Mellberg FINANCIAL

Maximizing Your SOCIAL SECURITY INCOME

NEW! UPDATED WITH THE LATEST CHANGES IN SOCIAL SECURITY

Little Known Ways to Increase Cash Flow in Retirement

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§The calculations and assumptions discussed within this book are for those who do not qualify for Social Security disability. If you do qualify for Social Security disability, please contact the Social Security Administration to learn more about your potential benefits.

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Maximizing Your Social Security Income

Little Known Ways to Increase Cash Flow in Retirement

Updated Edition of Maximizing Your Social Security Income

In November 2015, Congress passed the Bipartisan Budget Act of 2015. This act contained a provision titled "Closure of Unintended Loopholes" which had a direct and profound effect on the way many retirees will claim their Social Security benefits.

This edition of Maximizing Your Social Security Income has been updated with all the new policies and claiming strategies available to individuals and couples in light of these changes, taking care to make sure you understand your new options.

How to claim your Social Security benefits is one of the most important decisions you can make during retirement and you deserve a comprehensive, easy-to-read, and accurate resource you can turn back to again and again.

Maximizing Your Social Security Income has the latest Social Security information you'll need to know about:

- Early retirement penalties
- Changing Full Retirement Ages
- Credits for delayed retirement
- Primary benefits
- Spousal benefits
- Restricted applications
- Suspended benefits
- Divorcee benefits

- Widow(er) benefits
- Children's benefits
- Child in care exceptions
- Earnings restrictions
- The Social Security "Tax Torpedo"

Each section is covered thoroughly in clear, simple language – without all the jargon and legalese. Chapters are written with you in mind, keeping all the technical details to a minimum and focusing on the information that will help you make the right decisions for your unique situation.

In this book, we're going to share with you…

- How you could wind up paying taxes on as much as 85% of your Social Security benefits.
- How you could lose benefits due to other earnings.
- Some of the new challenges retirees are facing today.

But here's what we're most excited about:

- 5 ALL NEW case studies covering a range of unique scenarios to help give you a better idea of what the best claiming strategies might be for you.

Contents

CHAPTER 1

Social Security: America's Greatest Asset

Ida May Fuller

On January 31, 1940, Ida May Fuller became the first American to receive a Social Security check.

At the time, Social Security was abstract and new. It wasn't something that retirees had spent their working lives contributing to, or expecting much of a return from. At that point, it hadn't really become a deeply ingrained part of their retirement plan.

Fuller, herself, was out on another errand when she dropped into the Social Security office on November 4, 1939. She ended up filing that day, but said this of the experience: "It wasn't that I expected anything, mind you, but I knew I'd been paying for something called Social Security and I wanted to ask the people in Rutland about it."

Does that sound familiar to you? Even 75 years later, many of us approach the subject in an unorganized way. You know that you've been paying into this thing, and are aware that you can get something back out of it.

Ida May Fuller with her Social Security check

And, like Ida May, many of us simply aren't putting a lot of forethought or planning into how we'll make that work for us. We just sign up when we know it's due and start collecting.

But, Social Security has changed a lot since Ida May's day – and mostly for the better – as far as today's seniors are concerned. Each U.S. worker today now has the ability to strategically gain a lot more than they could the day that Ida May stepped into her local Social Security office.

By our assessment, there are now hundreds of benefit strategies a retiree or near-retiree, single or married, can turn on and receive their benefits. All of those variations can result in not only a dif-

ferent monthly benefit for you, but also a different benefit for your spouse, or potential survivors, and a different benefit over your total lifetime. We won't cover every single combination in this book, but we will give you an idea of the factors you may want to consider for your own personal situation.

Needless to say, you could gain a lot more than Ida May Fuller ever did by doing more than simply dropping by the office one day while running an errand.

Let's get back to Ida May's story, and see what that fateful day earned her.

Over the course of three years in the 1930s, Ida May paid just $24.75 in Social Security contributions. We all know that $24.75 was a much bigger chunk of change back then than it is today.[1]

Using the calculator over at the Bureau of Labor Statistics to find out just how much that would be today, that $24.75 becomes nearly $350.00.[2]

So now we have a pretty fair picture of just how much money Ida May paid in total in Social Security taxes.

But how much did she get back out of it?

By the time she passed away in 1975, Ida May had collected $22,888 in Social Security benefits. And that figure doesn't take into account the inflation that has occurred in the almost 40 years since then.[1]

That would have been $100,465.13 by today's calculations. Needless to say, that is a serious return on investment (ROI)!

Most U.S. workers won't see a return like that in their own benefit amount. Ida May lived at the inception of the Social Security program, which means that she didn't have to work 40 quarters (10 years) in a job that collected for Social Security in order to receive benefits.

As you'll see in the upcoming sections, many retirees can draw a sizable benefit when they strategize and make more informed decisions, and this benefit may greatly improve their quality of life throughout the entirety of their retirement.

And while you might not see a 92,000% return on investment like Ida May did, you may be surprised to find out just how well Social Security can work for you. In many cases, Social Security may prove to yield higher ROIs than some investment vehicles out there.

One of the many reasons this is the case is because Social Security benefits pay out over your lifetime, rather than just until an investment balance hits zero. To get an idea of just how critical this one aspect can be to your later-life financial stability, let's return to the example of Ida May.

When she was born in 1874, the average life expectancy for a woman was about 42 years old.[3] Ida May ended up living to be 100.[1]

Since that's nearly 60 years longer than she could have expected to live when she was born, that tells us there's a good chance many of us could live much longer than we were projected to at the time we were born. According to Dr. Aubrey de Grey, a researcher in gerontology, the first person to live to 150 has already been born.[4] While that person may not be you, it's worth preparing for a very long life.

An important question you may need to ask yourself is, "How likely is it that my other current retirement funds will last if I were to live significantly longer than expected?" If there's a chance they may not see you through all the way, it's worth finding out how to maximize the income that will keep on coming.

In the chart below, we use data collected from the SSA.gov website[5] to give you an idea of how many years of retirement a person may have to prepare for depending on at what age they choose to retire. And, keep in mind that that's just based off of the medical advances we have right now. How long will medical advances preserve your life with discoveries that are yet to be made?

CURRENT LIFE EXPECTANCIES

Chart created by associates of J.D. Mellberg Financial using information from www.ssa.gov.

Social Security is guaranteed income for retired U.S. workers for life regardless of your life expectancy, but how much that guaranteed check will be goes well beyond how much you earned when you were working.

The Social Security Administration calculates your retirement benefit using the top-earning 35 years of your working life. The calculation applies $0 for any of the 35 years you weren't working.

Then, to maximize what you receive, based off your record, depends on how and when you claim it.

The number of any other retirement vehicles with the same features: (1) that will keep paying you as long as you live, no matter how long you live, and (2) are already yours to claim no additional action on your part are minimal. We think anything that can help you get every cent you're owed out of this system is a tool worth having at your disposal. That's why we've dedicated an entire book to this subject—because we believe it's that important.

Before we jump into some of the things you may want to do with Social Security benefit decisions, let's talk about some of the things you should avoid.

Not Maximizing Social Security and Other Costly Mistakes

As of this printing, there are hundreds of options to collecting your Social Security benefits. Many retirees, or near-retirees, are not aware of this! Or, if they are aware of some of the options, they are

either not sure how to take advantage of this flexibility, or aren't certain that it will make enough of a difference in their benefit amounts to warrant investing the time.

As we'll show you in upcoming sections, choosing one strategy over another can mean a difference of tens of thousands of dollars over your lifetime, and even as much as hundreds of thousands of dollars received in lifetime benefits, and hundreds of dollars on the check that you receive every month.

If you think you'd like several hundred more dollars every month on your check, then read on to learn about some of the biggest misjudgments in claiming methods.

Mistake #1: Rushing to collect your benefits

The #1 mistake we see many retirees making – especially these days– is rushing to claim their benefits check at the earliest time possible.

While the best strategy will vary from one retiree to the next, and is a very personal decision that needs to factor in all of your own personal needs and current assets, for many U.S. retirees, taking Social Security out at the earliest possible time is not going to be optimal for them.

Every person has a Full Retirement Age (FRA), as designated by the Social Security Administration (SSA). What that age is depends on the year of your birth, but for most people reading this book, it will be between age 66 and age 67.

If you can wait to begin collecting benefits, and you happen to live a long time (or if your spouse lives for a long time), then drawing benefits too early can definitely be your #1 mistake when it comes to maximizing your Social Security.

You can change your mind for up to a year after you turn on your benefits (in which case you would have to pay back all benefits received up until then) but once past that point, there is no turning back.

This is what often leads people to Mistake #2.

Mistake #2: Believing That Social Security Will Go Broke

Like most workers in the U.S., you will have received a statement in the mail that looks a lot like the statement on the next page:

While all of that sounds scary, there are a number of reasons why we believe that Social Security will not be going away for retirees and near-retirees or have any major changes made to them.

We will get a little more into those in a bit, but for now, we will just point out that the operative part of this whole statement is, "without changes…"

There are many reasons to believe that the Social Security Administration, and Congress, will in fact make those necessary changes to help preserve your Social Security checks every month.

revent identity theft—protect your Social Security number

Your Social Security Statement

www.socialsecurity.gov

See inside for your personal information

What's inside…

ial Security Means To You

rity Statement can help you plan
ıl future. It provides estimates of
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security for its workers and their families. Now, however, the Social Security system is facing serious financial problems, and action is needed soon to make sure the system will be sound when today's younger workers are ready for retirement.

Without changes, in 2033 the Social Security Trust Fund will be able to pay only about 77 cents for each dollar of scheduled benefits.* We need to resolve these issues soon to make sure Social Security continues to provide a foundation of protection for future generations.

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 (66 years), your payment would be about	$ 2,158	a month
age 70, your payment would be about	$ 2,848	a month
age 62, your payment would be about	$ 1,625	a month

In that last paragraph, the document mentions that:

> *Without changes, in 2033 the Social Security Trust Fund will be able to pay only about 77 cents for each dollar of scheduled benefits. *We need to resolve these issues soon to make sure Social Security continues to provide a foundation of protection for future generations.*

Nevertheless, this statement has prompted many of us to take out their Social Security benefits as early as possible.

Mistake #3: Not Taking Uncle Sam's BEST Offer

As you'll see throughout this book, there are a multitude of factors that go into how much you'll collect from Social Security over the course of your lifetime. Using a claiming strategy that isn't optimized for you and your personal situation can end up costing you tens of thousands, or even hundreds of thousands of dollars over the course of your life.

For example, you could be turning down hundreds of dollars every month by choosing to turn on your benefits early, OR you could be passing up 32% increased income and maximized lifetime inflation increases if you don't wait to accrue Delayed Retirement Credits! There are, of course, cases where neither of these are the best decision, it all depends on you: your own goals, needs, health situation, etc.

No matter what your neighbors or family try to tell you the "best" solution is, don't make any decisions until you've sat down and evaluated how it all fits into your retirement.

Mistake #4: Just Letting Social Security "Happen"

Many U.S. retirees aren't aware that they can have a huge impact on how much they will receive in monthly and lifetime benefits just depending on how they choose to take their benefits!

We've found that many people assume that their benefits will be what they will be and simply let it happen, without taking the reins and enjoying retirement on their terms.

While things like timing, spousal benefits, and tax implications might not seem like they'll have a lot of meaning when it comes to the quality of your life, each of these decisions is altering your benefit amount. That altered amount can mean the difference between two different retirement lifestyles you were looking at, maybe taking that extra vacation, shopping for clothes, or even how often you'll get to go out for dinner.

Needless to say, a little bit of time invested in making decisions about your Social Security benefits could actually affect how much you enjoy your later years.

Mistake #5: Not considering How Other Income Sources May Impact Your Social Security benefits

At first glance, it may seem like a great idea to keep working and begin collecting your Social Security benefits as soon as possible.

After all, why wouldn't it?

Many retirees even figure that they'll just start drawing those benefits and put them straight away into an investment on the chance that it might grow by the time they actually need the money.

But the drawback with this idea is that the money you use to purchase an investment vehicle may not be secured. There's no guarantee you'll be able to get your principal back, much less turn a profit.

Ask yourself this question: would you rather have a *chance* at higher income for life, or would you rather *know* you'll have higher income for life?

We, of course, already talked about how drawing benefits early can lower monthly income for you and your surviving spouse for your lifetime. Add to that the tax liability on that benefit, if you continue to work until Full Retirement Age. Those two situations could have serious impact on your lifetime benefit.

Later on in this book, we will give you more information on how other income sources can impact your Social Security benefits, and what you can do to help minimize how much more might be withheld from your check.

Mistake #6: Not Considering Tax Implications

The topic of tax implications is an issue that many seniors may not be aware of. While you may have put in the effort to strategize and maximize other aspects of your Social Security benefits, many of those dollars could still be forfeited if you do not also address how they will be taxed!

Ask yourself: "Will those extra dollars help improve my retirement lifestyle if they just go back into paying taxes?"

What good does it do you to have that extra money if it's not yours to keep?

The taxes range from 0% of your benefits being taxed to as much as 85%!

If you think that sounds like a big difference in how much money you will actually be able to enjoy, then make sure you remember this very important consideration! It is the final piece to your Social Security strategy.

We will talk about this area in greater detail and include some tips on ways you might be able to help minimize the taxes on your Social Security benefits later in this report.

America's Greatest Asset: Understanding Strategies and How They Can Work for You

A tax professional and licensed financial professional can work with you to ensure you will get the absolute best offer you can from Uncle Sam when it comes to your Social Security benefits – but we aim to give you enough information in this book to help you be aware of the options available to you.

Maximizing your Social Security benefits can lead to a higher quality of life in your later years and we want to help you live that better life.

