

# Elevate Your Retirement: Social Security Strategies for Success

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## Wealth Advisor Making the Complex Simple

- Created **two national AICPA podcast series - Retirement Readiness and Women and Wealth.**
- A **TEDx presenter** on **Retirement: Longevity and Security.**
- Regularly published and quoted in national and local publications, including **The Wall Street Journal, CNBC, US News & World Report, Kiplinger's, The Business Journal, The Tax Adviser, Journal of Accountancy, NCACPA Interim Report, How Stuff Works** and more.



- AICPA ENGAGE Advanced Personal Financial Planning Conference Investment & Risk Management Committee Leads
- AICPA Personal Financial Specialist (PFS) Credential Committee Member
- Greensboro Estate Planning Council Board Member

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- NCACPA Triad Women's Initiatives Group Chair
- Women's Professional Forum Financial Divas Chair
- Plenteous Financial Forum Chair and Founder

# Retirement Planning

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Social Security

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Medicare

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Long-Term Care

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Estate Planning

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Investments

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Income Tax

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Asset Preservation & Income

# Retirement Planning



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## Top Seven Mistakes When Claiming Social Security Benefits

*By Paula S. McMillan, CPA/PFS, CFP®, CGMA*

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At a recent AICPA conference, three CPA tax practitioners, including the author, engaged in a conversation about client services, noting in particular that all were fielding more questions from clients about timing strategies for claiming Social Security retirement benefits. Two of the CPAs heartily offered that they always advise clients to begin claiming benefits as early as possible — age 62.

# One Size Fits One

You have many claiming options.

Decisions have far-reaching consequences.

Choice impacts both spouses.

System is not bankrupt, nor a Ponzi scheme.

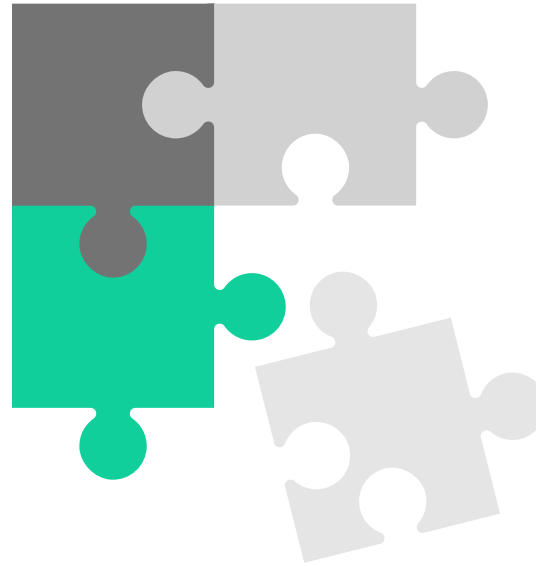
Benefits likely helped a family member.

Your friends aren't experts.

# Baby Boomers Want to Know:

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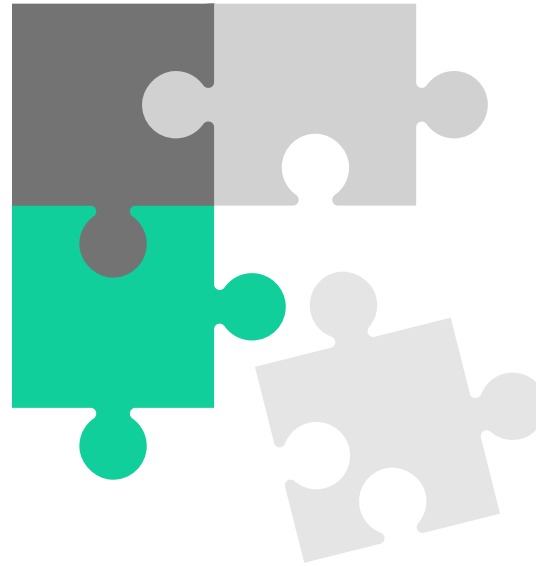
- ▶ Will Social Security be there for me?
- ▶ How much can I expect to receive?
- ▶ When should I apply for Social Security?
- ▶ How can I maximize my benefits?
- ▶ Will Social Security be enough to live on in retirement?



