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How to Maximize Social Security Benefits Now

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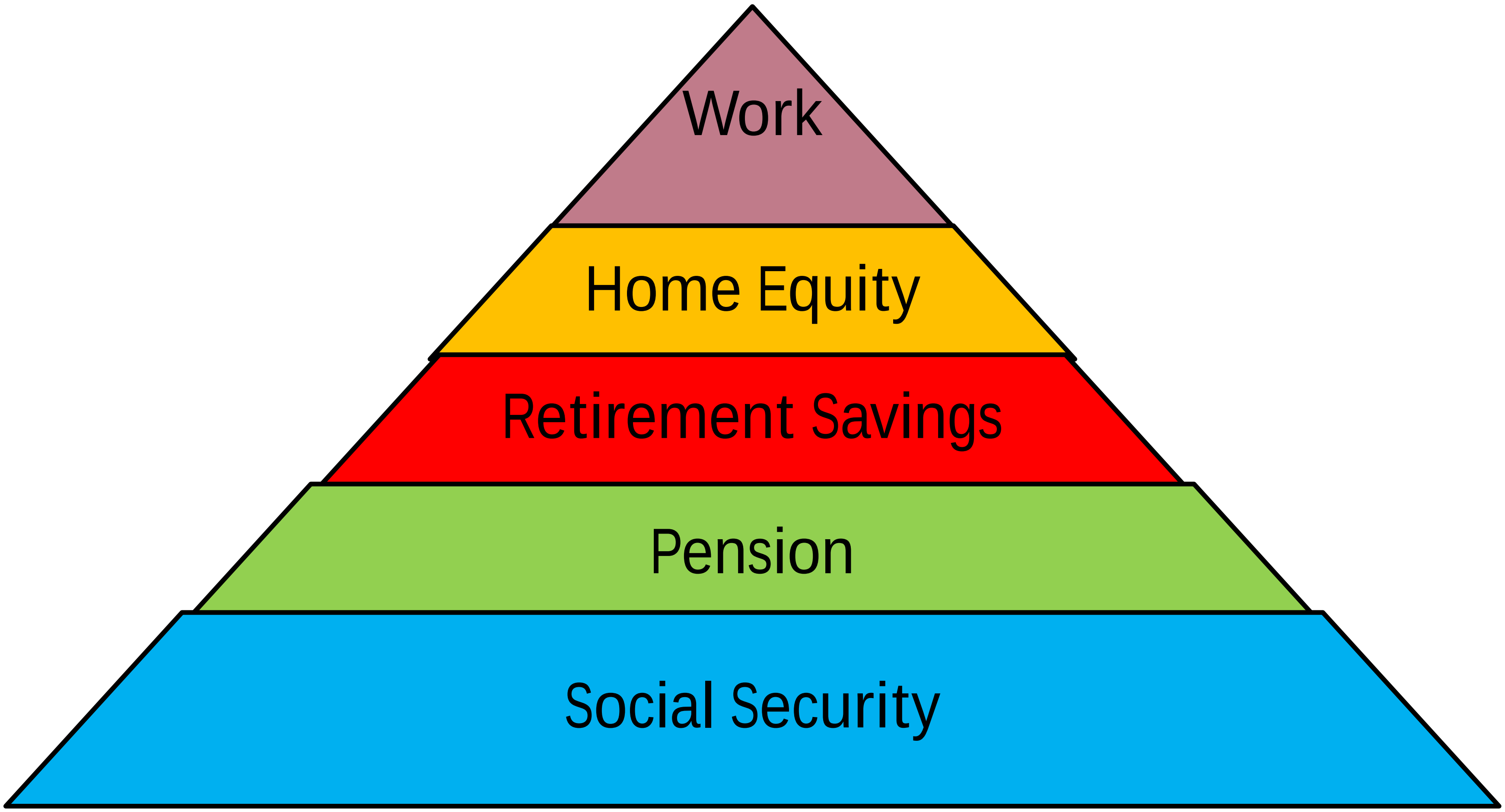
Critical Pieces of Retirement Security

- For most retirees, Social Security is a critical piece of the retirement income puzzle, but the rules are complicated.

- Medicare benefits are also essential to retirement security, but high costs can catch some retirees by surprise.

- Here's what you need to know to maximize Social Security benefits and minimize Medicare premiums.