Coming up in this book, we will discuss:

- What the future of the Social Security Administration could look like
- Some ways Social Security benefits might change in the future
- The effects that the retirement age you choose can have on the benefits you will receive for the rest of your life
- How spousal benefits work, how you can potentially maximize them, and how they can affect your own benefit depending on when you were born and what you have planned.
- How survivor benefits work, and how you can ensure the highest benefit that you may be leaving to your spouse and/or children
- How other income sources might impact your Social Security benefits
- What the "tax torpedo" is and how you can temper the effect it could have on the money you are able to take home and use

We also have a bonus section on what is commonly called the "crisis in retirement income planning" to help you take your financial stability in your later life one step further.

In the next section, we'll talk about why Social Security exists, how it's changed, and what this says about the trends in how Social Security laws are created and passed.

This is information that we think will help give you a very solid idea of where the Social Security Administration programs could be headed next.

CHAPTER 2

The Story Behind Social Security in the United States

Today, many of us take the existence of Social Security for granted, but when it was created, it took a lot of political positioning to make it happen.

Congress didn't go through all the effort to put the Social Security benefits in place for no reason. Social Security was as important to the well-being of U.S. workers then as it is today.

When something has been around for as long as Social Security, we may start to wonder if it is still necessary, and if it isn't necessary, whether or not politicians and law makers will do away with it.

Without understanding what it was like before Social Security, we may not be in a good position to understand its importance or its future. That is why here we will discuss the conception of Social Security and:

- Why it was important to politicians
- Why it was important to seniors
- Why it was important to families

- Why it didn't exist before
- Why it exists now
- Why all of these things indicate that it is likely to continue to exist in the future

First, let's talk about what Social Security benefits are. Social Security is a form of "social insurance," but what does that mean?[2]

In effect, when you make your tax contributions to Social Security during your working years, you are buying this "insurance." All forms of insurance are meant to protect you against some identified risk and this case is no different. With Social Security, the 'risk' is the reduced capacity to generate income in later life. Most U.S. workers pay into a pool of funds that gets distributed to those who need it, when they need it. As with many of the risks involved in all forms of insurance, there are some people in the pool of the insured who will need the benefit more than others. Unlike other insurance protection, however, you don't have to suffer from calamity in order to collect on it. Everybody who meets the criteria gets to collect.

When we say that it is a social insurance, we are referring to its implementation for the benefit of a society – in our case, the United States. While the Industrial Revolution ushered in new challenges for many more elderly than previous eras saw, the Social Security program wasn't the first manifestation of people coming together to help ensure members would have the financial means to provide for themselves – and possibly their families – after they stopped earning a working wage.

Social Insurance in History

The earliest forms of social insurance we know of sprung up during the Middle Ages in Europe. This early manifestation was in the form of trade guilds.[6]

Members of a particular profession would band together to protect their own. These guilds served many functions, one of which was to provide to its members financial help in times of poverty or illness.

Among the first examples of this concept being adopted by a government is what is referred to as the English "Poor Laws." These came about in 1601 and allowed taxes to be collected which would fund relief activities for the poor. Not all impoverished citizens were eligible to receive these relief efforts, however.[7]

Citizens in need were divided into two categories: the 'worthy' and the 'unworthy.' [7]

Execution of the Poor Laws was left up to individual parishes that served as the primary judges as to who might fall into either category. As part of the laws, parish leaders were able to reject persons who were deemed to be unworthy of the assistance.[7]

Early Social Insurance in America

As English settlers immigrated to America, they brought with them the historical practices behind the Poor Laws of their home country.

In colonial America, these practices took shape in ways that actively discouraged the poor from asking for support. Anyone seeking shelter in almshouses (residences for poor, old and distressed people) could expect any or all of the following sanctions:[7]

1) Loss of personal property
2) Revocation of the right to vote
3) Loss of the right to move
4) Required to wear a "P" on their clothing

This was the reality of many elderly during the colonial era as the most impoverished citizens were those who were no longer able to work – especially during times when much of the available work was manual labor. Already in a difficult place, America's early version of the Poor Laws only made later-life that much more difficult.

As society progressed, it became a concern of the people that the elderly were forced to live in such despondency. Many states adopted new policies aimed at genuinely supporting those who had worked so hard in the generations before them.

By 1935, 30 separate states had enacted some such program of their own and the laws outlined in the original Social Security Act were largely based on what those states were already doing.[7]

Social Security Goes Federal

While sponsored support for the elderly has been a question in need of answering since antiquity, the majority of seniors past working age were primarily cared for by their own families.[7]

While in some cases, this may have meant caring for their physical needs, often it simply meant that the parents and grandparents of current workers lived with them and were active, albeit non-working members of their households. Large extended families living under one roof used to be common place, and many cultures around the world have built in customs and expectations regarding who will be responsible for looking after their parents and grandparents when the need arises.[7]

Aside from being cared for by one's own family, the dynamics of making a living also used to be much different than they are today. Rather than working for companies, people in the past have typically worked as farmers or as tradesmen.[7]

When industrialization came to America, a number of things changed these dynamics and placed the elderly in an even more precarious position than they had been in before.[7]

For one, with industrialization came a high concentration of jobs available in the city. When young workers moved into the city for work opportunities, their older parents and grandparents tended to stay in the rural areas on their own.[7]

Another problem arose from the fact that Americans were no longer working their own land for themselves, but began to work for corporations. This placed their financial stability outside of their control. They were at the mercy of national economic conditions, recessions, layoffs and failed businesses.[7]

As these issues became a reality for an increasing number of U.S. workers, a number of protests and movements took place across

the nation, calling for something to be done by those in power to protect their citizens.[7]

In response to these demands for action, and as the latest chapter in the long journey towards helping guarantee the financial security of elders, President Franklin D. Roosevelt signed the Social Security Act into law on August 14, 1935.[7]

CHAPTER 3

How Social Security Has Evolved to the Benefit of Retirees

If the past can shed any light on the future, then taking a look at how the laws and policies regarding Social Security have changed can be very revealing.

As you'll see, many have trended in the retiree's favor – such as allowing for more benefits to be drawn – and with more options. The trend has also favored spouses, survivors and dependent children increasingly over time.

Lawmakers have long recognized how critical this asset is to the people they represent and have been intent on preserving it and making it better. It's important to note this trend, because it suggests something that we will dive into much more deeply in the next section.

The Rules When Social Security Was Born

Social Security rules weren't always as generous as they are today. While concerns about the funding of Social Security abound, it is worth noting that the benefits afforded seniors have a trend of increasing, not decreasing throughout its history.[8]

Not only have the benefits to recipients been increased but the Social Security Administration has also expanded who may participate.[8]

While much of the original Social Security structure has remained the same from its inception until now, you may be surprised by a few of the early rules, and what they meant for those early retirees.[8]

1. *There was originally no spousal or survivor benefit.*

   When a man died who had worked and paid into the pro gram his whole life while his spouse raised their children, there would be no benefit left to his widow, or to any dependent children they may have had.

2. *Even with regard to the worker benefit, Social Security began as a much more exclusive program than what we know today.*

   The original provisions were very specific that only jobs in the following categories would be eligible for benefits:

   a. Industry
   b. Commerce

3. *While only those select categories were included in the original structure, other trades were flat out excluded from participation in the program:*

   a. agriculture
   b. domestic servitude
   c. casual labor
   d. trade
   e. business
   f. officers

g. naval industry
h. Federal Government
i. State and local governments
j. nonprofits
k. self-employed

4. *Offered only for those seniors over 65 years of age. There were no early benefits – with a penalty or not.*

The Social Security Act also included provisions that are no longer associated with the program these days such as insurance for the unemployed and aid to dependent children. And it did feature an early manifestation of what would later become Medicare in that it set aside money for the states to provide medical care to their citizens.[8]

Like today, benefits were based on payroll taxes, though the calculations have changed considerably over time.[8]

Law and Policy Changes throughout the Years

Your benefits today would look very different without the law and policy changes that have taken place.

For instance, under the original regulations, there were no spousal benefits, no divorcee benefits, and no survivor benefits. Social Security beneficiaries didn't receive a single Cost of Living Adjustment (COLA) for the first decade of benefits because there were no provisions for such a raise. And seniors in these early decades didn't have the option of retiring early. There was no Full Retirement Age or Delayed Retirement Credits, there was just retirement at age 65.

We'll delve into these while covering just a handful of the scores of policy changes that have been put in place – the ones that have had the most dramatic effect on retirees and their families.

The underlying truth that we find particularly interesting in all these changes is that laws have increasingly favored beneficiaries, and a growing number of citizens who have qualified for benefits. As time progresses, Congress has opted to give our elderly more and more in return for their working contributions.

It is also useful to consider the many variations of Social Security that have been given life. It is by no means an all-or-nothing resource. It can take whatever form is perceived to be most needed to serve the people of the time.

Changes Regarding Spousal Benefits

When Social Security was first envisioned and enacted, the focus was directed on the fates of workers, which at the time were predominately men. As the support of a family had always fallen to the man of the house in the first place, it wasn't the primary concern of the Social Security Administration to figure out how women and dependent children would be insured against the same risks that primary workers faced.[8]

There was nothing that would allow a spouse, divorced spouse, or survivor of a deceased worker to collect any form of benefit.

That changed, however, even before the first benefits were ever paid. In 1939, the year before the first recipients were scheduled to receive their checks, a series of amendments were passed that shifted the focus from only repaying the worker to creating greater security for the family.[8]

Benefits were added that allowed a widow to receive 75% of the deceased worker's Primary Insurance Amount, and all other dependents to receive 50% of their benefit (this included spouses and children under the age of 16). A wife or widow would have to be at least 65 years old to receive their benefits.[8]

Benefits for divorcees came in 1965.[8]

In 1956, the age at which a female spouse could receive her spousal benefit was lowered to 62 (this age applied to her worker and survivor benefits, as well). In 1961, the same options were made available to men as well.[8]

In 1965, the age at which a widow or widower could begin collecting survivor's benefits was lowered to 60 – the lowest age at which anyone is able to collect benefits.[8]

Why Was This Important?

Imagine that you were a married woman back in the 1930s. Back then, it wasn't especially common for women to work – and if they did work, it was often for meager pay that would be difficult to live on.

It was imperative that a woman have a husband who worked and was able to support her and the rest of their family.

But, what if something were to happen to him? With the societal structure of the time, it would have been very difficult for his surviving spouse to find the sort of work that she and her family could live off of.

Adding in the survivor benefit allowed the non-working spouse to still have a means of financial survival should a tragedy occur.

In 1992, the Defense of Marriage Act (DOMA) was signed into law which allowed states to deny spousal benefits to any but heterosexual married couples. In 2013, Section 3 of DOMA was found unconstitutional by the Supreme Court, which secured equal federal benefits of any kind to same-sex couples who were legally married or in civil partnerships.[9]

In November 2015, as part of the Bipartisan Budget Act of 2015, Congress passed a major change to Social Security benefits – the "Closure of Unintended Loopholes" provision – affecting married couples. The biggest impact this group of changes had on Social Security was the elimination of what's frequently referred to as the "file and suspend" strategy.

Change to Suspending Benefits:

For anyone who had not already suspended their benefits prior to May 1st, 2016, it eliminated the ability of a spouse, or other family member such as dependent children, to still receive spousal of dependent children benefits when the primary account is suspended.

Change to Claiming Spousal Benefits:

Spouses: if you were 62 or older by 1/1/16, you will still be eligible to file a restricted application and take spousal benefits once you reach your Full Retirement Age of 66, while your primary benefits can accrue Delayed Retirement Credits up until age 70.

Turn to chapter 4 for more information.

Changes Regarding Cost of Living Adjustments

Prior to 1950, whenever a beneficiary retired, they were assigned a payment amount based on their work history – what we now call the Primary Insurance Amount – and that payment remained the same for the rest of the beneficiary's life despite inflation, therefore reduced buying power of those checks year after year.[1]

Luckily, in 1950, Congress enacted the very first COLA – or Cost of Living Adjustment — for those already receiving benefits.[1]

It should be noted that this was not instituted as a regular adjustment but as a one-time, manual adjustment that had to be passed as its own law through Congress.[1]

Congress would continue to make COLA adjustments in this long-form way for the next couple of decades until a new law was passed that allowed

What Does This Mean For You?

Remember Ida May Fuller from the beginning of this book? As we mentioned earlier, Ida May received the first Social Security check ever issued, back in January of 1940. That check was for $22.54. Each subsequent check she received from 1940 until 1950 was also for $22.54.

With inflation, the buying power of that $22.54 in 1940 was reduced to the equivalent of $13.09 by 1950 due to inflation. That means that over the course of just one decade, Ida May was only receiving 58% of her original benefit amount!

Can you imagine the impact this would have on you today, and throughout your retirement – which could easily be 30 years or more – if this rule change had never taken place?

for automatic adjustments to be made annually.[1]

Between 1975 and 1995, 21 COLA adjustments were made to keep pace with inflation. Compare that to the two decades prior when only 6 adjustments were made.[1]

We can see the monumental need for today's automatic adjustments if we take for example the time span between 1965 and 1969 – a period of 4 years during which no adjustments were made at all.[1]

If a beneficiary was receiving $1000 from the COLA set forth in 1965, that same $1000 check in 1969 – at the time when the next COLA was put into place – would only have the same buying power as $844.69 would have had when they were first assigned that amount.

Changes Regarding Retirement Age

We've been discussing how retirees today need to be aware of how important the decision is about when to turn on their

What Does This Mean for Retirees?

For many, we believe one of the best decisions any retiree can make — assuming suitable physical and financial condition — is to delay retirement past the Full Retirement Age to accrue some of these Delayed Retirement Credits!

We'll go into it in more detail later, but for a worker whose primary insurance amount (PIA) is $1000, this Delayed Retirement Credit could spell an extra $300+ per check every single month for the rest of their lives!