# Baby Boomers Want to Know:

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- ▶ Will Social Security be there for me?
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- ▶ Will Social Security be enough to live on in retirement?



# OASDI Trust Fund Drawdown Begins

Trust fund balance on 12/31/22: **\$2.830 trillion**

## 2023 results

- |                           |                  |
|---------------------------|------------------|
| • Total income:           | \$1.351 trillion |
| • Total expenditures:     | \$1.392 trillion |
| • Net decrease in assets: | -\$41 billion    |

Trust fund balance on 12/31/23: **\$2.788 trillion**

Source: Social Security Administration, Office of the Chief Actuary

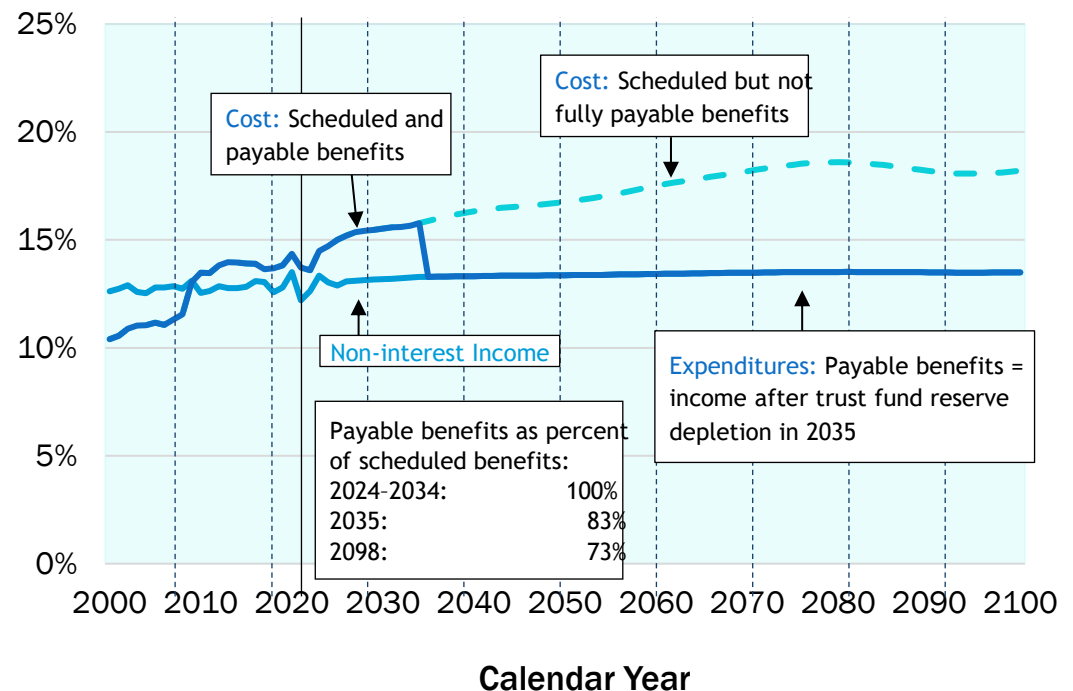


# Long-Term Projections:

Without reform, benefits fall to 83% in 2035

## OASDI Income, Cost and Expenditures as Percentages of Taxable Payroll

[Under Intermediate Assumptions]



Source: 2024 OASDI Trustees Report

# 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 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

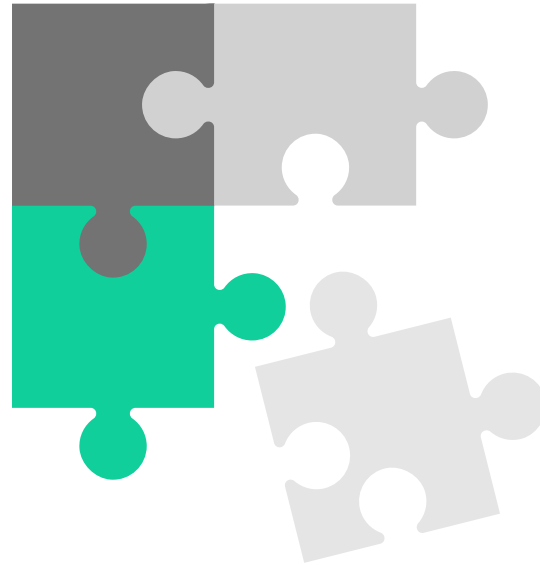
**Reduce cost-of-living adjustments (COLAs)**

**DISCUSSION QUESTION:** How would you go about setting aside your clients' insolvency fears to make them concentrate on the more relevant issue: How they claim their benefits?

