



YOUR SOCIAL SECURITY TOOLBOX: THE MECHANICS OF MAXIMIZING BENEFITS

**A WEBINAR FOR EMPLOYEES FROM YOUR
EMPLOYEE ASSISTANCE PROGRAM**

October 13, 2021



Federal
Occupational
Health

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OBJECTIVES

- Understand how Social Security (S.S.) is funded and who qualifies
- Uncover timing strategies for claiming your S.S. benefit
- Discover how to use S.S. for survivor benefit planning and special circumstances
- Understand offsets and taxation
- Review tax scenarios to reveal how maximize your financial plan

SECTION 1

SOCIAL SECURITY 101

HOW IT'S FUNDED

Social Security is funded by:

- Old-Age, Survivors, and Disability Insurance (OASDI)
- Federal Insurance Contributions Act (FICA) taxes
 - You and your employer each pay 6.2%
 - Self-employment taxes paid
- Social Security wage gap
 - Social Security FICA tax is eliminated after earnings of \$142,800

HOW IT'S CALCULATED AND WHO QUALIFIES

Determining the Amount

- Benefit amount is calculated using a formula based on your lifetime earnings, adjusted for inflation
 - The formula applies to your **highest 35 years** of earnings
 - Establishes your Primary Insurance Amount (PIA) at Full Retirement Age (FRA)

Determining Eligibility

- You must have worked at least 40 quarters of covered employment
 - Covered employment means:
 - » You (if self-employed) or your employer pays FICA taxes
 - » You earn income from self-employment or as an employee of a public, private, or governmental institution
 - As of 2021, a quarter is considered three calendar months with earnings of at least \$1,470

CLAIMING AGES

Full Retirement Age	% of Primary Insurance Amount
62	75%
63	80%
64	86.66%
65	93.33%
66*	100%
67	108%
68	116%
69	124%
70	132%

- Note:** FRA isn't when you **must** retire; it's when you are **eligible** to receive 100% of your calculated benefit.

- Eligible to start claiming as early as age 62
 - Benefit amount will be reduced to 75%
- Delayed retirement credits
 - Each month you delay, your benefit amount increases until you reach FRA
 - » *FRA is 66 if born between 1943 and 1954, between 66 and 67 if born after 1954, and 67 if born 1960 or later
 - Once FRA is obtained, your benefit grows by 8% per year until age 70
- At age 70, benefits no longer increase
- Claiming your benefit before FRA **permanently reduces all future benefit amounts**, including spousal benefits

You can view your benefit amount and find other helpful information at [SSA.gov](https://www.ssa.gov)

Create your account today!



SECTION 2

TYPES OF BENEFITS

Spousal, survivor, and special
circumstances

SPOUSAL BENEFITS

For married couples

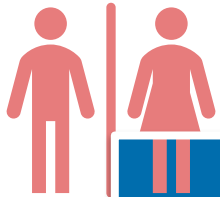
- You're entitled to 50% of your spouse's benefit **OR** 100% of your own (whichever is higher)
- To get the spousal benefit, your spouse must have started claiming their own benefit
 - If you claim prior to your spouse, you will receive your benefit until your spouse claims, at which point you will receive the higher of the two benefits (100% of yours, or 50% of theirs)
- Claiming before FRA affects your spousal benefit
 - The spousal benefit caps out at FRA

SURVIVOR BENEFITS

If one spouse dies, the surviving spouse:

- Receives the higher of
 - The surviving spouse's benefit
 - The deceased spouse's benefit as of their claiming age, and/or date of death if not claimed as of FRA
- Can take the survivor's benefit as early as age 60
 - Any benefit taken by the surviving spouse prior to FRA permanently reduces any survivor benefit
- Can choose to take either their own benefit OR the survivor benefit, without affecting either (i.e., they can take the lower survivor benefit and delay their own until age 70)

SPECIAL CIRCUMSTANCES



Divorce

If you were married at least 10 years and divorced two, all the same rules apply as if you were still married