And that's just basing the primary amount off a fairly modest figure. For those with higher PIAs, the added monthly benefit for Delayed Retirement Credits just continues to go up.

benefits, but for a very long time, there was no such option available. The retirement age was 65 and that was that. It wasn't until relatively recently – 1983 – that the full retirement age was raised from age 65 to age 66 depending on the year of birth of the recipient.

Starting in 1956, women could take an early retirement as soon as age 62, but with reduced monthly checks to reflect the longer time frame over which they would be receiving said benefits.

Men could still only start receiving benefits at their Full Retirement Age (FRA) of 65 until 1961, when the law was changed again to also allow men to retire beginning at age 62, if they so chose.

In 1972, Congress added the Delayed Retirement Credit for those who opted to begin collecting their benefits up to four years after their Full Retirement Age. For those who delay there is a guaranteed 8% increase built into their monthly benefit check for each year that they defer until the age of 70.[10]

How Social Security Might Change in the Future

One of the biggest factors we see driving people to collect early (often resulting in a significant reduction in monthly and lifetime benefit amounts), is the concern with the underfunding of Social Security and the possibility of benefits going away.

Indeed, there has been a lot of talk about some of the problems and dangers posed to the Social Security fund, but there are a number of reasons why many of us in the financial industry are confident it won't be going away for those who are retired or near-retirement.

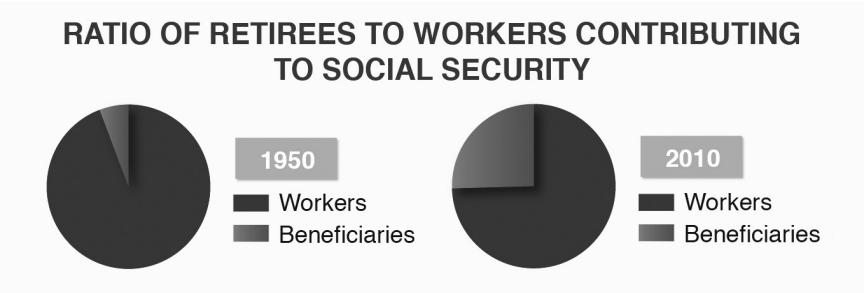


Chart created by associates of J.D. Mellberg Financial using information from www.ssa.gov.

For starters, there are the purely political reasons. Lawmakers want to get re-elected and a large and influential voter base is the 55 and older demographic. Those elected officials aren't going to do anything to jeopardize the security of that demographic.

Aside from politicians wanting to adequately represent their constituents, the Social Security program is likely going to remain a priority today for the same reasons that it was established in the first place. Social Security benefits are critical to a large number of seniors as a means of income in later life. To take it away at this point would seriously challenge their ability to remain afloat.

But of course, something must be done, right? As the number of retirees rises with baby boomers aging, the ratio of current workers contributing compared to the number of beneficiaries withdrawing *drops.*[11]

There have been many options proposed that would take place before Social Security is allowed to go away.

- Raise the Full Retirement Age for the younger generations
- Increase tax paid by current workers
- Adjust Consumer Price Index (CPI) numbers accordingly
- Levy more restrictive earning allowances
- Some combination(s) of the above

So, while there are, indeed, concerns about the future of Social Security, we think that the chances that they will have a great deal of impact on current retirees or near-retirees today are slim.

With the future of Social Security benefits looking positive, we return to the question of ways you can maximize your benefit over the course of your life.

CHAPTER 4

There are Hundreds of Ways to Turn On Social Security Benefits: What You Should Know

This chapter is dedicated to informing you about the most important policies regarding how you can claim your benefits. When you put all the rules we're going to go over together and apply them in all their various combinations, by our count there are hundreds of different options to potentially help you get the optimal benefit for your personal situation.

In this chapter, we explore what many of the rules are regarding receipt of Social Security payments, and a number of ways you can use those rules to your benefit.

Retirement Age

The age at which you retire and begin collecting Social Security benefits is no small decision.

When you turn on Social Security, it produces a multitude of different outcomes and has the potential to dramatically impact everything else we'll discuss in this book.

For every month that you decide to turn on Social Security before that Full Retirement Age (FRA), the SSA administers a penalty to your benefits. The earlier you turn on your benefits, the greater the penalty is. We will explain how much of a penalty you will incur if you take out your Social Security at various ages later in this report, but for right now, let's assume that you want to draw your benefits at the very earliest moment possible – that is, at age 62.[§]

You've probably seen a chart much like this one before, and will again, as we'll reference similar ones several more times in this book. This chart illustrates how your monthly benefit check gets larger as you delay turning on your Social Security benefits year by year, or smaller the earlier you claim.

In the center is your Primary Insurance Amount (PIA). Your PIA is what all other calculations are based on, and the amount you'll receive if you choose to begin collecting at your Full Retirement Age.

This chart assumes a Full Retirement Age of 66 (which does change, depending on which year you were born; we will give you more information on this later), and a base benefit amount of $1,000 per month. Anything to the left of the arrow reflects the reductions applied for early retirement and anything to the right reflects accrued credits for delaying retirement.

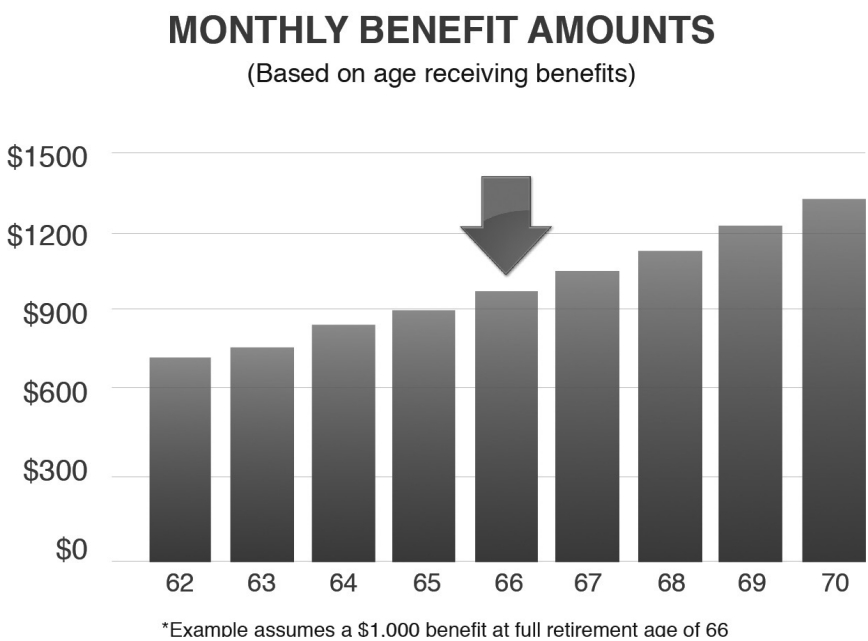


Chart created by associates of J.D. Mellberg Financial using information from www.ssa.gov.

Suppose your monthly benefit amount (PIA), had you waited until your Full Retirement Age, was going to be $1,000. If you decided to take out your benefits right when you turned 62 instead of waiting until your FRA, that $1,000 monthly check is now suddenly only $750.

That lower amount is locked in for life. All Cost of Living Adjustments (COLAs) made thereafter are based off that number. Because the COLAs are based on a percentage of your current benefit, the amount added to your adjusted check will be lower for a $750 check than the amount of COLA that would be added to a $1,000 check.

You can change your mind for up to a year after you turn on your benefits (in which case you would have to pay back all benefits received up until then) but once past that point, there is no turning back.

If you live to be one hundred years old, you will still be receiving your benefits based on that lower monthly amount.

Receiving $250 less per month every month for the rest of your life adds up to a lot of missed opportunities and can even make for a lower quality of life - and that's only comparing that amount to what you would receive if you waited until Full Retirement Age. If you were able to wait even longer, you would start accruing additional Delayed Retirement Credits (8% per year if you were born after 1943 until your age 70) which compound the amount you could otherwise be receiving.

If you can wait to collect benefits, and you happen to live a long time (or if your spouse lives for a long time), then drawing benefits too early can definitely be your #1 mistake when it comes to maximizing your Social Security.

As of 2014, as many as 30% of all retirees[12] were claiming their benefits at the earliest eligible age – the year they turned 62[§] – and therefore they receive the smallest check possible. All of those people who retire prior to their Full Retirement Age, even if they didn't begin drawing the very first year they could, are subjected to lifelong reduced income.

Of course, we understand that there may be a number of reasons for them choosing to begin benefits this way:

1) They may not have any other source of income to help them with an early retirement.
2) Health issues may have required them to retire early.
3) They might be afraid that Social Security is going away and want to collect what they can while they can.

4) They may not have taken time to strategize an optimal plan for them. See Mistake #3 for more information!

Age 62 Retirement

The reduction in benefits applies to starting your benefits anytime between 62 years of age and your FRA.

By how much your benefits will be reduced depends on the year of your birth. The amount it will reduce your spouse's benefits is also dependent on the year you were born, but is separate from the percentage your benefits will be reduced.

If you were born in 1937 or earlier, a $1,000 Primary Insurance Amount (PIA) would be reduced to $800 if you turned on your benefits at age 62. If you were born in 1954, however, that same PIA and retirement age would reduce your benefit to $750 per month. If you were born in 1960, it would go down to $700.

To see how that happens, let's take a look at the next page.

BENEFIT REDUCTIONS BASED ON BIRTH YEAR

(if beneficiary files at age 62 and their PIA is $1,000)

Year of Birth	Full (normal) Retirement Age	A $1000 retirement benefit would be reduced to	The retirement benefit is reduced by
1937 or earlier	65	$800	20.00%
1938	65 & 2 mos	$791	20.83%
1939	65 & 4 mos	$783	21.67%
1940	65 & 6 mos	$775	22.50%
1941	65 & 8 mos	$766	23.33%
1942	65 & 10 mos	$758	24.17%
1943-1954	66	$750	25.00%
1955	66 & 2 mos	$741	25.83%
1956	66 & 4 mos	$733	26.67%
1957	66 & 6 mos	$725	27.50%
1958	66 & 8 mos	$716	28.33%
1959	66 & 10 mos	$708	29.17%
1960 or later	67	$700	30.00%

Chart created by associates of J.D. Mellberg Financial using information from www.ssa.gov.

Starting with birth years of 1937 and earlier, a retiree's PIA will be reduced by 20% (if taken the month they turn 62). For those born in 1938, benefits will be reduced by 20.83%. For each year following, benefits are further reduced by 0.83% until we get to births in 1943 - 1954. The reduction for all these years is a flat 25% of the Primary Insurance Amount.

Then, in 1955, the reduction is 25.83%, when once again benefits are reduced by another 0.83% for each subsequent birth year. The early retirement reduction rate caps out for those born in 1960 or later – a 30% reduction should one choose to retire right at age 62.

Spousal benefits are reduced at the same rate, but start 5 percentage points higher than the primary retiree's reduction. Reductions start at 25% for those born before 1937 and go up to 35% for those born after 1960.

We can see this same information summarized in the chart on the next page (which we'll show you again when we start to give some case studies).

Full Retirement Age

Your Full Retirement Age (FRA) is the age at which you can retire and receive your full Primary Insurance Amount without any reductions.

While we use 66 as the FRA in most instances throughout this book, your personal FRA depends on the year in which you were born. Unless you've been retired for some time or are more than several decades out, your FRA will be age 66 and, depending on your age, additional months.

If you were born before 1937, your FRA is a very simple 65 years old. Thereafter, the FRA creeps upwards by 2 months for each subsequent year the collector was born after 1937…up to a point.

There are buckets that multiple birth years can fall into. Years 1943 through 1954 all fall into one bucket. Retirees born in these years can retire at an even 66 years of age and receive their full benefit amount.

FULL RETIREMENT AGE (FRA)

(based on birth year)

Year of Birth	Full (normal) Retirement Age
1937 or earlier	65
1938	65 & 2 mos
1939	65 & 4 mos
1940	65 & 6 mos
1941	65 & 8 mos
1942	65 & 10 mos
1943-1954	66
1955	66 & 2 mos
1956	66 & 4 mos
1957	66 & 6 mos
1958	66 & 8 mos
1959	66 & 10 mos
1960 or later	67

Chart created by associates of J.D. Mellberg Financial using information from www.ssa.gov.

Starting again in birth year 1955, the Full Retirement Age begins to climb up every year in 2-month increments until you get to those born after the year 1960, when the FRA is 67.

As you'll read more about later in this book, not only does waiting until FRA carry the advantage of receiving 100% of your benefit amount, but it can also lower reductions in your benefits that are based on other income sources.

Delayed Retirement

While you can make sure you earn 100% of your benefit by waiting until your FRA, you can make more than 100% of your benefit by waiting even longer than that. This is what we call Delayed Retirement.[10]

Delayed Retirement Credits can make a huge impact on your personal benefit checks – which of course may translate to a higher quality of life for many retirees. We'll also give you tips on how you can use this feature in your overall strategy to help maximize your overall Social Security benefits.[10]

For anyone born in 1943 or later, every year you wait until you reach age 70, your annual income (based off your PIA) will increase by 8%.[10]

So if you were to begin benefits on your next birthday after your FRA, your benefit amount would increase by 8% each year over what you would have been eligible for the year prior. Each month after your birthday that you wait to claim accrues 1/12 of an in-

crease for you until, of course, you reach the following year, when your benefit will increase by another flat 8%. The following chart illustrates the delayed retirement credits per year, based on when you were born.[10]

ANNUAL DELAYED-RETIREMENT CREDITS
(based on birth year)

Year of Birth	Yearly Rate of Increase
1933-1934	5.5%
1935-1936	6.0%
1937-1938	6.5%
1939-1940	7.0%
1941-1942	7.5%
1943 or later	8.0%

Chart created by associates of J.D. Mellberg Financial using information from www.ssa.gov.