An Updated Image of Retirement Income



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New Rules

The ***Bipartisan Budget Act of 2015 (Section 831 “Closure of Unintended Loopholes”)*** changed the rules for some key Social Security claiming strategies. Signed Nov. 2, 2015.

--File and Suspend has been eliminated but
some are workers are grandfathered under old rules.

--Filing a restricted claim for spousal benefits is still
available to some people, depending on their
birth date, through 2023.

File and Suspend

- Not available to new claimants, but those individuals who were at least 66 and who filed and suspended their retirement benefits by the April 29, 2016, deadline are grandfathered under the older rules.

- By filing and suspending at full retirement age (FRA), their claim triggered benefits for eligible spouse and/or children. Meanwhile, the worker would collect no benefits but the base amount would continue to grow by 8% per year up to age 70.

- Under the new rules, individuals can still suspend their benefits at FRA but no one can collect benefits on their record during the suspension and they cannot collect benefits on anyone else's earnings record.

Creative Claiming Opportunity

- Another creative claiming strategy is available to millions of married couples and eligible divorced spouses. Normally, if you are entitled to both your own Social Security benefit and that as of a spouse, Social Security pays the higher of the two amounts. A spousal benefits is worth up to 50% of a mate’s or ex-mate’s FRA amount.

- Wait until 66 to claim and a spouse (or ex-spouse) can choose to claim only their spousal benefits for up to four years and allow their own retirement benefits to continue to grow.

- That assumes the other spouse is actually collecting Social Security or had “filed and suspended” benefits before the April 29, 2016 deadline. Only one person can file for spousal benefits. Different rules apply to divorce.

But the days for using the spousal benefits claiming strategy are numbered.

You must be born by Jan. 1, 1954, to claim only spousal benefits at 66 and allow your own benefit to keep growing up to age 70. That means you must be at least 65 by the end of 2018 to use this strategy.

Clients born after Jan. 1, 1954, lose access to this creative claiming strategy

- They will never be able to choose which benefit to claim. They will be "deemed" to file for all their benefits—both retirement and spousal—at the time of claim and be paid the higher of the two.

- This applies to married spouses and eligible divorced spouses, but not survivors.

Review of Basic Rules: Your Age Matters

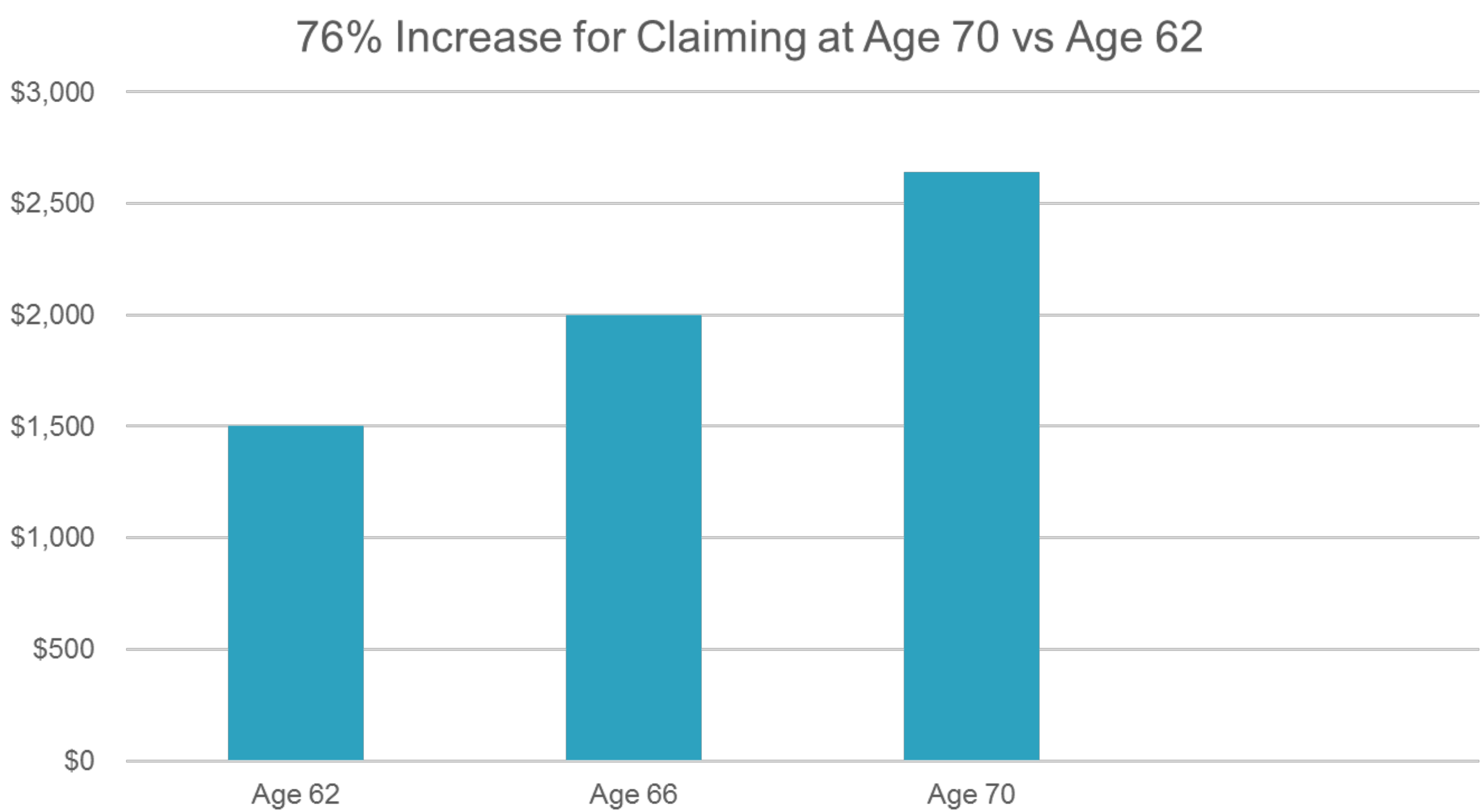
- You can collect Social Security retirement benefits as early as 62, but they will be permanently reduced by 25% or more for the rest of your life.