- **Key Difference:**
If you are divorced, you **do not** need to wait until your spouse is receiving their benefit



Restricted Application

If you were born prior to January 2, 1954, you have the option to use the restricted application process

- Allows you to receive your spousal benefit only, letting your personal benefit to grow until age 70
- Spouse must be collecting in order to use this strategy

SPECIAL CIRCUMSTANCES



Disability

If you become disabled prior to FRA, you can receive your calculated benefit at FRA upon the date of disability

- May be less than your current estimate, as estimated earned income will be reduced



Dependents

If you receive Social Security and have minor children (typically under 18 unless permanently disabled), each dependent is eligible for up to 50% of your benefit subject to a family maximum



Claiming Early

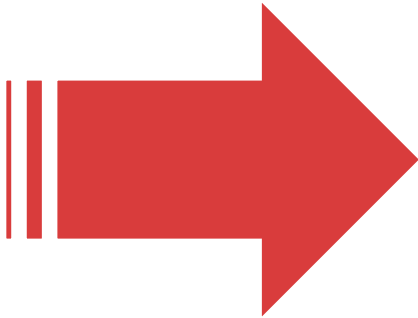
If you claim prior to FRA and have earned income (from a job, not pensions, capital gains, retirement distributions, interest, or dividends), your benefit will be reduced until you reach FRA

- If earned income is over \$18,240, benefits will be reduced by \$1.00 for every \$2.00 above the limit

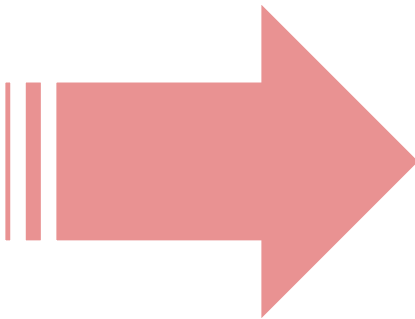
SECTION 3

OFFSETS AND REDUCTIONS

WINDFALL ELIMINATION PROTECTION (WEP) ACT



If you have at least 40 quarters of working history, but also worked for an organization from which you received a pension **and** you did not pay Social Security tax (6.2% FICA) while working there, you are subject to the WEP

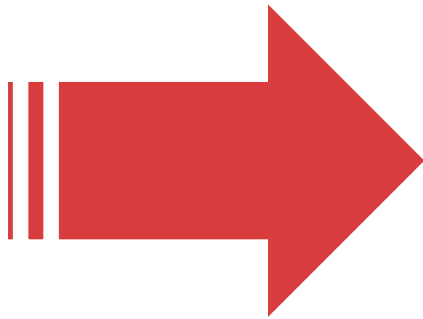


Your Social Security benefit will be reduced by up to \$498, depending on the number of years of service in which you paid into Social Security

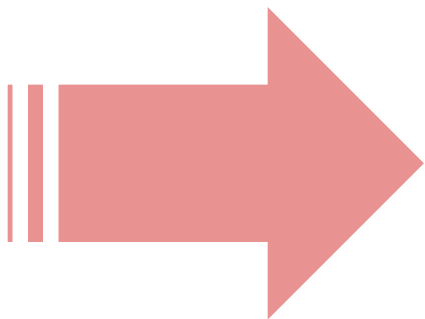
Chart located at:

ssa.gov/planners/retire/wep-chart.html

GOVERNMENT PENSION OFFSET (GPO)



If you received a pension and did not pay Social Security tax for the job associated with the pension, you may be subject to the GPO



Affects Survivor Benefit only

- Reduces the benefit by 2/3 of any pension you receive from a job in which you did not pay Social Security tax

Example: If your survivor benefit is \$100 and your pension is \$100, your survivor benefit will be reduced to \$33