Note: If you were born on January 1st, the Social Security Administration considers you to be at the previous year's rate of increase.

Example: Optimal Retirement Age Depends On Your Individual Situation

From what we've discussed so far, it may seem that the best option is to delay retirement for as long as possible, but this isn't always the best way to maximize your Social Security benefits.

62-year old "George" might read about all the benefits of delaying retirement and feel that maybe he should wait until he's 70, but after a visit to the doctor, he finds out his kidneys are failing and that he might not have much time left.

After doing the calculations, he finds out that, if he were to live to age 85, he'd earn tens of thousands more in benefits if he waited another 8 years to retire. According to the calculator, that sounds like it's his optimal retirement age, but on closer inspection, we're sure you can see that maybe that's not the right path for George.

In his own personal situation, he might be better off not taking the "optimal" plan. Knowing what he knows about his own health, and after giving it much consideration, he might find that it'd be best for him to retire sooner than later.

It Might Not Be Too Late to Change Your Mind

Let's say you begin drawing benefits, but decide that you'd prefer to wait. You may be able to do this, even if you have started to receive your monthly checks.

The Social Security Administration (SSA) allows you to receive benefits for up to 12 months before deciding that you didn't really want to file at the time that you filed. Granted, honoring this change of heart isn't guaranteed and is subject to approval by the SSA before it is granted.

Not only must you submit in writing a request for withdrawal, but so must everyone else who has ever received benefits based on your record – namely, your spouse, and possibly any dependent children.

As you might guess, this ability isn't too good to be true. If your request to withdraw is granted, it would mean paying back any and all benefits you received during that time. It would also mean that anybody else who drew off of your account, such as your spouse, would have to pay back what they received as well.

Breakeven Analysis

Those who wait to collect their benefits until later in life will receive a higher income, but those who collect their benefits earlier will collect a Social Security check for longer, thereby potentially

collecting more over their lifetime. Each strategy has its pros and cons depending on the individual. While many strategists would be quick to suggest that you delay retirement, others would be just as quick to suggest you start early, but how would you know which is best for you?

One of the best tools you can receive is what is called a "break-even analysis."

If you haven't been given a Social Security withdrawal strategy in writing from your retirement income planner, you might want to ask that they include this analysis with the rest of your personalized report.

While many breakeven analysis charts will have the same basic appearance, knowing the exact cross sections for your situation is critical to make more well-informed decisions. While we have included a number of examples and reference points for you to get started, nobody is living your exact life and your personal situationis different than every other person.

In the example illustrated, we'll assume a Primary Insurance Amount of $1,800.

The first line traces how much you will have received in total benefits at different ages if you turned Social Security on at 62. The next line represents the total amount received if you start your benefits at age 66; and the final line represents an age 70 start.

In this graph, we see three points of intersection where each of the

lines cross. For instance, if we look at the left-most intersection, we'll see that it is where the age 62 line and the age 66 line meet, around age 76-77.

That means that if you were to pass away at 76-77, you will have collected the same amount of benefits over your lifetime whether you retired at age 62 or age 66. Passing away at any age prior to this, you will have collected more by turning Social Security on at age 62. Passing away at any age after this, you will have collected

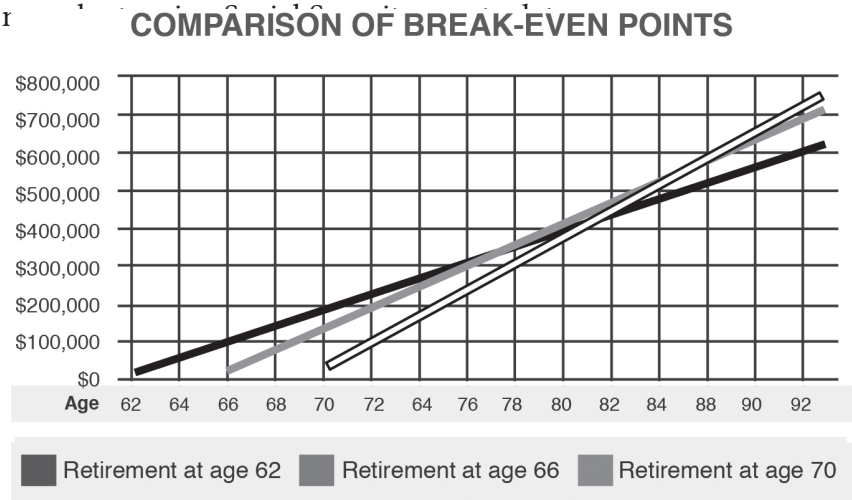


Chart created by associates of J.D. Mellberg Financial using hypothetical scenario

Spousal Benefits

Since the Bipartisan Budget Act of 2015, spousal benefits have become a little more complicated to talk about in their entirety.

Let's start here: **if you are married and both you and your spouse are at least 62 years old, you can collect a spousal benefit equal to 50% of your spouse's benefit, BUT:**

1. Their benefits must be 'activated.'
2. If you don't use a restricted application, you'll be deemed as filing for your own benefit, as well as your spousal benefit.
3. If you or your spouse files before your Full Retirement Age (FRA), your spousal benefits will be reduced.

Let's tackle each of these 3 exceptions in order.

1. Your spouse's benefits must be activated. If your spouse hasn't filed for their benefits, you won't be able to collect your spousal benefit based on their record.

If you want to collect a spousal benefit, your spouse must activate their account (if they haven't already).

Keep in mind that once your spouse activates their benefits, they may lose Delayed Retirement Credits, or even receive an early retirement penalty if they haven't reached their Full Retirement Age, yet.

As a couple, it's generally a good idea to weigh the big picture of your combined benefits to decide what's best for your unique situation.

Once benefits have been activated, you can always suspend them again to accrue Delayed Retirement Credits (DRCs) starting after the suspension. Due to the Social Security changes enacted by the Bipartisan Budget Act of 2015, once your spouse has suspended their benefits, you

can no longer collect a spousal benefit based on their record.

2. **If you don't use a restricted application, you'll be deemed as filing for all your benefits.** Generally speaking, when you file for benefits, you're deemed to be filing for all your benefits at once. So, if you go in to file for your spousal benefits, your own benefits will be activated, as well – unless you do something about it.

The restricted application allows you to file for just your spousal benefits, allowing your own primary account to accrue Delayed Retirement Credits (DRCs) – BUT, only certain people under certain conditions are able to file a restricted application.

If you turned 62 on or before January 1, 2016, then you are eligible to use a restricted application when you reach your Full Retirement Age. That can be a little confusing, so let's put it another way: A restricted application can only be used:

1. If you were at least 62 years old as of January 1, 2016, and…
2. Once you reach your Full Retirement Age (FRA)

All other uses of the restricted application were dissolved by the Closure of Unintended Loopholes provision in the Bipartisan Budget Act of 2015.

If you or your spouse files before your Full Retirement Age, your spousal benefits will be reduced.[13]

If you file at or after your Full Retirement Age, you'll receive 50% of your spouse's Primary Insurance Amount, but file any time before and you could receive anywhere from just under 50% to as little as 32.5%.

What percentage you'll receive gets a little complicated and depends on two factors:

1. At what age you or your spouse begin collecting, and
2. What year you were each born.

Your benefits are reduced for every month you collect early.

The year you were born also matters. A person born in 1937 who takes their spousal benefit at 62 will get a higher percentage of that benefit than someone born in 1961 who also files at 62.

The chart on the next page outlines how much you'll receive in spousal

SPOUSAL BENEFIT REDUCTIONS BASED ON PRIMARY'S BIRTH YEAR

(if primary worker files at age 62 and their PIA is $1,000)

Year of Birth	Full (normal) Retirement Age	A $500 Spouse's Benefit Would be Reduced to	The Spouse's Benefit is Reduced by
1937 or earlier	65	$375	25.00%
1938	65 & 2 mos	$370	25.83%
1939	65 & 4 mos	$366	26.67%
1940	65 & 6 mos	$362	27.50%
1941	65 & 8 mos	$358	28.33%
1942	65 & 10 mos	$354	29.17%
1943-1954	66	$350	30.00%
1955	66 & 2 mos	$345	30.83%
1956	66 & 4 mos	$341	31.67%
1957	66 & 6 mos	$337	32.50%
1958	66 & 8 mos	$333	33.33%
1959	66 & 10 mos	$329	34.17%
1960 or later	67	$325	35.00%

Chart created by associates of J.D. Mellberg Financial using information from www.ssa.gov

benefits if your spouse collects their benefit early.
The Social Security Administration created a calculator that you can use to get an idea of what percentage you would receive in spousal benefits if you begin collecting your spousal benefits early.

You can find that calculator at:

https://www.ssa.gov/OACT/quickcalc/spouse.html#calculator

Divorcee Benefits

If you are divorced, and not currently married, you may be able to collect on your previous spouse's benefits. The Social Security Administration stipulates that you must have been married to your ex-spouse for at least 10 years to be eligible to collect on their benefits. It doesn't matter whether this is the most recent spouse or not – so long as you were married for at least 10 years and are not currently married to anyone.

As with all other Social Security benefits discussed so far in this book, you and the primary must be at least 62 years old in order for you to be able to file for these benefits.[§]

In the last section, we went over the rules stating that your spouse must file for their benefits before you can file to collect on their record, however, if you have been divorced for two years, you may file to collect on their benefits whether or not they file for them.

Widow(er) Benefits

If your spouse passed away, you have the option to collect Social Security based on their benefit. If the primary beneficiary had any children under the age of 16, or who are disabled, they are eligible for benefits as well.

In general, the survivor's benefit will be whatever the deceased

spouse would have been receiving if they were still alive. That means that if they retired before their Full Retirement Age, and received a reduced check, then the surviving spouse will also receive that reduced amount. If the deceased spouse waited to retire and began to accrue Delayed Retirement Credits, then that amount will be received by the surviving spouse.

Unlike any other benefit covered under Social Security, a widow or widower may begin collecting benefits as early as age 60. However, should the surviving spouse choose to collect this benefit before their FRA, the survivor's benefit will be reduced based on a calculation that depends upon their year of birth. The chart below outlines what a surviving spouse might draw. In this example, the worker would have qualified for $1,000 benefit at his/her FRA but began drawing benefits at the early age of 62. The worker passes away, and the surviving spouse begins drawing the decedent's benefit amount at age 60.

SURVIVOR'S BENEFIT REDUCTIONS BASED ON PRIMARY'S BIRTH YEAR
(if primary worker filed at age 62 and their PIA is $1,000)

Year of Birth	Full (normal) Retirement Age	At age 62 a $1000 survivors benefit would be reduced to
1937 or earlier	65	$829
1938	65 & 2 mos	$825
1939	65 & 4 mos	$822
1940	65 & 6 mos	$819
1941	65 & 8 mos	$816
1942	65 & 10 mos	$813
1943-1954	66	$810
1955	66 & 2 mos	$807
1956	66 & 4 mos	$805
1957	66 & 6 mos	$803

Chart created by associates of J.D. Mellberg Financial using information from www.ssa.gov.

If the widow or widower gets remarried, the survivor's benefit will be terminated, whether or not they're planning to collect on their current spouse's record.

CHAPTER 5

Impact of Other Income Sources on Your Social Security Benefits

In addition to how your benefits can be affected by the way and when you turn them on, they can also be affected by outside factors, such as:

- Other income, particularly that from continued work
- The type of work you did prior to retirement

How Other Income Sources Can Affect Your Benefits

If you apply to begin collecting your Social Security benefits before you reach your Full Retirement Age, and you continue working, there are limits on how much you can earn each year in order to still get all your benefits.

For each *year* that you are claiming and working before Full Retirement Age, $1 for every $2 you earn over $15,720 in a given year will be, in a sense, deferred. After you reach FRA, however, *SSA*

recalculates your benefit amount including any credit to you for months you didn't receive a benefit due to your earnings.

If you're earning less than $15,720, you don't have to worry about any reduction in your benefits while you're working.

In the same calendar year that you turn Full Retirement Age, during the months before your birthday, the rules change again. In the year that you're going to turn FRA, Social Security begins looking at your earnings and reductions on a month-to-month basis. Any amount of money earned below $3,490 per month causes no reduction. Earnings above that cause a reduction of $1 in your benefits for every $3 that you earn.

Once you reach Full Retirement Age you can earn any amount and it will not result in a reduction of your benefits. The chart below summarizes these major points.

DEFERRED EARNINGS
(when working before full retirement age)

$1 for every	You earn above (in 2015)	
$2	$15,720/yr.	In calendar years before you reach the Full Retirement Age
$3	$3,490/mo	In the calendar year in which you reach the Full Retirement Age

Chart created by associates of J.D. Mellberg Financial using information from www.ssa.gov.

So, to recap:

- Benefit reductions due to income earned only apply if you have not yet reached Full Retirement Age
- In the years before your Full Retirement Age:
- You can earn up to $15,720* in one year without reductions
- Earnings above $15,720 are reduced by $1 for every $2 earned
- In the calendar year of your Full Retirement Age:
- You can earn up to $3,490* per month without reductions
- After you reach FRA, SSA recalculates your benefit amount including any credit for months you didn't receive a benefit due to your earnings.