# Baby Boomers Want to Know:

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- ▶ Will Social Security be there for me?
- ▶ How much can I expect to receive?
- ▶ When should I apply for Social Security?
- ▶ How can I maximize my benefits?
- ▶ Will Social Security be enough to live on in retirement?



## HOW MUCH YOU RECEIVE DEPENDS ON:



How much  
you earned  
over your  
working  
career



When you  
apply for  
benefits

# 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)

# Example of Benefit Formula

- ▶ Baby Boomer born in 1962—turns 62 in 2024
- ▶ Maximum Social Security earnings every year since age 22
- ▶ AIME = \$13,100

## PIA Formula:

• \$1,174 × 0.90 =	\$1,056.60	
• \$5,904 × 0.32 =	\$1,889.28	(\$7,078 - \$1,174 = \$5,904)
• \$6,022 × 0.15 =	<u>\$ 903.30</u>	(\$13,100 - \$7,078 = \$6,022)
• Total =	\$3,849.18	

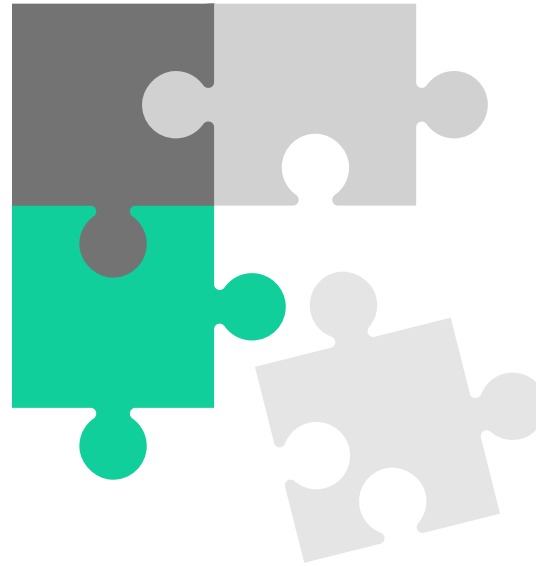
**PIA = \$3,849.10**

Amount worker will receive at full retirement age

# Baby Boomers Want to Know:

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- ▶ Will Social Security be there for me?
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- ▶ How can I maximize my benefits?
- ▶ Will Social Security be enough to live on in retirement?



# 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

Source: [www.ssa.gov](http://www.ssa.gov) As of 10/29/24



# What if You Apply for Early Benefits?

You will receive a percentage of your PLA

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%

Source: [www.ssa.gov](http://www.ssa.gov) As of 10/29/24

# 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%

Source: [www.ssa.gov](http://www.ssa.gov) As of 10/29/24

# How to Estimate Your Social Security Benefits

Obtain your annual Social Security statement at [www.socialsecurity.gov/myaccount](https://www.socialsecurity.gov/myaccount)

OR

Use the Retirement Estimator at your [socialsecurity.gov/myaccount](https://socialsecurity.gov/myaccount)

OR

Use one of the calculators on the SSA website: [www.ssa.gov/planners/benefitcalculators.htm](https://www.ssa.gov/planners/benefitcalculators.htm)