- If you wait until your full retirement age (FRA), currently 66, you can collect your full retirement benefit even if you continue to work.

- But if you delay collecting benefits beyond your normal retirement age, you can increase the amount by 8% per year up to age 70—a 32% increase.

Benefits at Various Claiming Ages

Amounts Increase by up to 32%



Delayed Retirement Credits

- For every year you postpone collecting Social Security beyond FRA, your benefits increase by 8% per year up to age 70, boosting payment by up to 32%. It actually is an even bigger increase as any cost-of-living adjustments (COLA) from ages 62 to 70 are also applied. A larger benefit base means larger COLAs each year once benefits begin.

- Delayed Retirement Credits (DRCs) ONLY apply to retirement benefits. Spousal benefits and survivor benefits do not increase if claimed after full retirement age.

- But a survivor is entitled to 100% of a deceased worker's benefit—including any DRCs. So maximizing a retirement benefit also creates the maximum survivor benefit.

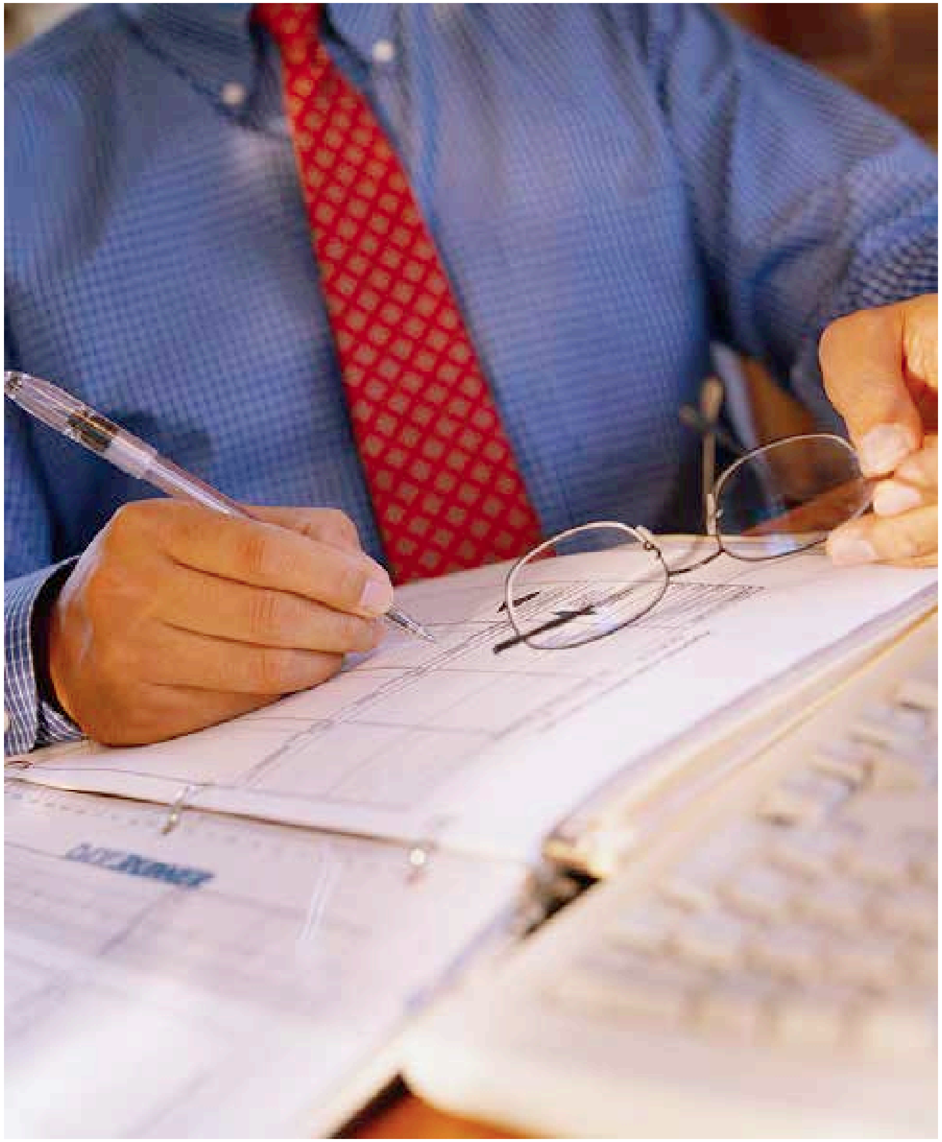
Your FRA May be Higher

Individuals who turn 62 in 2017 or later will be subject to a new higher full retirement age.

Birth Year	Full Retirement Age	Benefit Reduction at 62
1943 – 1954	66	25.00%
1955	66 and 2 months	25.83%
1956	66 and 4 months	26.67%
1957	66 and 6 months	27.50%
1958	66 and 8 months	28.33%
1959	66 and 10 months	29.17%
1960 and later	67	30.00%

Increasing the FRA to 67 increases the reduction for claiming early at 62 to 30% and reduces the amount of maximum delayed retirement credits at age 70 to 24%.

Earnings Cap



- If you collect Social Security benefits before FRA and continue to work, you will lose $1 in benefits for every $2 earned over $17,040 in 2018.
- Higher limits apply in the year you turn 66 losing $1 in benefits for every $3 earned over $45,360 during the months before your birthday.
- The cap disappears at FRA.

#1 Rule