Windfall Elimination Program (WEP)

Social Security benefits are based on the worker's average monthly earnings over the highest 35 years of earnings, adjusted for inflation.[14] While those who earned a higher wage throughout their working careers will receive a larger check from Social Security when they begin collecting benefits, the system is designed to replace a higher percentage of the wages earned by someone who did not collect a high salary during their career.[14]

**As of May 2016*

The system is set up this way because those who aren't making as much during their adult lives spend a higher portion of their income on the necessities such as food and rent. This means that they have fewer excess funds to spend on investments or to save to help provide for themselves in retirement. The Social Security Administration therefore implements a very complex calculation in order to make sure that higher earners don't collect a lower benefit than lower earners but helps compensate for the lower earner's reduced ability to cover the essentials in later life.[14]

Before the Windfall Elimination Program, people who had primarily worked for an employer who did not withhold Social Security taxes from their pay – i.e. in government or other countries – had their Social Security benefits calculated as if they were long-term low wage earners. They had the advantage of receiving a Social Security benefit representing a higher percentage of their earnings, plus a pension from a job where they did not pay Social Security taxes. Congress passed the Windfall Elimination Provision in 1983 to remove that advantage.[14]

To get a closer look at how this works, let's talk about "Hank."

Hank is a teacher in the public school system. He's been a teacher all his working life. In addition to teaching, Hank also has his own business that he runs after school hours, during school vacations, and during the summers.

Hank's school is part of a Public Employees Retirement System (PERS). As a result, no Social Security taxes are paid on his teacher's salary by either him or his employer. But on his personal busi-

ness, Hank pays himself a salary and both he and the business pay Social Security taxes.

Upon retirement, Hank will receive his school pension and Social Security. Without the WEP reduction, let's say his Social Security benefit calculated to be $1,000. With the WEP reduction, his Social Security benefit may be reduced by as much as $500 a month.

There are some exceptions to the Windfall Elimination reduction, such as:[14]

- Federal workers first hired after December 31, 1983
- Workers employed on December 31, 1983, by a nonprofit organization that did not withhold Social Security taxes from pay prior to that date but then began with holding Social Security taxes from pay after December 31, 1983
- Workers for whom the only pension is based on railroad employment
- Workers for whom the only non-Social Security work was before 1957
- The worker has 30 or more years of substantial earnings under Social Security (workers having more than 20, but less than 30, get a partial exemption).

Government Pension Offset (GPO)

The Government Pension Offset – or what is sometimes referred to as GPO – is similar to the Windfall Elimination Program, except that it relates only to spousal and survivor's benefits.[15]

Normally, if a person is receiving their own Social Security benefit, they won't also be receiving their full spousal benefit – or, if they do claim both, the spousal benefit will be reduced based off of their own benefit. Before the Government Pension Offset took effect, however, if a worker was receiving a government pension in a job where they did not pay Social Security taxes, they could still receive their full spousal or survivor's benefit.[15]

The key to keep in mind here is that this isn't in regard to just any other pension – it is specifically where it concerns pensions from positions where there were no Social Security contributions made by the worker and where the pension is being paid by the government – the same entity that pays out Social Security benefits in the first place.[15]

If GPO applies to you, it doesn't necessarily mean that your spousal or survivor's benefit will be eliminated completely, but that it will be reduced by two-thirds the amount of the pension.[15]

That means that if you get a monthly check of $600 from your government pension, $400 must be deducted from your Social Security benefit. If your spousal or survivor's benefit was going to be $500, but you're simultaneously receiving $600 from Uncle Sam for your pension, then you will only receive $100 in your spousal benefit ($500 – 400 = $100).[15]

CHAPTER 6

Help Minimize Your Tax Bill

It is completely possible that you and your neighbor could be pulling in the exact same gross income in retirement, but if it's coming from different sources – that is, say your neighbor sat down with a tax professional or retirement income planner and discussed the best strategy for him – each of you could have a very different tax rate. Those different tax rates could easily translate to different levels of purchasing power.

Think about it – if you set aside $100 to buy your household groceries (or a new set of speakers, or to repair your car, or spend on a day in Venice, or anything else you might want to do in your retirement), and then you got to the store, loaded up your cart, rang up your items, and then found out that your $100 was only *really* good for about $54, you'd have a problem, wouldn't you?

Unfortunately, many retirees may find themselves in a similar situaton. It's what is often referred to as "the tax torpedo" and it can literally leave you as little as $54 for every $100 you thought you had!

That's why we've dedicated this chapter to talking about how the Social Security Administration determines how much of your Social Security benefit to tax – if any – and how you can be the tax-wise neighbor.

How Your Taxable Social Security Benefits Are Calculated

The Social Security Administration uses a complex calculation to arrive at the amount of benefits that will be taxable.

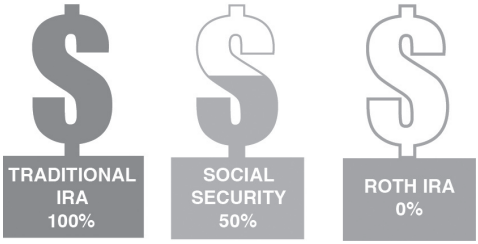
There are three levels that determine how much of one's Social Security income is taxed (from 0% up to 85%):[16]

- Level 1 – No Social Security income is taxed
- Level 2 – Up to 50% of your Social Security income is taxed
- Level 3 – Up to 85% of your Social Security income is taxed

We're going break down these calculations and explain what they might mean for you.

To establish *how much* of your Social Security benefit is taxed, the Social Security Administration *adds* 50% of your Social Security amount plus 100% of your earnings from other sources (annual income (AI)).[16]

The levels used to determine your Social Security benefit tax are:[16]



Note: Tax advantaged monies (i.e. Roth IRA) are not included in the Social Security Administration's calculation.

- Level 1 – **AI less than $25,000**, No Social Security income is taxed
- Level 2 – **AI $25,000 - $34,000**, Up to 50% of Social Security income taxed
- Level 3 – **AI more than $34,000**, Up to 85% of Social Security income taxed

In this first example, the beneficiary is receiving $18,000 per year from Social Security, taxed at 50%, and $21,000 from other income source(s) for a total annual income of $30,000 per year:

50% of Social Security Income	$ 9,000
Annual Income – employment, 401(k), IRA	+ $21,000
	$30,000

There will be no tax levied on their Social Security benefits for the first $25,000 of their income (Level 1).

The remaining $5,000 falls into Level 2 and therefore means that up to $2,500 (50%) of the Social Security income is taxable.

In this next example, the recipient receives $18,000 per year in Social Security income, taxed at 50%, and another $40,000 from other sources.

50% of Social Security	$ 9,000
Annual Income – employment, 401(k), IRA	+ $40,000
	$49,000

There will be no tax levied on their Social Security benefits for the first $25,000 of their income (Level 1).

Their income exceeds Level 1 and crosses the threshold into Level 2. The calculation is to subtract Level 1 threshold ($25,000, 0% taxed) from the total annual income. Then, the Level 2 Social Security benefits tax percentage is determined (up to 50% taxed).

$49,000 - $25,000 = $24,000 x 50% (up to $12,000 taxable)

Their income exceeds Level 2 and crosses the threshold into Level 3. The calculation is to subtract Level 2 threshold ($34,000) from the total annual income.

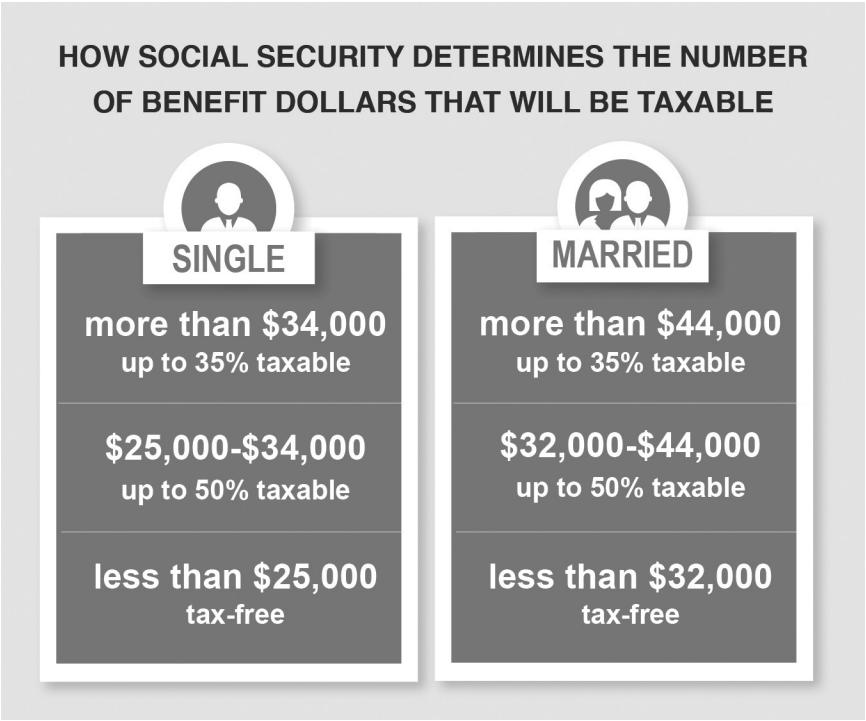
$49,000 - $34,000 = $15,000 x 35% (up to $5,250 taxable)

Finally, to ensure one's not being taxed more than the law allows, we determine which is the lesser of the two amounts for the purposes of the calculation:

the sum of those two amounts ($17,250) or
85% of the total Social Security benefit of $18,000 ($15,300)

It is the $15,300 then that will be subject to income tax.
Getting back to our neighbors and to illustrate how two people with the same income could be subject to two different tax rates on their

Note: The aforementioned numbers apply to singles only. If you're married, the thresholds for your combined income are higher.



Social Security benefits, let's take a look at "Sally" and "Andrew."

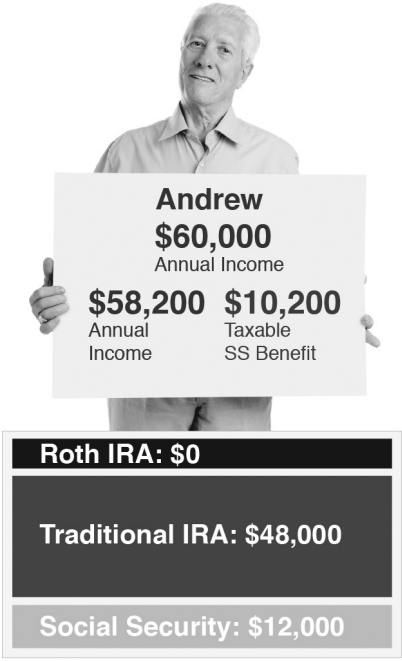
Sally and Andrew are both single and both have a gross income of $60,000 per year.

$6,200 of Sally's Social Security is taxable, as opposed to $10,200 of Andrew's.

How did that happen?

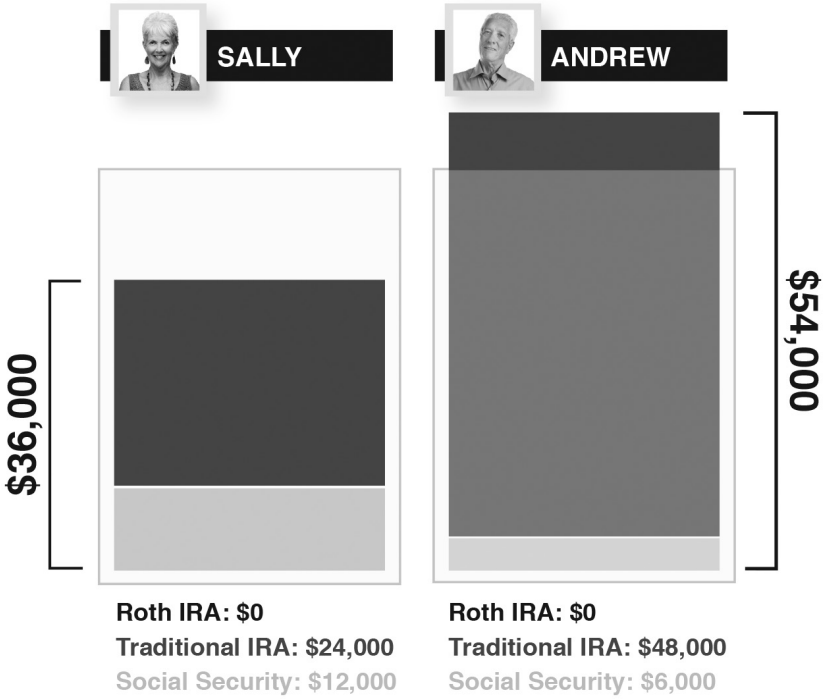
Sally draws $12,000 from her Roth IRA, $24,000 from her traditional IRA, and $24,000 from Social Security.

Andrew draws $48,000 from his traditional IRA and $12,000 from Social Security.



The first step is to add up Sally's income: $12,000 ($24,000 x 50%) from Social Security; $24,000 from her traditional IRA; and only non-taxable funds from her Roth IRA. That brings us to $36,000 combined income.