## ALSO CONSIDER...

Health Status

Life Expectancy

Need for Income

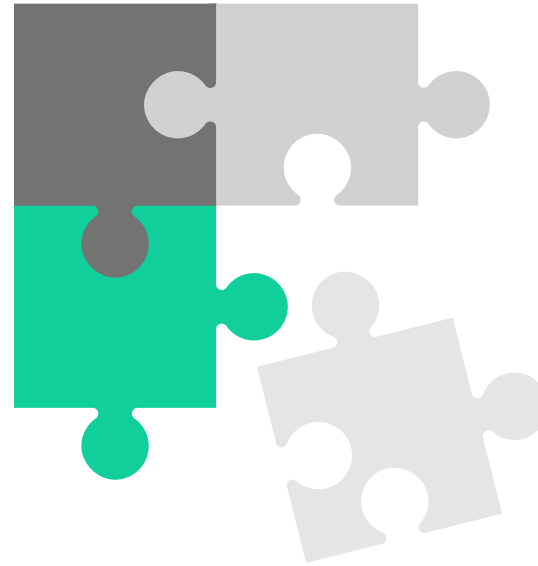
Whether or Not You Plan to  
Work

Survivor Needs

# Baby Boomers Want to Know:

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- ▶ Will Social Security be there for me?
- ▶ How much can I expect to receive?
- ▶ When should I apply for Social Security?
- ▶ How can I maximize my benefits?
- ▶ Will Social Security be enough to live on in retirement?



## WAYS TO MAXIMIZE BENEFITS:

- 1 Improve your earnings record
- 2 Delay the start of benefits
- 3 Maximize spousal or survivor benefits
- 4 Minimize taxes on benefits
- 5 Coordinate benefits with overall retirement income plan

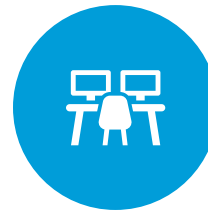
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## STRATEGY #1

for maximizing your benefits

# Improve Your Earnings Record

Consider the following strategies:



Work  
Longer



Earn More

# Impact of Improved Earnings

## Rebecca, age 60

- **Earnings history:**
  - Average earnings 1983-88
  - No earnings 1989-2008
  - Maximum earnings 2009-2020
- **What will her benefit be at age 67 if she...?**
  - Stops working now
  - Keeps working until age 67



source: Horsemouth



# Impact of Continued Earnings

	Age 67 benefit	Monthly income at 85 (today's dollars)	Monthly income at 85 with 2% COLAs	Cumulative benefits at 85 (today's dollars)	Cumulative benefits at 85 with 2% COLAs
Stops working at 60	\$2,000	\$2,000	\$2,856	\$456,000	\$548,173
Keeps working until age 67	\$2,551	\$2,551	\$3,643	\$581,628	\$699,195

DISCUSSION QUESTION: How would you prepare an aging client for the possibility of needing to work longer?

## STRATEGY #2

for maximizing your benefits

# Delay the Start of Benefits

### Consider the following strategies:

- ▶ Apply for Social Security at age 70
- ▶ Receive spousal, divorced-spouse, or survivor benefits from FRA-70

For Illustrative Purposes Only

# Impact of Delayed Benefits

## Michael, age 58 – High Earner

- PIA = \$3,000
- What will his benefit be if he...?
  - Starts Social Security at age 62
  - Starts Social Security at age 70



source: Horsemouth

# Impact of Delaying Benefits

PIA = \$3,000 FRA = 67	Starting benefit	Monthly income at 85* (today's dollars)	Monthly income at 85* with 2% COLAs	Cumulative benefits at 85 (today's dollars)	Cumulative benefits at 85 with 2% COLAs*
Claims Social Security at 62	\$2,100	\$2,100	\$3,311	\$604,800	\$766,631
Claims Social Security at 67	\$3,000	\$3,000	\$4,731	\$755,191	\$907,842
Claims Social Security at 70	\$3,720	\$3,720	\$5,866	\$836,846	\$974,888

\* If Michael dies before age 85, this will be the amount of his wife's survivor benefit

# 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	2,800	3,031
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

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# 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

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# Keep Working: Understand the Annual Earnings Test

In 2024, the Social Security earnings limit is \$22,320 for people younger than full retirement age, and \$59,520 for people who reach full retirement age:

- Younger than full retirement age: For every \$2 earned above \$22,320, \$1 is deducted from Social Security benefit payments.
- Full retirement age: For every \$3 earned above \$59,520, \$1 is deducted from Social Security benefit payments, but only for earnings before the month full retirement age is reached. Once full retirement age is reached, there is no limit on earnings.