- If you plan to keep working, in most cases it makes no sense to claim Social Security benefits before FRA.

- All types of benefits—retirement, spousal and survivor—are subject to income limits on earnings if collected before FRA.

- But benefits lost to the earnings cap are not gone forever. They will be restored at full retirement age.

Reasons to Claim Early

- If you are in poor health and are unlikely to reach normal life expectancy. On average, a 65-year-old man is likely to live to 84; a woman to 86. But half of all Americans will live even longer.

- If you really need the money.

- If you earn less than the annual earnings cap.

- In some cases, one spouse may want to claim early .

Strategies for Married Couples

- In most cases, it makes sense for the higher-earning spouse to delay benefits as long as possible, up to age 70, to lock in the maximum retirement benefit as well as the largest survivor benefit for the spouse left behind.

- The lower-earning spouse may want to claim reduced benefits early at 62, assuming she or he is no longer working, or at FRA if still working. It increases household cash flow while the other spouse delays benefits up until age 70.

- Following the elimination of “file and suspend”, spouses with no Social Security benefits of their own must wait for the working spouse to claim retirement (or disability) benefits before they can collect. Different rules apply to divorced spouses.

Spousal Benefit Strategy Example

Husband, 66, FRA benefit	$2,000
Wife, 66, FRA benefit	$1,200

Claiming Strategy:

- Wife claims $1,200 at 66; Husband files a "restricted claim" for spousal benefits at 66 and collects $600 per month.
- At 70, he switches to his retirement benefit worth $2,640 per month ($2,000 + 32% in delayed retirement credits).
- That's an extra $28,800 in spousal benefits ($600 x 48 months) that otherwise would have been left of the table if the husband merely delayed claiming until 70.