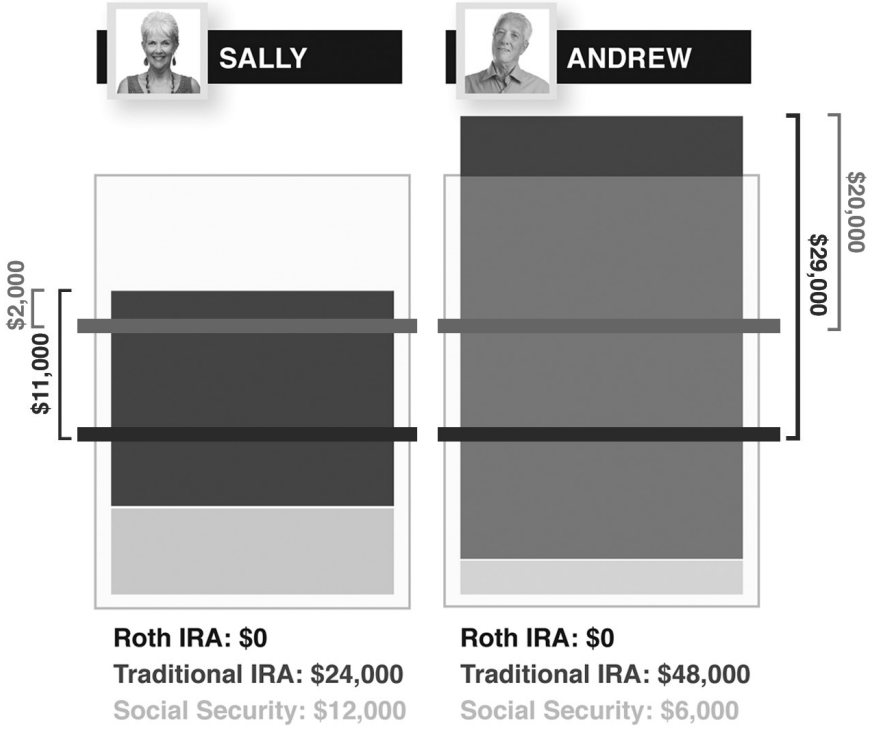
And then add up Andrew's income: $6,000 ($12,000 x 50%) from Social Security and $48,000 from his traditional IRA. That brings us to $54,000 combined income.



The Social Security Administration will look to see if their total (gross) annual income surpasses either of the thresholds we talked about earlier. 50% of any income that is over the first threshold will be taxable. 35% of any income that is over the second threshold will be taxable. Then, these two amounts will be added together for their tax liability.

For Sally, $11,000 ($36,000 - $25,000) of her combined income is over the first threshold. The SSA counts 50% of this as taxable, or $5,500. On top of that, $2,000 of Sally's combined income goes over the second threshold. Of this $2,000, 35% will be taxable, or $700. Added together, we get Sally's total Social Security benefit taxable portion: $6,200.

For Andrew, $29,000 of his combined income ($54,000 - $25,000) is over the first threshold. Of this, 50% will be taxable, or $14,500. On top of that, $20,000 surpasses the second threshold. Of this $20,000, 35% will be taxable, or $7,000. When we add these two together, we get $21,500 of taxable Social Security benefits.



As a final step, we have to make sure that the taxable amount we calculated doesn't exceed the maximum of 85% of their benefits. 85% of Sally's benefits is $20,400 – her calculated taxable benefits ($6,200) don't go over the maximum. 85% of Andrew's benefits is $10,200. Because his calculated taxable benefits exceed this, he will be taxed at the maximum: $10,200.

$10,200 versus $6,200 taxable Social Security income. That's a big difference while technically making the same amount of money!

Much of the process surrounding retirement income planning is aimed at earning or amassing money – which is the right idea, of course. And so far in this book, we have also focused on that very thing!

But here's the part that can so often go overlooked in traditional retirement income planning: having that extra money isn't useful if it doesn't stay in your pocket.

The Tax Torpedo

Many of you may see similarities between yourselves and our next example, "Bill and Mara."

Between Social Security and his IRA and/or 401(k), Bill draws $34,260 per year in income. Mara draws $26,870.

Now, even though this is a hypothetical couple, we picked these numbers very specifically – because this puts Bill and Mara right at that threshold that we talked about earlier with the levels.

Right at this mark, where they sit with their yearly finances of $61,130, if they withdraw *one more dollar* from their IRA or 401(k), it will move them into the next level where they're looking at a significantly different tax situation.

Now, let's suppose they withdraw that additional $1. They want to go on vacation, or go out to dinner, so they pull it out of their IRA.

What happens is that $1 gets taxed at its full rate, like we talked about earlier, and as many people already know. But what comes as a harsh surprise for many retirees is the next part where an additional 85 cents of their Social Security benefit gets taxed.

So now they're not just being taxed on that $1 that they withdrew out of their IRA and expected to enjoy, but they are being taxed on $1.85.

While individual tax rates will, of course, vary for a number of reasons, let's suppose in our example that Bill and Mara's income tax rate is 25%.

At this 25% tax rate, applied to $1.85, they're looking at 46 cents being taken out of that $1 to go to taxes.

That means that Bill and Mara really only have 54 cents of their hard earned dollar for whatever they had planned to do during their retirement.

You can see how this could significantly impact your budget and lifestyle plans if you are not prepared for it, as nobody takes simply $1 out to be able to do the things they want to do! But any extra funds that are withdrawn will continue to be taxed at this same calculated rate.

This is what we call the tax torpedo, and it can be managed with careful strategies, crafted between you and your tax professional or financial advisor.

Each person's situation is different and it's important to ensure that you are making well-informed decisions that will help you enjoy the most you can during your retirement.

Don't be the neighbor who has less to show for his gross income.

CHAPTER 7

5 Case Studies To Help Maximize Your Social Security Income

Now that we've covered all the basic rules and regulations surrounding how you can claim your Social Security benefits and how outside factors may affect the amount you're able to take home, it's time to dive into some detailed examples of how it all works in action.

Key Terms to Remember While Reviewing These Case Studies

- Primary Insurance Amount (PIA) – the benefit amount you'll receive exactly at Full Retirement Age.
- Delayed Retirement Credits (DRCs) – credits Social Security uses to increase the amount of your benefit amount the longer you wait to retire.
- Full Retirement Age (FRA) – the age at which a person first becomes entitled to receive full or unreduced retirement benefits.

These case studies have been completely remade to demonstrate how YOU can still maximize your Social Security retirement benefits – even after the changes taking affect due to the Bipartisan Budget Act of 2015. These case studies cover a range of unique situations to give you as much insight as possible.

We'll cover 5 different situations these hypothetical couples found themselves in and what they believed was the best strategy for them.

Lee and Deanna

Lee and Deanna are in their mid 50s and just heard about the changes to Social Security. Before this, they had been planning to use file and suspend strategies when it came time to collect their Social Security benefits. In light of the new law, they go back to their financial planner and calculate what their benefits would be based on their own situation.

Lee	Deanna
Age: 58	Age: 54
Life expectancy: 83	Life expectancy: 87
Primary Insurance Amount: $1,743	Primary Insurance Amount: $650

The first strategy they look at has them both collecting their benefits at the latest possible time in order to collect the most benefits – at age 70. Under this plan, they find that they could take home over **$1,110,363 in total benefits over their lifetimes.**

That's pretty good.

Lee and Deanna are tempted to go with this strategy until their advisor points out that because Deanna's spousal benefit will be greater than her own primary benefit even with Delayed Retirement Credits, it doesn't actually help them to have her wait to claim her benefits.

He suggests Deanna begin collecting her primary benefits when she turns 67 (her Full Retirement Age. Turn to page 54 for details), then switch to her spousal benefits a year later when Lee turns 70.

How much does this strategy get them? Having Deanna collect a little bit earlier bumps up their **cumulative lifetime benefits to $1,154,970** – over $40,000 more! That means that Deanna can retire three years earlier and get more money.

Curious about retiring even earlier, Deanna asks how much they could get if they both retired at the earliest time possible – at age 62. Their advisor comes back with $906,952 in lifetime benefits.

That's a **difference of $248,018 compared to their maximized strategy!** In other words, they'd only be receiving 78% as much in total benefits. Quite a difference.

Lee and Deanna decide to go with the middle strategy, where Deanna begins collecting her spousal benefits at age 67.

Next, let's take a look at the maximized benefits for a couple in a very different situation.

Steve and Annie

Steve and Annie haven't paid as much attention to their health as some of our other examples. They both smoke heavily and don't

get out much. After using multiple life expectancy calculators, they determine that they're expected to live to be around 68 and 71, respectively. This is fine by them, but they want to know if it's worth it to hold off collecting their benefits.

Steve	Annie
Age: 61	Age: 57
Life expectancy: 68	Life expectancy: 71
Primary Insurance Amount: $1,441	Primary Insurance Amount: $1,590

First, they look at how much they would collect over their lifetimes if they began collecting their benefits at their Full Retirement Ages. They find that this strategy would get them a **total of $172,467 over their lifetimes.**

Next, they want to know how much they'll get if they begin collecting at the earliest possible time – at age 62. This strategy could get them a **cumulative $263,476 in lifetime benefits.**

While in many cases it can be advantageous to start claiming your benefits later, Steve and Annie find that this general rule of thumb isn't the optimal plan for their own situation. They decide that they'll be best off collecting their Social Security benefits earlier – at age 62.

But, what about a couple whose life expectancies are significantly longer? How deeply would their different strategies be affected?

David and Yvette

David and Yvette are highly active runners and participate in their local racquetball leagues. They eat healthy, have never smoked and visit their doctor regularly.

Because David and Yvette have aggressively looked after their health, they have very high life expectancies, leaving them with a lot of years in retirement. This extended retirement time finds them collecting a lot of benefits and massive differences between retirement strategies.

David	Yvette
Age: 58	Age: 60
Life expectancy: 97	Life expectancy: 99
Primary Insurance Amount: $2,148	Primary Insurance Amount: $2,060

First, David and Yvette want to see how much they would receive if they retired at the earliest possible time so that they can pursue other hobbies. After visiting their financial advisor, they find that retiring when they hit 62 would get them **$2,257,480 in total lifetime benefits!** Not bad.

How much could they receive if they waited another 4 years and retired at their Full Retirement Age? This strategy would bring in **$2,842,722 in cumulative benefits over their lifetimes.**

Finally, they look at how much they could collect if they waited until they were each 70. This maximized strategy bumps their **lifetime benefits up to $3,356,517**!

That's **$513,795 more** than if they began collecting at their Full Retirement Ages, and an **astounding $1,099,037 more** than if they began collecting at age 62.

David and Yvette decide they're happy with retiring at 70.

Now let's take a look at another couple who feel differently.

Greg and Marlene

Greg and Marlene are a relatively active couple in their late 50s who both have demanding jobs. They are both high earners who spend much of their time traveling for business. When they're home, they split their time between caring for their elderly parents and visiting with their children.

They visit their retirement income planner to get an idea of what their options are for Social Security benefits.

Greg	Marlene
Age: 59	Age: 59
Life expectancy: 82	Life expectancy: 87
Primary Insurance Amount: $2,639 (max amount)	Primary Insurance Amount: $2,639 (max amount)

First, they want to see what happens if they collect their benefits at the latest possible age – 70. The result is **$1,827,168 in cumulative lifetime benefits.** Their financial advisor notes that, because of their life expectancies, they might actually take home a little bit more over their lifetimes if Greg retires a year early – at 69 – instead of waiting until he's 70. This will get them a little over $3,000 more, bringing them to $1,827,168 total.

Next, they want to look at what they'd get if they began collecting benefits at their Full Retirement Age. This strategy would get them a **total of $1,707,458 in benefits.**

Finally, they ask how much they could take home if they retire at the earliest age possible – 62. Their advisor tells them this would result in a **lifetime total of $1,499,164.**

After looking at all their options, Greg and Marlene decide it's worth it to them to split the difference and retire at 66 so that they can spend more time with each other and their family.

Bill and Mary

Bill and Mary are both relatively healthy adults aged 62 and 66. They get a moderate amount of exercise and they have moderately healthy diets. Their life expectancies are 85 and 87, respectively.

Like Lee and Deanna, Bill and Mary had originally planned to file and suspend their benefits before they heard about the Bipartisan Budget Act 2015. After the changes made to Social Security, they

head back to their retirement income strategist to find out what they should do now.

Bill	Mary
Age: 62	Age: 66
Life expectancy: 85	Life expectancy: 87
Primary Insurance Amount: $1,950	Primary Insurance Amount: $1,700

Much to their surprise, their retirement income strategist tells Bill and Mary that they can actually still get all the benefits of the file and suspend strategy, even with the changes!

How does this work?

Let's take a second look at their ages real quick: Bill is 62 and Mary is 66. Before the new law was enacted, Mary would have been old enough to turn on her benefits and suspend them so that Bill could collect his spousal benefits based on her record, but Bill wouldn't have been old enough to file a restricted application, just yet. And Bill would be old enough to turn his benefits on so that Mary could collect spousal benefits based on his record, but he wouldn't have been old enough to suspend them.

In either of these scenarios, Bill would have wound up receiving an early retirement penalty on his checks.

So, they'll need to wait until Bill is old enough to file a restricted application to get just his spousal benefits while his own benefit grows (because Bill was 62 or older by January 1, 2016, he's eligible

to use a restricted application once he reaches his Full Retirement Age). Bill will be old enough to file said restricted application when he turns 66.

And how old will Mary be at that point? She'll be 70!

At age 70, Mary won't be able to receive any more Delayed Retirement Credits. She'll turn on her Social Security benefit and leave it on – no need to suspend her benefits at all.

As you can see, there's no one size fits all when it comes to making your Social Security optimization strategy fit around your life. Your own personal situation is at the center of every strategy and whatever strategy you finally decide to use, it should revolve around you.

CHAPTER 8

Crisis in Retirement Income Planning

A Bonus Chapter

We have spent the majority of this book discussing how to help your Social Security benefits. While those benefits may very well be the cornerstone of your monthly income, at the end of your working years, what it really comes down to is what you are able to do in your retirement.

Social Security may be a very big part of your retirement income – *and we hope we've helped you learn how to get the most out of it* – but many retirees have additional income sources as well.

As we touched on earlier, looking at your whole financial picture when planning for retirement income is critical to your success. It's not the size of your portfolio that matters. It's about how much money you have to spend—financial confidence you'll be able to maintain your lifestyle—knowing it's not going to run out.

So we included this bonus chapter for you to illuminate a few things that could potentially jeopardize your retirement.

Today's Retirees Face Unique Challenges

Providing for life after your working years has been handled in various ways throughout the ages.

It can be easy to take for granted the retirement tools that have been available to Americans for the last many decades – pensions, Social Security, and healthy investment accounts to name just a few.