TAXES

Taxability depends on how much **other income** is shown on your 1040

Filing Status	Provisional Income	% of Taxable Social Security Benefits
Single	Up to \$25,000	0%
	\$25,000 – \$34,000	50%
	Over \$34,000	85%
Married (filing jointly)	Up to \$32,000	0%
	\$32,000 – \$44,000	50%
	Over \$44,000	85%

- Provisional income is essentially all income (including tax-free interest earned, pensions, and retirement distributions, interest, capital gains, and dividend income), but **not Roth (unless it is a TSP distribution)**

SECTION 4

SCENARIOS

JOHN AND JANE LIFETIME TAX: STRATEGY 1

- John has a \$500K TSP. Jane claims her Social Security benefit at FRA, but John waits until age 70
 - This strategy* creates a total Social Security income stream of \$47,500 when John turns 70
 - The annual taxes on required minimum distributions (RMD) + Social Security taxes = **\$6,600**
 - » If John lives to 86 years old, that's \$100,000 in taxes
 - » In addition, the TSP is still at about \$500,000, resulting in about \$150,000+ in taxes

*Gives the biggest gross benefit if you live to life expectancy

Ordinary Income	
Taxable Wages:	\$0.00
Taxable Interest Income:	
Tax Free Interest:	
Ordinary Dividends:	
IRA/401K Distirbutions:	\$25,000.00
Pension:	\$26,500.00
Short-Term Capital Gains:	
Other:	
TOTAL:	\$51,500.00
Social Security	
Total Amount:	\$47,500.00
Taxable Ammount SS:	\$32,562.50
Capital Gains Rate	
Qualified Dividends:	
Long-Term Capital Gains:	
TOTAL:	\$0.00
Total AGI:	\$84,062.50
Total Taxable Income:	\$56,662.50
Ordinary Taxable Income:	\$56,662.50
Capital Gains Taxable Income:	\$0.00
Total Tax Bill:	\$6,401.38

JOHN AND JANE LIFETIME TAX: STRATEGY 2

- John and Jane both wait until age 70 to claim Social Security. Two years before turning 70, they change their investments accounts from traditional to tax-free
 - This strategy incurs approximately \$104,000 in taxes over the next two years

Taxable Wages:	\$ -		
Taxable Interest Income:			
Tax Free Interest:		Roth Conversion:	\$237,500
Ordinary Dividends:		Excess Distribution:	
IRA/401K Distributions:	\$25,000	RMD:	
Pension:	\$26,500		
Short-Term Capital Gains:			
Other:			
TOTAL:	\$289,000		
Social Security			
Total Amount:	\$		
Taxable Ammount SS:	\$ -		
Capital Gains Rate			
Qualified Dividends:			
Long-Term Capital Gains:			
TOTAL:	\$ -		
Total AGI:	\$289,000	Total Tax Withheld:	
Total Taxable Income:	\$262,900	Tax to Pay:	\$51,138
Ordinary Taxable Income:	\$262,900	Marginal Bracket:	24%
Capital Gains Taxable Income:	\$ -	Effective Bracket:	17.7%
Total Tax Bill:	\$51,138	Room To Next Ordinary Bracket:	\$66,950

JOHN AND JANE LIFETIME TAX: STRATEGY 2 (CONTINUED)

- This gives them approximately **\$10,000** more in benefits and reduces their annual tax bill by nearly **\$5,000**
- Because the IRA accounts are now completely tax-free, they earn their interest tax-free, their Social Security taxes aren't affected, and their money will go to their heirs tax-free

Ordinary Income	
Taxable Wages:	\$ -
Taxable Interest Income:	
Tax Free Interest:	
Ordinary Dividends:	
IRA/401K Distributions:	\$
Pension:	\$26,500
Short-Term Capital Gains:	
Other:	
TOTAL:	\$26,500
Social Security	
Total Amount:	\$57,000
Taxable Amount SS:	\$15,350
Capital Gains Rate	
Qualified Dividends:	
Long-Term Capital Gains:	
TOTAL:	\$ -
Total AGI:	\$41,850
Total Taxable Income:	\$15,750
Ordinary Taxable Income:	\$15,750
Capital Gains Taxable Income:	\$ -