*Benefit will be adjusted at Full Retirement Age*

*Don't let this test discourage you from working*

*To avoid the test, wait until Full Retirement Age or later*

## STRATEGY #3

for maximizing your benefits

# Take Advantage of Spousal and Survivor Benefits

### Consider the following strategies:

- ▶ Married couples take advantage of spousal benefits as allowed
- ▶ Divorced spouses claim on former spouse's record if eligible
- ▶ Widow(er)s coordinate survivor and retirement benefits



# Spousal Benefits

## Traditional



source: Horseshoe

Spousal benefit = 50% of the primary worker's PIA if started at full retirement age  
(32.5% if start at 62)

### Example:

- John's PIA is \$2,000
- Jane does not qualify for Social Security on her own work record
- If Jane applies at FRA, her spousal benefit will be \$1,000 (50% of John's PIA)
- If she applies at 62, her spousal benefit will be \$650 (32.5%)
- (John must have filed for benefits to entitle Jane to a spousal benefit)

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# Maximization Strategy



- ▶ Where lower-earning spouse's PIA is more than 50% of higher-earning spouse's PIA
  - Both spouses delay to age 70
- ▶ Maximizes lifetime benefits over average or long-life expectancies

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# Hybrid Strategy



source: Horsemouth

- ▶ 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

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# Spousal Planning Analysis



source: Horseshmouth

## Bob and Betty S

Compared 12701 scenarios in 1.50 seconds

### Assumptions

Scenario date: **10/1/2020**

COLA (nominal): **2.0%**

Current ages: Bob **59** (10/29/1961), Betty **59** (10/29/1961)

PIA: Bob **\$3,000**, Betty **\$1,800**

Life expectancy: Bob **85**, Betty **95**.

### Scenarios

#### 1. Both Claim Early

The goal of this scenario is for each spouse to claim at age 62 or as early as possible afterwards.

**Strategy:**

**Nov 2023:** Bob claims on own record at **age 62** starting at **\$2,242**.

**Nov 2023:** Betty claims on own record at **age 62** starting at **\$1,345**.

**Dec 2046:** Betty claims survivor benefits at **age 85** starting at **\$3,606**.

Lifetime **nominal** benefit : **\$1,743,770**

#### 3. Betty Claims Early, Bob Claims Later

The goal of this hybrid scenario is for the lower-benefit spouse to claim as early as possible and the higher-benefit spouse claim as late as possible.

**Strategy:**

**Nov 2023:** Betty claims on own record at **age 62** starting at **\$1,345**.

**Oct 2031:** Bob claims on own record at **age 70** starting at **\$4,625**.

**Dec 2046:** Betty claims survivor benefits at **age 85** starting at **\$6,350**.

Lifetime **nominal** benefit : **\$2,298,867**

#### 2. Both claim at FRA

The goal of this scenario is for each spouse to claim at full retirement age (FRA) or as early as possible afterwards.

**Strategy:**

**Oct 2028:** Bob claims on own record at **FRA (67)** starting at **\$3,515**.

**Oct 2028:** Betty claims on own record at **FRA (67)** starting at **\$2,109**.

**Dec 2046:** Betty claims survivor benefits at **age 85** starting at **\$5,121**.

Lifetime **nominal** benefit : **\$2,158,052**

#### 4. Maximum Lifetime Nominal Benefit

The goal of this scenario is to search all possible filing strategies and find the one that yields the maximum combined lifetime benefits.

