



Investment Training Module

Topic: Social Security Essentials

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Nuts & Bolts Of Social Security

SIMPLE CONCEPT:

1. Give the SSA a bunch of money throughout your working life
2. Collect an income stream in retirement



Social Security Benefits

- 1 quarter (3 months) of work = 1 Social Security “credit”
- 40 credits (10 years) required to qualify for Social Security
- Annual benefit at “Full Retirement Age” is the Primary Insurance Amount (PIA)

2 BIG QUESTIONS:

1. How much is my benefit?
2. When can/should I take it?

Social Security is a government-mandated annuity

How Much Money Do You Have?

What if you were saving on your own?

- Years worked: 35
- Annual savings (12.4%): \$7440 (assumes \$60K/year earnings)
- Average return: 6.0%
- Ending balance: \$883,320



- Actual benefits calculation
 - Based on annual earnings (up to 35 years)
 - Each year's earnings is multiplied by an "index" that accounts for inflation
 - Average indexed monthly earnings (over 35 years) is then manipulated by
 - Multiply first \$791 by 90%
 - Multiply the amount over \$791 and less than \$4768 by 32%
 - Multiply amount over \$4768 by 15%
 - Add the amounts together, round down to the nearest dollar, take an aspirin

Example Calculation:

- Ending earnings: \$80,000/year
- Annual increase: 3%
- Monthly benefit: **\$2,300**
- If self-funded: \$2,842 (23.5% increase)



Is Social Security Going To Survive?



- Social security has \$2.73 Trillion in trust fund reserves
 - Reserves will continue to grow until 2020
 - In 2021, costs will exceed income
- Trust fund will be empty in 2033 (current projection)
 - After 2033, income will cover 77% of scheduled payments
- What about the claims that all the money has been borrowed?
 - Social security funds can only be invested in one thing: Treasury bonds. The Federal gov't pays interest on the bonds, and they are the safest investment in the world.

“Fixing” Social Security

- Something needs to be done before 2033; either cut benefits or raise more money
- Cuts: Lower all payments, reduce payments for wealthy, reduce high-income beneficiary benefits, raise retirement age
- More money: Raise payroll tax rate, raise the income ceiling (currently \$110,100), apply income tax to benefits, add federal employees to program

Conclusion: Social security has a long life ahead of it

When Can I Receive Payments?

- Full Primary Insurance Amount (PIA) at Full Retirement Age
 - Currently Full Retirement Age (FRA) is 66
 - Will begin rising to 67 for those born in 1955 or later
- Reduced payments can be received earlier
 - Payments can start as early as age 62
 - Payments are reduced 0.5555% for each month earlier than FRA
 - If you started taking payments today at age 62, reduction would be 26.67% (48 months X 5/9)
- Enhanced payments can be received by delaying
 - 8% credit for each year payments are delayed (up to age 70)



Spousal benefits (50%) are determined when the “Primary” begins receiving payments

When Should I Receive Payments?



- Husband/Wife Strategies
 - Spouse is entitled to 100% of own benefits at FRA or 50% of spouse's benefits at FRA
 - After the husband* has filed for benefits, the wife can claim 50% of husband's benefit
 - If the wife has not reached FRA, spousal benefit is reduced; however, spousal benefit is not increased if she waits beyond FRA
 - Wife can begin collecting spousal benefit while delaying her own up to age 70
 - Husband can begin collecting his benefits, or can "File & Suspend"
- File & Suspend (important technique)
 - Allows wife* to begin collecting spousal benefits while husband's benefit is delayed (and grows by 8%/year)



* Spousal benefit in this example is seen from the wife's perspective, but applies equally to the husband

Sound complicated? It is, and we've just scratched the surface.

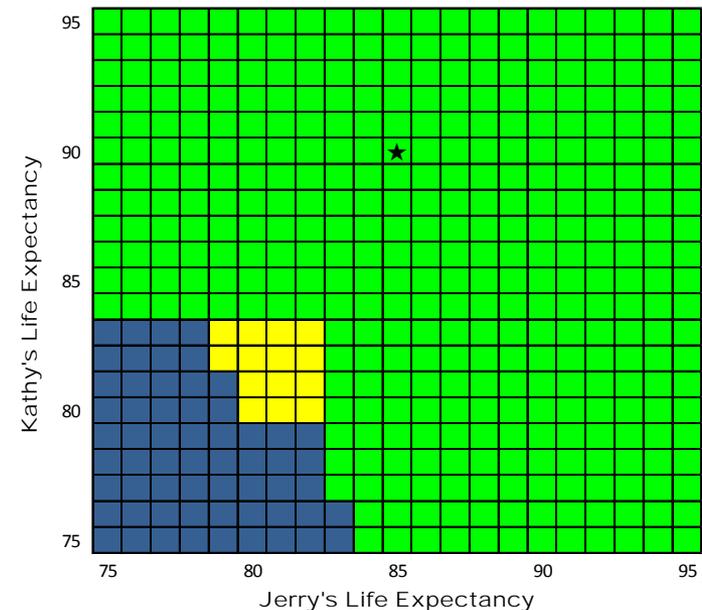
Maximizing Social Security Requires Strategy

- 1000+ options for husband & wife who both work
- Example output of *Social Security Analyzer*:

- Kathy begins benefits based on her earnings in December 2030 at age 67
- Jerry files and suspends benefits in August 2031 at age 67
- Kathy adds spousal benefits in August 2031
- Jerry begins benefits in August 2034 at age 70
- Kathy switches to survivor benefits in August 2049

Strategy	Color		Own	Spousal
Primary	Green	Jerry	70yrs	
		Kathy	67yrs	67yrs 8mos
Early	Blue	Jerry	62yrs	62yrs
		Kathy	62yrs	62yrs
FRA	Yellow	Jerry	67yrs	67yrs
		Kathy	67yrs	67yrs

★ represents the mortalities entered in the Client Profile



Tip of the Iceberg

Conclusion: Social Security options are complex, and most people leave substantial amounts of money on the table



At the risk of sounding like an advertisement, it is highly recommended that you work with a professional to determine the best strategy for getting as much of YOUR money back as possible

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