JOHN AND JANE LIFETIME TAX: STRATEGY COMPARISON

Strategy 1

\$100,000
+ \$150,000 (est. tax on a
\$500,000 inheritance)
= \$250,000 in taxes

Strategy 2

\$100,000 on conversion
+ \$25,000 in total income
= \$125,000 in taxes



By using the right
strategy, John and Jane
saved approximately
\$125,000 in taxes



JOHN AND JANE LIFETIME TAX: DEATH SCENARIO

- When John dies, Jane will likely live another 10 years
- With no tax planning, Jane is still subject to RMDs, and will receive John's death benefit of approximately \$36,000
- Jane is now single, and subject to single brackets
 - Jane's tax bill over the next 10 years will total approximately \$100,000
 - Jane will presumably have a majority of the \$500,000 of traditional IRA monies left, which will be taxed to her heirs

Ordinary Income	
Taxable Wages:	\$ -
Taxable Interest Income:	
Tax Free Interest:	
Ordinary Dividends:	
IRA/401K Distributions:	\$25,000
Pension:	\$26,500
Short-Term Capital Gains:	
Other:	
TOTAL:	\$51,500
Social Security	
Total Amount:	\$36,000
Taxable Amount SS:	\$30,600
Capital Gains Rate	
Qualified Dividends:	
Long-Term Capital Gains:	
TOTAL:	\$ -
Total AGI:	\$82,100
Total Taxable Income:	\$68,050
Ordinary Taxable Income:	\$68,050
Capital Gains Taxable Income:	\$ -
Total Tax Bill:	\$10,719

JOHN AND JANE LIFETIME TAX: DEATH SCENARIO (CONTINUED)

- If John and Jane had done proper tax planning, upon John's death:
 - Jane would owe \$3,000 annually in taxes
 - » Scenario 1: \$10,700 annually
 - » Scenario 2: \$3,000 annually
 - » Annual tax savings for 10 years: \$7,700 per year, or \$77,000
 - How valuable would an extra \$650 per month be?
 - Proper planning resulted in over \$200,000 in lifetime tax savings

Ordinary Income	
Taxable Wages:	\$ -
Taxable Interest Income:	
Tax Free Interest:	
Ordinary Dividends:	
IRA/401K Distributions:	\$ -
Pension:	\$26,500
Short-Term Capital Gains:	
Other:	
TOTAL:	\$26,500
Social Security	
Total Amount:	\$36,000
Taxable Amount SS:	\$13,425
Capital Gains Rate	
Qualified Dividends:	
Long-Term Capital Gains:	
TOTAL:	\$ -
Total AGI:	\$39,925
Total Taxable Income:	\$25,875
Ordinary Taxable Income:	\$25,875
Capital Gains Taxable Income:	\$ -
Total Tax Bill:	\$2,906

SUMMARY

Since we don't know how long we'll live, it's important to consider several factors:

- Does your long-term tax plan line up with your claiming strategy?
- Compared to yours, is there a significant difference in your spouse's earnings or their age?
- Do you have minor children?
- Does restricted application apply?
- Are you divorced?
- How does your pension integrate if you retire early?



Remember:

Social Security is just one piece of the puzzle as you plan for retirement, but it's a crucial piece

RESOURCES

Websites

- Social Security Administration
 - ssa.gov
- AARP
 - aarp.org/retirement/social-security
- Investopedia
 - investopedia.com/social-security-4427727
- The Institute for Financial Education
 - myife.org
 - ifeonline.org

Podcast

- For Your Benefit
 - Weekly episodes, Mondays at 10:00am ET
 - federalnewsnetwork.com/category/federal-insights/for-your-benefit

Book

- *Social Security Handbook 2020*
 - Social Security Administration

Article

- *Budget Basics: How Does Social Security Work?*
 - pgpf.org/budget-basics/how-does-social-security-work

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