Benefits for Divorced Spouses

- If married at least 10 years and currently unmarried, you may be able to collect on your ex-spouse's work record as early as age 62. You would be paid the higher of your own retirement benefit or spousal benefit.

- If you have been divorced at least two years, you can collect benefits on your ex even if he or she has not yet claimed as long as you both are at least 62.

Better Strategies for Divorced Spouses

A married spouse or eligible divorced spouse can wait until 66* to file a restricted claim for spousal benefits and defer collecting their own maximum retirement benefit until 70.

*Must be born by Jan. 1, 1954

Maximize Survivor Benefits

- Survivor benefits = 100% of worker's benefit including any delayed retirement credits if surviving spouse is at least 66; less if collected earlier.
- The goal of most married couples should be to maximize the survivor benefit by having the spouse with the higher Social Security benefit delay claiming until 70.

Survivors Can Switch Benefits*

- Widows, widowers and surviving ex-spouses can collect survivor benefits as early as age 60, but are subject to benefit reductions and the earnings cap if they continue to work.

- They can collect survivor benefits initially and then switch to their own benefit that continues to grow at 8% per year until age 70. Or they could collect their own reduced retirement benefit first and switch to maximum survivor benefits at FRA.

- If a widow or widower remarries after age 60, they can still collect survivor benefits even if married to someone else.

**These rules DO NOT change under the new law*

Ex-Spouses Can Collect Survivor Benefits, too

- As long as you were married at least 10 years and are divorced, you can collect survivor benefits on your ex-spouse—worth up to 100% of his or her FRA amount—even if your ex-remarried.

- Although you lose the right to collect spousal benefits on a living ex if your remarry, you CAN collect survivor benefits on a deceased ex if you wait until 60 or later to remarry.

- Remember spousal benefits are worth up to 50% of a worker’s PIA; survivor benefits are worth up to 100%. Your ex is worth twice as much dead than alive!

How Much are Survivor Benefits?

Widow/Widower's Start Age	% of Deceased Worker's Benefit
60	71.5
61	76.3
62	81.0
63	85.8
64	90.5
65	95.3
66	100.0

Don’t Forget the Kids

Minor dependent children under age 18 or permanently disabled adult children may be entitled to dependent benefits when a parent collects retirement benefits or survivor benefits after the parent’s death.

Dependent benefits are worth 50% of the parent’s FRA amount; Survivor benefits are worth 75% of FRA amount.

A spouse of any age may qualify for spousal benefits when caring for a child under age 16 or disabled.

Family Maximum Benefit Limits

- There is a limit to how much a family can collect on a worker's Social Security benefit. The total depends on the worker's PIA and the number of family members who qualify for benefits.
- The total varies from 150% to 180% of a worker's FRA amount. If total benefits exceed the family maximum, dependent benefits are reduced proportionately. A worker's benefit is not affected.
- If a retirement-age divorced spouse qualifies for benefits on a worker's record, it will not be included in the family maximum.

Singles

- Benefits based on age at time of claim. No more “file and suspend” strategy so no longer option to request a lump sum payout.

- Delaying claiming benefits until age 70 will result in a larger monthly payment, but it may not be worth waiting that long since no one will collect a survivor benefit.

Do-over strategy

If you change your mind within 12 months of first claiming retirement benefits, you can withdraw your applications, repay the money you have already received and restart your benefits at a higher rate later.

Or, if you wait until 66, you can suspend your benefits—but not repay them—and earn 8%-per-year up to age 70. You can *still* do this under the new rules but no one can collect benefits on your record during the suspension and you cannot collect on anyone else's record.

Public Employees: You Must Pay to Play

If you receive a pension from work in the public sector, including some school teachers, where you did not pay FICA taxes, your Social Security benefits may be reduced or eliminated.

The **Windfall Elimination Provision (WEP)** can reduce a worker's SS retirement benefit by up to half of his or her pension, but not more than $447.50 per month in 2018.

The **Government Pension Offset (GPO)** rule reduces spousal and survivor benefits by two-thirds of the amount of the non-covered pension with no maximum dollar limit.

New Rules, New Plan

- **Married couples**: Coordinate claiming and maximize larger benefit. Claim only spousal benefits if eligible.
- **Divorced spouses**: Benefit based on the higher of your own earnings or as a spouse; claim spousal only if eligible. Entitled to survivor benefit on ex.
- **Singles**: Don't collect until FRA if still working; but may not be worth delaying until 70.
- **Families with minor children:** Children receive benefits only if parent is collecting; perhaps claim early and suspend at 66.
- **Survivors:** Can still claim retirement first and survivor benefits later, or vice versa, to maximize benefits.