**Strategy:**

**Oct 2031:** Bob claims on own record at **age 70** starting at **\$4,625**.

**Oct 2031:** Betty claims on own record at **age 70** starting at **\$2,775**.

**Dec 2046:** Betty claims survivor benefits at **age 85** starting at **\$6,350**.

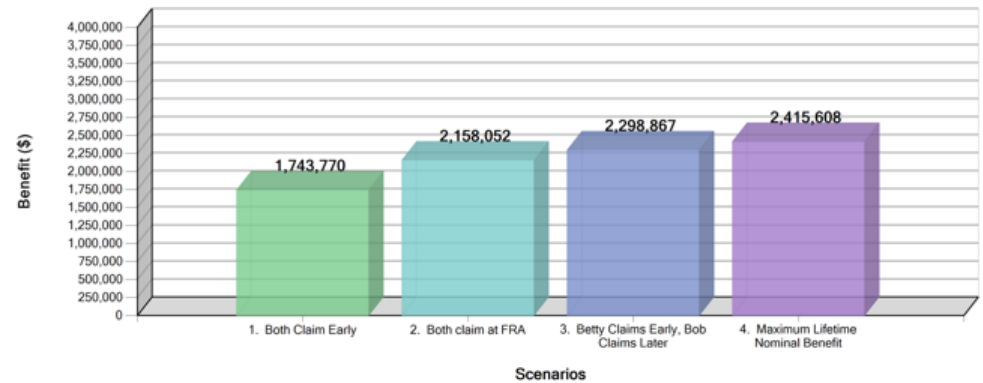
Lifetime **nominal** benefit : **\$2,415,608**

For illustration purposes only.

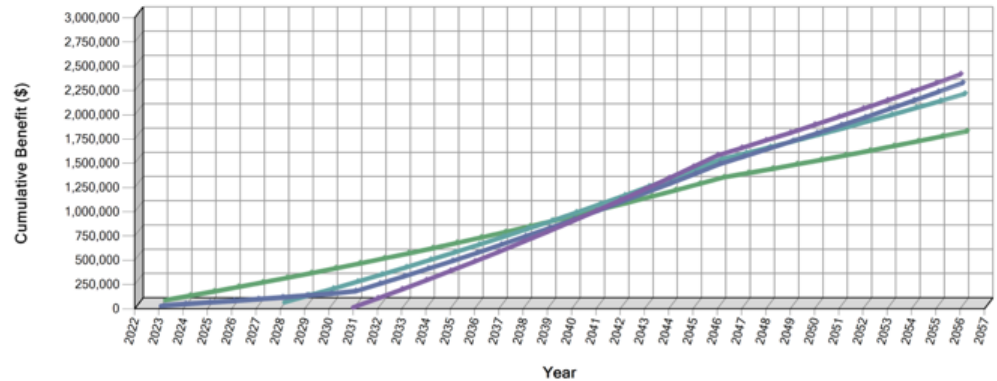
# Spousal Planning Analysis



Cumulative Benefit



Cumulative Benefit Comparison



For illustration purposes only.

# Divorced-Spouse Benefits



source: Horseshmouth

## 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

# 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)

# Survivor Benefits

## Survivor benefit will depend on:

- ▶ The age at which the deceased spouse originally claimed his benefit (the “original benefit”)
  - If deceased claimed before FRA, survivor benefit will be limited to the higher of the deceased spouse’s benefit or 82.5% of his PIA
  - If deceased claimed after FRA, the survivor benefit will include delayed credits
- ▶ **The age at which the widow claims the survivor benefit (the “actual benefit”)**
  - If survivor claims before FRA, the survivor benefit will be a fraction of the original benefit (e.g., 71.5% of PIA if claimed at 60)
  - If survivor claims at FRA or later, the survivor benefit will equal 100% of the original benefit



# Survivor Benefits



If spouse dies while both are receiving benefits, widow(er) may switch to the higher benefit

## Example:

- Joe and Julie are married. Both are over full retirement age.
- Joe's benefit is \$2,000, Julie's benefit is \$1,200.
- Joe dies.
- Julie notifies Social Security and her \$1,200 benefit is replaced by her \$2,000 survivor benefit.

# Survivor Benefits



source: Horseshmouth

## Example of early claiming:

- Joe and Julie are married. Joe is 62. Julie is 60.
- Joe's PIA is \$2,000.
- Joe files for Social Security at 62; his benefit is 70% of \$2,000, or \$1,400.
- Joe dies.
- **Julie's survivor benefit will depend on when she claims it.**
  - If Julie claims her survivor benefit at FRA or later, her benefit will be 82.5% of Joe's \$2,000 PIA, or \$1,650 (special floor for survivor benefits).
  - If Julie claims her survivor benefit at age 60, her benefit will be 71.5% of \$2,000, or \$1,430.