Unfortunately, a lot of the strategies that have been working for us in recent memory, strategies that our parents used and our grandparents used, are becoming either scarcer, riskier, or unreliable. Retirees wanting financial strength in retirement today will have to take into account a number of changing dynamics that could make traditional retirement plans less viable:

There are circumstances today that collectively could threaten the financial stability of retirees and near-retirees in the coming years.

1) The value of a bond depends on the interest rate that will be paid to the investor throughout the bond's lifetime. Many of today's retirees pur chased their bonds at a time when interest rates were low. When those interest rates begin to rise, it will make it difficult for retirees to sell their older low interest rate bonds when higher interest rate bonds will be available for new investors to purchase.

This could lead to the next big bubble you may have to face in the decade to come - the bond bubble.[17]

2) While no one can predict the market, historical data showed an average of three downturns over the course of 20 years.

Corrections are never good news, but once you are in the retirement "red zone," which begins when you are ten years out, they could significantly impact your ability to sustain income throughout the rest of your retirement.

3) We are living in a society of disappearing pensions. Employers over the last several decades have been moving away from defined benefit plans (pensions) to defined contribution plans.[18]

4) People are living longer, meaning that more years are spent in retirement.

And some 10,000 Baby Boomers are retiring every day.[19] Whereas in previous decades these Boomers have been pouring money into the stock market, they will now be pulling that money back out – possibly at a faster rate than the younger generations will be replenishing it.

These new concerns combined create a retirement landscape that can be quite unlike those experienced by the people who you may have looked to for a retirement roadmap – such as your parents or grandparents. This can make trying to plan your retirement in the ways that they did a hazardous strategy.

The old methods of planning for your retirement are in large part no longer suited for the realities we are encountering today.

Asset Erosion

If you have money in the market, downturns should be a concern for you as you look toward the next 30 years. Historically, bull markets have lasted an average of 49 months, followed by bear markets that have lasted an average of 14 months.[20] You probably remember the dramatic corrections we saw in 2000 and 2008. In both instances, we were in upturns for much longer than the average time period; and when we crashed, we crashed hard. In 2000, the market lost 45% of its value.[20] In 2008, investors lost over 50% in the space of 18 months.[21] That's hard to recoup.

"History suggests that the frequency of corrections increases as the bull market ages."[22] So stated Jim Stack in late 2013.

So what could happen to your investment portfolio in a major downturn? History can help us again. Let's build a case based on 5-year data starting in 2008.

"Tom" had $500,000 in various stocks when the big correction happened in 2007. Overnight, his assets were cut by over 38%.

This chart represents what the variation in Tom's assets would have been with the ups and downs of the market, ***even if he took no money out of the account.***

5-YEAR S&P 500® PERFORMANCE – NO WITHDRAWALS

(2008-2012 – $500,000 portfolio example)

Year	Beginning Balance	S&P 500 Annual Perfor-mance*	Gain/ (loss)	Withdrawal	Ending Balance
2008	$500,000	-38.49%	-$192,450	$0	$307,550
2009	$307,550	23.45%	$72,120	$0	$379,670
2010	$379,670	12.78%	$48,522	$0	$428,192
2011	$428,192	0%	$0	$0	$428,192
2012	$428,192	13.41%	$57,421	$0	$485,613

Chart created by associates of J.D. Mellberg Financial using information from www.finance.yahoo.com. This hypothetical example is shown for illustrative purposes only and does not reflect the deduction of investment fees and charges. It is not possible to invest in the S&P 500 index.

After five years, he still has not regained all of his losses, even without using any of his money. I don't think it matters here what your goal is when it comes to this scenario. No one wants to lose this much and never gain it back! Instead of the growth Tom was planning on over these five years, he's looking for a new way to work out his retirement income strategy .

"Cameron" also had $500,000 in the market in 2007 when the correction came around. He was using these funds to supplement his retirement income, so he was pulling out $25,000 every year on a schedule, without regard to whether the market was up or down at the time of the withdrawal.

5-YEAR S&P 500® PERFORMANCE – WITH WITHDRAWALS

(2008-2012 – $500,000 portfolio example)

Year	Beginning Balance	S&P 500 Annual Performance*	Gain/ (loss)	With-drawal	Actual With-drawal %	Ending Balance
2008	$500,000	-38.49%	-$192,450	$25,000	5%	$282,550
2009	$282,550	23.45%	$72,120	$25,000	9%	$322,960
2010	$339,234	12.78%	$48,522	$25,000	7%	$339,234
2011	$339,234	0%	$0	$25,000	7%	$314,234
2012	$314,234	13.41%	$57,421	$25,000	8%	$337,373
5-year average:		2.23%				

Chart created by associates of J.D. Mellberg Financial using information from www.finance.yahoo.com. This hypothetical example is shown for illustrative purposes only and does not reflect the deduction of investment fees and charges. It is not possible to invest in the S&P 500 index.

Just because of the ups and downs of the market—not because he was using his money recklessly—Cameron's assets had diminished by 33% in just 5 years! ***At this rate, he wonders will his funds last through 25 more years of retirement as he had planned.***

Of course there are no guarantees about what the market will do from day to day, let alone from year to year. If you are counting on your stock holdings to fund your retirement income, growth, or inheritance for your loved ones, you may be disappointed in how much is available when you (or they) want the money.

The Impact of the Societal Move Away From Pensions

Dr. Robert C. Merton, a Nobel Prize winner in Economics, recently authored an article in the Harvard Business Review aptly titled the "Crisis in Retirement Planning" discussing his concerns for retirees, near-retirees, and even those whose retirements are still some years down the road.[23]

This retirement income planning crisis is one never experienced by previous generations.

Central to his thesis are the repercussions associated with the move away from defined benefits plans (pensions) to defined contribution plans. The potential image this shift could have on the financial stability of today's retiring generation is his most prominent concern. He gives the following reasons for how retiring workers can be at risk:

1) The complicated nature of investments and financial management has been placed into the hands of individuals who are likely trained and educated in <u>other</u> specialty areas and may not

have the knowledge or insight to most optimally navigate the complex nature of their investment vehicles.

2) While pensions of the past were all about providing a permanent income for the rest of the individual's life, the way these defined contribution vehicles are constructed transfers that focus to investments and returns instead.

Individual Management

It used to be that companies would hire financial professionals whose sole purpose was to manage the pension fund of that corporation. They were responsible for making the best, most educated financial decisions on behalf of the employees working for that company. Applying their investment experience and income vehicle knowledge was critical for helping ensure the workers' retirement incomes.

Thirty years ago, through their employers, more than **60%** of U.S. workers had one of these *defined benefit plans*. But today, pensions are no longer the standard offering. Instead, **71%** of U.S. workers now have a *defined contribution plan* such as a 401(k) instead.

When financially-inexperienced individuals are expected to manage complicated investment vehicles, it can put their future retirement income at great risk.

Your retirement nest egg is at stake. We're left at a disadvantage today that our parents and grandparents didn't have to shoulder, because in their generation, their employers took on that responsibility.

Thinking in Terms of Returns VS Income

When pensions were the primary retirement plan of seniors, the focus was on securing an income for life. That meant knowing how much money one needed for bills with, travel, or going out to dinner.

With the move to defined contribution plans came a different focus – return on investment.[23]

While this is, of course, how pensions were often created, that part of the process was not transparent to the because it wasn't necessary for them to know. In fact, in many cases, it may have been detrimental for them to be involved. This goes back to the fact that the average worker is not educated in how to create a successful financial portfolio – that is the job of the finance professional!

Knowing that the market has gone up or down today, or if one stock is doing better than another, is not particularly useful when it comes to how you will receive permanent income.

Unfortunately, because the 401(k)s and IRAs of today are set up as investment accounts, this can redirect the future-retiree's attention to be focused on an aspect of the process they are not prepared to manage.

Think about what you draw upon to help you make your choices within your retirement plans. How many of these are high-risk methods?

- years of experience investing your money for growth purposes
- working with a financial professional who provides recommendations for getting the best returns for wealth accumulation
- reading up on the current market conditions and hot stocks
- going with your gut
- relying on luck

You don't want to continue to take as many risks at this stage as you could while you were earning a salary.

Retirement income strategies require a different way of thinking – the longer term in one sense and your mortality in another sense. The name of the game now is wealth preservation (reliable income) rather than wealth accumulation (growth or return).

Or, simply, not changing your lifestyle in retirement, outliving your funds, or not living the retirement you worked so hard for.

Retirees Are Living Longer

We've talked a lot so far in this bonus section about the issues that have arisen in moving from pensions – or defined benefit plans – to defined contribution plans (such as 401ks and IRAs), and there are other challenges retirees face today.

The good news is, retirees are living longer than they ever have in our history. But it can also be a potential issue if the retiree isn't prepared. Specifically, their retirement income strategy needs to include financial vehicles that will provide money for life, no matter how long that life is.

Social Security is one of those vehicles, of course. This asset is so vital to American retirees, and why we have dedicated an entire book to helping you get the most out of it that you can. No matter how much of your retirement income comes from Social Security, we would like to share a few more thoughts to help you befinancially stable in your retirement.

We strongly recommend you make sure you have supplemental sources to provide you with permanent lifetime income, not 'maybe' income. That you're never in a position to have to take ongoing, regular withdrawals (income) from a vehicle that goes up and goes down. That is a certain way to erode your principal too quickly (or change your lifestyle, or not spend with confidence!). Look into vehicles that can also keep pace with inflation year after year.

At some point, you may face higher health-related expenses than anticipated or need home healthcare, so keep those prospects in mind as part of your retirement income plan as well. And remember, if you and your spouse reach age 65, there is a 50% chance that one of you will live to age 92.[5]

After all, we are talking here about ensuring you have **income for life** – whatever comes your way.

Workforce-to-Retiree Ratio is Changing

While the *workforce-to-retiree* ratio has been varied since the inception of the Social Security program, the retiring Boomer generation will cause a sharp decline in that ratio![23]

Because retirees are living longer and longer, meaning more and more of our total lifespan is spent in retirement *and* because the Baby Boomer generation is in the midst of retiring, we are seeing a new dynamic that will swing the trend into an even higher gear for the coming decades.

Just as the Baby Boomers have changed the shape of demographics when they were born, they're doing it again.

It is estimated that there are about 10,000 Baby Boomers retiring *every single day*, and there just isn't a new comparably-sized population coming up to replace them.[23]

This contributes to the "retirement crisis" on two fronts. First is the strain that Social Security will take, as we discussed earlier in this book. Second, with all these new pensioners suddenly drawing on all those stocks that they've been buying up in the last few decades, who will replace the buying of those shares? Millennials?

Some estimate that, simply due to their sheer size, the Baby Boomers may hold the stock market down for several decades to come.[24]

CHAPTER 9

Maximizing Social Security Income: Recap and The Last of the Strategies

Social Security is a benefit you have earned through years of hard work and regular contributions to the system. You deserve every single cent you can get out of it. Throughout this book, you have been given a torrent of rules, case studies, and strategies you can use to get the most out of your contributions. Understanding these concepts thoroughly can mean a difference of tens, even hundreds, of thousands of dollars in lifetime benefits, but they can be a challenge to navigate.

For the purpose of maximizing your Social Security income, explore your options through these four fundamental concepts:

- Retirement age
- Spousal benefits
- Coordinating other income sources with your benefits
- Minimizing your tax bill

Retirement Age

The benefit you will receive if you begin Social Security benefits on the day you reach your Full Retirement Age is what is known as your Primary Insurance Amount.

If you turn on Social Security before you reach your Full Retirement Age, the benefits that you receive monthly will be lower than your Primary Insurance Amount for the rest of your retirement.

If you retire when first eligible, at age 62,[§] your total benefits could be reduced by as much as 30% of your Primary Insurance Amount.

Not all retirees will have their benefits reduced by the same amount. The reduction applied to your benefits for early retirement depends on the year you were born.

BENEFIT REDUCTIONS BASED ON BIRTH YEAR

(if beneficiary files at age 62 and their PIA is $1,000)

Year of Birth	Full (normal) Retirement Age	A $1000 retirement benefit would be reduced to	The retirement benefit is reduced by
1937 or earlier	65	$800	20.00%
1938	65 & 2 mos	$791	20.83%
1939	65 & 4 mos	$783	21.67%
1940	65 & 6 mos	$775	22.50%
1941	65 & 8 mos	$766	23.33%
1942	65 & 10 mos	$758	24.17%
1943-1954	66	$750	25.00%
1955	66 & 2 mos	$741	25.83%
1956	66 & 4 mos	$733	26.67%
1957	66 & 6 mos	$725	27.50%
1958	66 & 8 mos	$716	28.33%
1959	66 & 10 mos	$708	29.17%
1960 or later	67	$700	30.00%

Chart created by associates of J.D. Mellberg Financial using information from www.ssa.gov.

On the other hand, should you choose to turn on your Social Security benefits after you reach your Full Retirement Age, the Social Security Administration will grant you a higher benefit than your Primary Insurance Amount for the rest of your retirement. This increased benefit comes in the form of Delayed Retirement Credits.

For every year you wait past your Full Retirement Age until your age 70, you will receive your Primary Insurance Amount PLUS an additional 8% (if you were born after 1946). If you were to wait two years after your FRA, you would receive your PIA plus 16%. If you were to wait three years, you would receive your PIA plus 24%, and so on.

In this book, we have most commonly referred to one's Full Retirement Age as 66, but your exact Full Retirement Age (in years and months) depends on the year in which you were born:

FULL RETIREMENT AGE (FRA)
(based on birth year)

Year of Birth	Full (normal) Retirement Age
1937 or earlier	65
1938	65 & 2 mos
1939	65 & 4 mos
1940	65 & 6 mos
1941	65 & 8 mos
1942	65 & 10 mos
1943-1954	66
1955	66 & 2 mos
1956	66 & 4 mos
1957	66 & 6 mos
1958	66 & 8 mos
1959	66 & 10 mos
1960 or later	67

Chart created by associates of J.D. Mellberg Financial using information from www.ssa.gov.