Social Security Benefits Are Taxable

Combined Income = AGI + ½ of SS + tax-exempt interest

Filing Status	Combined Income	Taxable up to
Single	<$25,000	0%
Single	$25,000 - $34,000	50%
Single	>$34,000	85%
Married & Joint	<$32,000	0%
Married & Joint	$32,000 - $44,000	50%
Married & Joint	>$44,000	85%

The Ticking Tax Time Bomb

- Retirees who have stashed the bulk of their savings in traditional retirement accounts may be in for a rude awakening.

- Withdrawals from traditional IRAs, 401(k)s and similar tax-deferred retirement accounts are fully taxable at ordinary income tax rates.

Medicare & Social Security

- Normally, Medicare Part B premiums are deducted directly from Social Security benefits.

- A “hold harmless” rule prohibits any annual increase in Medicare premiums from exceeding the annual increase in Social Security benefits to prevent a decline in net benefits. That was significant in 2016 when there was no COLA and in 2017 when there was a very small 0.3% increase.

- A 2% cost-of-living increase in Social Security benefits this year boosted the average retiree’s benefit by about $27 per month this year. As a result, Medicare Part B premiums rose by $25 to $134 per month for most retirees, wiping out the bulk of the 2018 Social Security increase.

Medicare Premiums
Are Based on Income

- Premiums for Medicare Parts B and D are tied to income. The higher the income, the higher the monthly Medicare premiums.

- There are five tiers that determine the surcharge, known as *Income Related Monthly Adjustment Amount (IRMAA).* These are cliff brackets. If your MAGI exceeds the upper amount by just $1, you will pay the surcharge applicable to the next higher IRMAA bracket.

- Medicare premium surcharges are based on the latest available tax return. Medicare Part B and D surcharges for 2018 are based on 2016 tax returns filed in 2017.

What is MAGI?

Modified Adjusted Gross Income (MAGI) Formula

	Total AGI from tax form 1040
+	Tax-exempt interest
=	MAGI

One-time bumps in MAGI, such as sale of investments, business or vacation home or conversion to Roth IRA can increase Medicare premiums for one year.

2018 Medicare B Premium Surcharges

MAGI in 2016	MAGI in 2016	Income-related Monthly Adjustment	Total Monthly Premium in 2018
Individual Return	Joint Return		
<$85,000	<$170,000	$0.00	$134.00
$85,001 - $107,000	$170,001 - $214,000	$53.50	$187.50
$107,001 - $133,500	$214,001 - $267,000	$133.90	$267.90
$133,501- $160,000	$267,001- $320,000	$214.30	$348,30
>$160,000	>$320,000	$294.60	$428.60

Red numbers indicate new lower income thresholds for 2018.

2018 Medicare D Premium Surcharges

MAGI in 2016	MAGI in 2016	Income-Related Monthly Adjustment	+ Average Monthly Part D Premium $57.93*
Individual Return	Joint Return		
<$85,000	<$170,000	$0.00	$57.93
$85,001 - $107,000	$170,001 - $214,000	$13.00	$70.93
$107,001 - $133,500	$214,001 - $267,000	$33.60	$91.53
$133,501 - $160,000	$267,001 - $320,000	$54.20	$112.13
>$160,000	>$320,000	$74.80	$132.73

*Part D premiums vary widely;
Red numbers indicate new lower income tiers for 2018.

Reasons to Appeal an IRMAA Surcharge

Changes since your last available tax returns; respond to IRMAA notification letter immediately.

- You married, divorced or become widowed.
- Your or your spouse stopped working or reduced hours.
- You lost income-producing property due to a disaster.
- You or your spouse’s pension was terminated.

Some Income Doesn’t Count in MAGI

- Distributions from **Roth IRAs/Roth 401(k)s**
- Distributions from **Health Savings Accounts** used to pay medical expenses
- Loans/distributions from cash value **life insurance**
- A portion of immediate **annuity payouts in nonqualified accounts**
- Proceeds from a **reverse mortgage**
- Direct charitable contribution of **IRA RMDs** for those age 70 1/2 +.

For more information:

www.InvestmentNews.com/MBFebook