# Survivor Benefits



source: Horseshmouth

## Example of delayed claiming:

- Joe and Julie are married. Joe is 70. Julie is 60.
- Joe's PIA is \$2,000.
- Joe files for Social Security at 70; his benefit is 132% of \$2,000, or \$2,640.
- Joe dies.
- **Julie's survivor benefit will be equal to Joe's benefit of \$2,640.**
  - If Julie claims her survivor benefit at FRA or later, her benefit will be 100% of \$2,640, or \$2,640.
  - If Julie claims her survivor benefit at age 60, her benefit will be 71.5% of \$2,640, or \$1,887.

# 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.

## STRATEGY #4

for maximizing your benefits

# Minimize Taxes on Benefits

### Consider the following strategies:

- ▶ Draw down IRAs early to reduce RMDs
- ▶ Convert IRAs to Roth
- ▶ Shift to tax-advantaged investments (but not municipal bonds)

DISCUSSION QUESTION: How would you help your clients anticipate and minimize the tax consequences of Social Security? Do you have any suggestions beyond what's given here?

# Social Security Benefit Taxation

You will pay tax on your Social Security benefits based on Internal Revenue Service (IRS) rules if you:

- **File a federal tax return as an "individual"** and your combined income\* is
  - Between \$25,000 and \$34,000, you may have to pay income tax on up to 50% of your benefits.
  - More than \$34,000, up to 85% of your benefits may be taxable.
- **File a joint return**, and you and your spouse have a combined income\* that is
  - Between \$32,000 and \$44,000, you may have to pay income tax on up to 50% of your benefits.
  - More than \$44,000, up to 85% of your benefits may be taxable.
- **Are married and file a separate tax return**, you probably will pay taxes on your benefits.

## STRATEGY #5

for maximizing your benefits

# Coordinate Social Security With Overall Retirement Income Plan

Consider:



Retirement  
Accounts



Investment  
Portfolio



Earnings  
from Work

DISCUSSION QUESTION: What other sources of income might be relevant to this discussion?

# Coordinating Social Security with Your Overall Plan

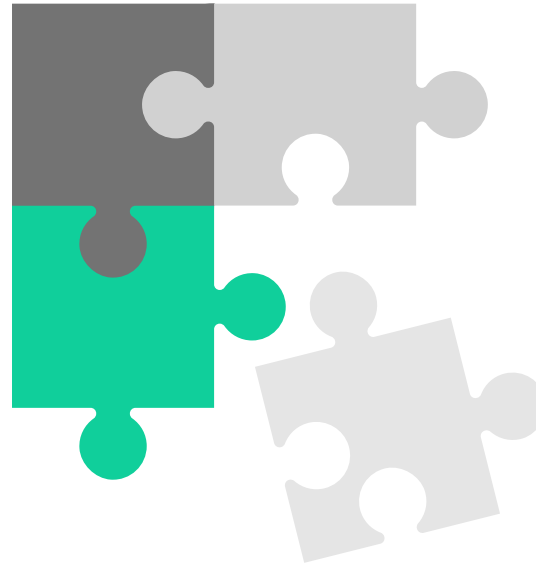
- Reduce other income with tax-advantaged investments (other than municipal bonds)
- Anticipate IRA RMDs, which may put you in a higher tax bracket; Consider drawing down IRAs before age 72
- Convert tradition IRA to Roth
- Delay Social Security; Reduces number of years benefits are subject to tax
- Reduce expenses; pay down debt, adopt simpler lifestyle
- Continue to manage taxes throughout retirement



# Baby Boomers Want to Know:

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- ▶ Will Social Security be there for me?
- ▶ How much can I expect to receive?
- ▶ When should I apply for Social Security?
- ▶ How can I maximize my benefits?
- ▶ Will Social Security be enough to live on in retirement?



# Questions?

- ▶ When should I apply for Social Security?
- ▶ What if I want to keep working?
- ▶ What if I've already applied?
- ▶ How much will my benefit be?
- ▶ How can I coordinate spousal benefits?
- ▶ What's the best long-term strategy for my situation?
- ▶ What do I do next?

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TED TALK: RETIREMENT LONGEVITY & SECURITY



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# Questions?

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