In years when it is determined there will be a Cost of Living Adjustment, this adjustment will be based on your benefit amount in the previous year. That means that if you received a larger check last year because you delayed retirement, you will receive a larger Cost of Living increase than if your check was lower because you retired at your Full Retirement Age (or earlier).

Spousal Benefits

If you are married and wait until you and your spouse are Full Retirement Age to apply for your spousal benefits, you will receive 50% of their Primary Insurance Amount.

If your spouse waited until after their Full Retirement Age to file for their primary benefits, and accrued Delayed Retirement Credits, these will not be added to your spousal benefit.

If your spouse turned on their Social Security benefits before their Full Retirement Age, your spousal benefits will be reduced at a rate dependent on the year they were born. See the chart on the next page for the rate specific to your personal situation.

SPOUSAL BENEFIT REDUCTIONS BASED ON PRIMARY'S BIRTH YEAR

(if primary worker files at age 62 and their PIA is $1,000)

Year of Birth	Full (normal) Retirement Age	A $500 Spouse's Benefit Would be Reduced to	The Spouse's Benefit is Reduced by
1937 or earlier	65	$375	25.00%
1938	65 & 2 mos	$370	25.83%
1939	65 & 4 mos	$366	26.67%
1940	65 & 6 mos	$362	27.50%
1941	65 & 8 mos	$358	28.33%
1942	65 & 10 mos	$354	29.17%
1943-1954	66	$350	30.00%
1955	66 & 2 mos	$345	30.83%
1956	66 & 4 mos	$341	31.67%
1957	66 & 6 mos	$337	32.50%
1958	66 & 8 mos	$333	33.33%
1959	66 & 10 mos	$329	34.17%
1960 or later	67	$325	35.00%

Chart created by associates of J.D. Mellberg Financial using information from www.ssa.gov.

If you file for spousal benefits before you reach *your* Full Retirement Age, your benefits will be reduced and the Social Security Administration will first consider you as filing for your own benefits. If the spousal benefit you are entitled to is higher than your primary benefit, you will

receive a combined benefit equal to the higher of these two amounts. In other words, you will get whichever benefit amount is larger.

If you were born on or before January 1, 1954, and file after your Full Retirement Age, you have the option to apply only for your spousal benefit at that time, allowing your own primary benefit to accrue Delayed Retirement Credits. If you were born after this, then anytime you file for benefits, you'll be deemed as filing for all of them – you won't be able to pick one or the other.

If you are divorced (and not currently married), you are eligible to receive a spousal benefit based on your ex-spouse's record if you were married to them for at least 10 years. Your ex-spouse does not need to file for their primary benefits before you are able to file for spousal benefits based on their account if you have been divorced for at least two years. If you have divorced more than once, you can collect on any former spouse's benefits if you were married 10 years or more.

If you are the surviving spouse of a deceased beneficiary, you are eligible to receive the same amount of benefits they would have received if they were alive. This is includes any Delayed Retirement Credits they accrued during their lifetime. You can apply for survivor's benefits as early as age 60.

Other Income Sources and Your Social Security Benefits

If you turned on your Social Security benefits before your Full Retirement Age, and are receiving income from other sources (employment wages, for example), your benefit could be reduced.

In the years before your FRA, you will only face a reduction in benefits if you make more than $15,720 (as of January 1, 2015) per year. If you make more than that per year, $1 will be deducted from your benefits for every $2 you earn over the $15,720.[16]

In the calendar year that you turn Full Retirement Age, you will only face a reduction in benefits if you make more than $3,490 in the months preceding your birthday. If you make more than that per month, your benefits will be docked $1 for every $3 you earn over the $3,490.[16]

If you are receiving a pension from a job that did not make Social Security contributions, your Social Security benefits could be reduced by as much as 50% of your Primary Insurance Amount due to the Windfall Elimination Program.[14]

A government pension could also result in a reduction to your spousal benefits due to the Government Pension Offset. If you are receiving a government pension, the Social Security Administration will subtract two-thirds the monthly amount you are receiving from your spousal benefit. If your government pension is $600, and your spousal benefit is $500, you will only receive $100 from Social Security in the form of a spousal benefit.[15]

Help Minimize Your Tax Bill

Just as important as maximizing your Social Security income is making sure that income stays in your pocket so you truly have it to spend.

Your Social Security benefit could be completely tax free… or it could have as much as 85% of it taxed, like Sally and Andrew found out (in Chapter 6).

While they both earned $60,000 per year, Sally was able to bring home much more money. This is because of the way Social Security determines how much of your benefit will be taxed. Granted, it is a complicated formula but it's so important to know when you're in your retirement income planning stage.

We broke it down into the following 7-step calculation for you.[16] These steps are only part of the tax picture. You'll also want to watch out for what we call the "tax torpedo."

How Much of Your Benefit Will be Taxed?

1

Determine what is sometimes referred to as "provisional income." Provisional income is the sum of half your annual Social Security benefits, and 100% of other income sources, with the exception of "tax-advantaged" sources, such as a Roth IRA.

Provisional income = 0.5 x (annual Social Security benefits)
+ (annual income from other sources)

2

Determine how much provisional income exceeds the lower threshold. For singles, this lower threshold is $25,000. For married couples filing jointly, this lower threshold is $32,000. We'll call the result of this step E.

Singles: provisional income - $25,000 = E
Married couples: provisional income - $32,000 = E

If provisional income does not go over the lower threshold, no Social Security benefits will be taxed.

3

IF any provisional income went over the lower threshold, take 50% of E. We'll call this F. This is the same for singles and married couples.

E ÷ 2 = F **OR** E x 0.5 = F

4

Determine how much provisional income exceeds the higher threshold. The higher threshold for singles is $34,000. For married couples filing jointly, this higher threshold is $44,000. We'll call the result of this step H.

4 CONTINUED

Singles: provisional income - $34,000 = H

Married couples: provisional income - $44,000 = H

If provisional income does not go over the higher threshold, the result of Step 3 F will be the taxable amount of Social Security benefits. Proceed to Step 7.

5

IF any provisional income went over the higher threshold, take 35% of H. We'll call this I. This is the same for singles and married couples.

H x 0.35 = I

6

Add F to I. The result of this equation will be the taxable amount of Social Security benefits.

F + I = taxable Social Security benefits

7

Because this formula incorporates income sources outside of Social Security benefits, it can sometimes produce numbers that are actually higher than the benefits that are being taxed.

The Social Security Administration has considered this and will never levy a tax on more than 85% of your total Social Security benefit.

If the result of Step 6 is over 85% of your Social Security benefits, they won't tax you on that whole amount. They will only tax you on 85% of your benefits.

Put another way: the Social Security Administration will only tax you on the lower of these two amounts:

F + I **OR** 85% of your Social Security benefits.

If you are in the top threshold of earnings, and you take $1 out of one of your investment accounts, an additional $0.85 of your Social Security benefits could *also* be taxed. That means that $1 isn't taxed as income, but $1.85 – the $1 you took out plus $0.85 of your benefits.[16]

To avoid the tax torpedo, or to help minimize its impact on you, you may want to use tax-advantaged retirement vehicles.

Next Steps

Once you have created your personal Social Security maximization strategy, you'll have a better idea whether or not your benefits will sufficiently help meet the demands of your retirement, when combined with your current assets. If you are still unsure exactly how much you will be receiving or how much will be taxable, you may want to talk with a financial professional who specializes in retirement income strategies, including Social Security strategies.

While we focused on maximizing your Social Security benefits in this book, for many people, it's a supplemental source of income. For your personal situation, your next step may be to look at the big picture, all your income sources, and how they fit together.

Then you can potentially take it a step further to help optimize your income stream as a whole, just like we did with Social Security –helping to maximize your assets and minimize your taxes.

Being prepared and leveraging how everything works together can help you more fully meet your needs and goals, for life. It just

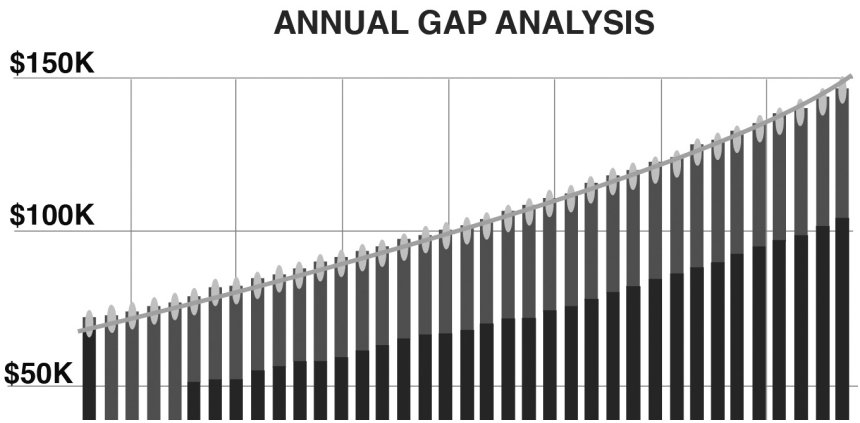
might be the difference between "getting by" and living more of the retirement you envisioned.

Start by asking yourself these questions:

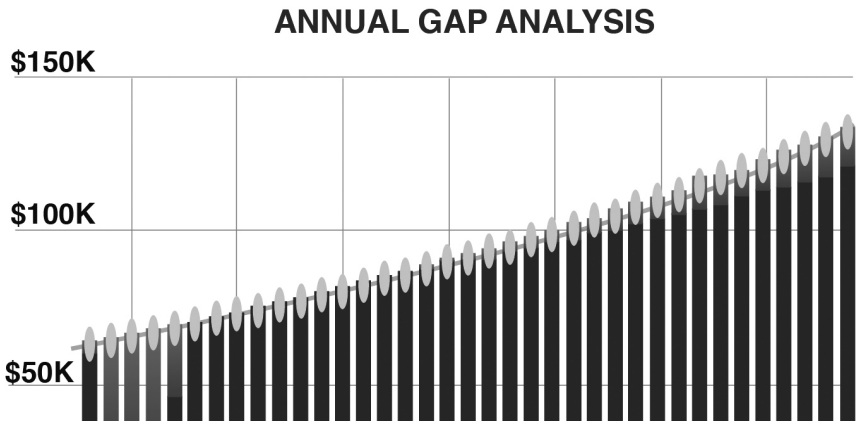
- How much income will I need to maintain my current, or desired, lifestyle in retirement?
    - How much will I need to pay for housing and other basic expenses?
    - How much will I need to fulfill my travel and other lifestyle plans?
    - How much do I need in emergency funds to cover the occasional unexpected expense?
- Is maximizing my Social Security benefit going to be the best strategy for my personal situation, and overall financial situation?
- Will I have any other income vehicles that I can count on to last the rest of my life?
- Am I accounting for inflation?
- Could my medical expenses go up in the future?
- Will I have enough money to recover from any unforeseen emergencies?
- What challenges might I be exposed to, such as the ones discussed here in the crisis in retirement income planning section?
- When should I begin receiving my Social Security benefits?
- When should I begin taking withdrawals from my retirement income vehicles?

Is there, at any point, a potential income gap? Will all of your needs be met throughout your retirement?

If you're not confident in your answers to the questions above, you may want to consider meeting with a retirement income strategist, a financial professional who can review your situation and help you see your big picture, starting with an income gap analysis.



After working with a retirement income strategist, they may be able to implement strategies, in addition to maximizing their Social Security benefits that would fill those gaps projected or potential gaps.



The goal is to retire with financial confidence…

… knowing you are getting every cent out of the assets you worked so hard to earn,

…knowing your income is guaranteed, for life,

…knowing you won't outlive your money.

Financial confidence in retirement means living life the way you always dreamed – because you have income you can count on, no matter what.

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Joshua David Mellberg is an Investment Advisory Representative and licensed insurance agent who specializes in retirement income planning. As a public speaker, he frequently conducts presentations for retirees and pre-retirees, as well as national training events for financial professionals in tax and income planning strategies. He has earned a myriad of industry awards and is often requested as a product consultant by insurance companies. He is a contributor to the New York Daily News and has been featured on CNBC, Yahoo! Finance and PBS.

Josh is CEO of J.D. Mellberg Financial, based in Tucson, AZ and founded in 2005. People all across the United States have visited J.D. Mellberg's websites, with an average of about 350,000 visitors each month, and Josh's retirement and financial videos have been downloaded and viewed more than 14 million times. J.D. Mellberg Financial has been recognized as one of the fastest-growing private companies in the U.S. on Inc. Magazine's Inc. 500|5000 list for seven years to date (2011-2017).

Josh is committed to helping people become more informed and empowered during their retirement income planning process, and works tirelessly to design strategies to help meet their financial needs and goals in retirement.

Residing in Tucson, Arizona with his immediate family, Josh enjoys taking advantage of Arizona's many outdoor activities, including hiking, hunting and biking.

DID YOU KNOW...

- there are hundreds of ways to potentially file for Social Security benefits?
- the major but common mistakes retirees make when turning on that income?
- small choices that can make a big tax-advantaged impact?
- 60% of Social Security recipients start taking their income as soon as they're eligible?

That means many people may be leaving money on the table when they take their benefits. Depending on your situation, there can be benefits to waiting a year, a couple years, a few years.

Social Security is one of America's greatest assets and often a key part of one's retirement income. In this book, learn ways to help you optimize your hard-earned benefits while avoiding costly mistakes. Plus, incorporating a strategy to maximize your Social Security income and minimize your taxes can mean thousands more spendable dollars for singles and married couples alike.

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