269	\$1,300,000	12595281400
64,236	\$1,800,000	7168737600
91,128	\$4,800,000	27119692800
21,412	\$9,800,000	13009931200
12,839	\$15,000,000	11940270000
		1.91236E+11

\*Source: IRS 2015

# Pro Growth Tax to Sustain Social Security

- Tax nearly 3.67 percent of all top tax filers (5.56 million) making over \$200,000-10,000,000
- Subject this group to 6.2% tax on marginal income in excess of \$200,000.
- Impose no matching 6.2% SS tax to employers of the above group.
- Revenue raised with conservative estimate brings over \$1.912 Trillion in 10 years

# Social Security benefits, March 2016

Type of beneficiary	Beneficiaries		Total monthly benefits (millions of dollars)	Average monthly benefit (dollars)
	Number (thousands)	Percent		
<b>Total</b>	<b>60,324</b>	<b>100.0</b>	<b>74,285</b>	<b>1,231.42</b>
<b>Old-Age and Survivors Insurance</b>	<b>49,540</b>	<b>82.1</b>	<b>63,259</b>	<b>1,276.94</b>
<b>Retirement benefits</b>	<b>43,463</b>	<b>72.0</b>	<b>56,490</b>	<b>1,299.74</b>
<b>Retired workers</b>	<b>40,449</b>	<b>67.1</b>	<b>54,423</b>	<b>1,345.49</b>
<b>Spouses of retired workers</b>	<b>2,350</b>	<b>3.9</b>	<b>1,633</b>	<b>695.02</b>
<b>Children of retired workers</b>	<b>664</b>	<b>1.1</b>	<b>434</b>	<b>653.10</b>
<b>Survivor benefits</b>	<b>6,077</b>	<b>10.1</b>	<b>6,769</b>	<b>1,113.88</b>
<b>Children of deceased workers</b>	<b>1,918</b>	<b>3.2</b>	<b>1,601</b>	<b>834.45</b>
<b>Widowed mothers and fathers</b>	<b>131</b>	<b>0.2</b>	<b>122</b>	<b>929.41</b>
<b>Nondisabled widow(er)s</b>	<b>3,767</b>	<b>6.2</b>	<b>4,859</b>	<b>1,289.83</b>
<b>Disabled widow(er)s</b>	<b>259</b>	<b>0.4</b>	<b>186</b>	<b>717.99</b>
<b>Parents of deceased workers</b>	<b>1</b>	<b>(L)</b>	<b>1</b>	<b>1,138.39</b>
<b>Disability Insurance</b>	<b>10,785</b>	<b>17.9</b>	<b>11,026</b>	<b>1,022.33</b>
<b>Disabled workers</b>	<b>8,889</b>	<b>14.7</b>	<b>10,362</b>	<b>1,165.74</b>
<b>Spouses of disabled workers</b>	<b>139</b>	<b>0.2</b>	<b>44</b>	<b>319.47</b>
<b>Children of disabled workers</b>	<b>1,757</b>	<b>2.9</b>	<b>619</b>	<b>352.50</b>