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AAFMAA Wealth Management & Trust LLC

The Little Known Rules of Social Security You'll Want to Learn

AAFMAA Wealth Management & Trust

- **OUR MISSION**: to be the premier provider of financial planning, investment management, and trust services to the American Armed Forces community.

AAFMAA Wealth Management & Trust

Focusing exclusively on the needs of the military family, we work to provide innovative, personalized, and lifestyle appropriate financial services.

Bound by a fiduciary standard - any advice or service we offer must always be in the best interest of the client.

Agenda

- Social Security overview
- Social Security eligibility
- Social Security and divorced spouses
- Social Security taxation – Federal level
- Beginning your Social Security draw
- Full Retirement Age chart
- Reductions to Social Security
- “Do overs”
- Preparing for Social Security
- Challenging a Social Security Decision
- When to begin Social Security

Social Security Overview

- In July 2018, more than 62 million people received a Social Security benefit.*
- 62% of these beneficiaries are reliant on their monthly check to account for at least half of their income.*
- 34% rely on their payout for 90+% of their income.*
- The difference in the amount of a draw varies up to 76% MORE between the ages of 62 and 70.
- With such a large population being so reliant on this entitlement, it is important to fully understanding the many differing aspects that may impact the amount drawn.

*According to https://www.ssa.gov/

Social Security Eligibility

- Social security eligibility begins for most at age 62.
  - NOTE: this is not a required begin by date. You may defer the start of your draw until as late as age 70, with as much as a 76% increase in the amount you draw.
- Widows may begin their draw as early as age 60, but at a significant decrease.
- Children of recipients under the age of 19 or still enrolled in high school are eligible for up to 50% of the recipient's draw. This includes adopted grandchildren, if one of the grandparents is drawing, or if one of their parents is deceased.
- The other parent/grandparent is also eligible for a partial draw until the children turn 16.

Eligibility for Divorced Spouses

- Divorced spouses are also eligible to a spousal draw on their ex-spouse's earnings, beginning at age 62, provided they were married at least 10 years and did not remarry.
    - NOTE: The ten year mark is hard and fast. It can't be 9 years and 11 months. The IRS counts this down to the exact day so be careful.
- This is assuming the ex-spouse is entitled to social security and is age 62 or older.
- This does NOT impact the ex-spouse's draw and they do not have to be contacted to initiate the draw.
- If the ex-spouse has not applied for retirement benefits, but can qualify for them, you can receive benefits on their record if you have been divorced for at least two years.

Draws Based on Income

- To be eligible for a Social Security draw, you must have 40 quarters of paying into the system.
    - In 2018, one quarter equals $1,320, thus four quarters equals $5,280.
- Your draw will be calculated using your highest earning over a 35 year period.
    - You may increase your Social Security draw if you return to the workforce later.
    - You will not be penalized if you have low earnings if you resume working, except if you are not at Full Retirement Age (FRA).
- The maximum wage base for Social Security taxation for 2018 is $128,400.
    - This amount is indexed for inflation and increases annually.
    - Earnings above this amount will not be taxed for Social Security in that same year, however they may be taxed for Medicare (.9%).

Social Security Taxation

- Up to 85% of a social security draw may be taxed at the Federal level.
- If Social Security makes up the vast majority of your retirement income, your benefits may not be taxable.
- If your combined income is over $44,000 (married filing jointly) or $34,000 (all other filing statuses), as much as 85% of your Social Security benefits can become taxable income.
- If your combined income is over $32,000 (married filing jointly) or $25,000 (all other filing statuses), as much as 50% of your Social Security benefit can be taxable income.

Social Security Taxation (Cont.)

- The four states that mirror the federal tax schedule for Social Security are Minnesota, North Dakota, Vermont, and West Virginia
- The 9 states that tax social security at varying levels are Montana, Colorado, New Mexico, Utah, Nebraska, Kansas, Missouri, Connecticut, and Rhode Island
- While your Social Security may not be initially taxed, you will have to initiate Required Minimum Distributions (RMD's) from your Thrift Savings Plan (TSP), 401(k), 403(b), and/or traditional IRA's beginning at age 70 ½.
  - This income, when added to your Social Security, may cause an increase in taxes. Consult with your tax professional.

Beginning Your Draw

- When you begin your draw, the Social Security representative will normally offer you the option of receiving six months back pay, assuming you are 62.
  - Be leery of this option! If you accept this offer, you are essentially taking a discounted Social Security draw (up to 4% annually) for the rest of your life.
  - Each month you delay social security, your benefit will increase, up to 8% annually, to age 70.
- If you begin your draw prior to full retirement age you may incur a penalty for your earned income.
  - From age 62 to Full Retirement Age (FRA), you will incur a $1 penalty for every $2 you earn over $17,040.
  - In the year you reach FRA, this amount increases to $45,360 and the penalty is $1 for every $3 earned over this amount.
  - These amounts are indexed for inflation.

Beginning Your Draw (Cont.)

- These funds are not permanently lost. When you reach full retirement age, Social Security will recalculate upward the amount of your benefits to take into account the amounts you lost because of the earned income rule.
  - The lost amounts will be made up only partially, however, a little bit each year. It will take up to 15 years to completely recoup your lost benefits.
- If you are still working and want to begin your Social Security draw, discuss the possible consequences with your tax professional beforehand.
- For survivor benefits, there is no increase in the draw beyond FRA. Widows are entitled to 100% of their deceased spouse's entitlement at FRA.

Beginning Your Draw (Cont.)

- The bottom line on when to begin drawing Social Security is that it is a personal matter/decision. The most overriding factor could be if a worker's financial situation is such that the extra income from Social Security is required for their financial survival.
- The age at which a worker begins drawing social security may have a significant impact on their lifetime draw.
- The tips provided in this brief are intended as information only. Workers are encouraged to discuss any planned action with their tax professional and/or a Social Security representative before taking action.

Age To Receive Full Social Security Benefits
(Called "full retirement age" (FRA) or "normal retirement age.")

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

Additional Reductions to Social Security Draw

- If either husband or wife did not pay into Social Security while working, then their draw may be significantly reduced, permanently.
  - This often occurs when a worker and/or spouse is employed by a state or municipality and Social Security is not withheld.
- Two programs impact the draw.
  - **Government Pension Offset (GPO):** This normally impacts a spousal draw, when the spouse did not pay into Social Security. The spousal draw may be reduced by up to 2/3's.
  - **Windfall Elimination Provision (WEP).** This is a reduction in Social Security benefits when a worker does not have 30 years or more of substantial earnings taxed for Social Security. Both the worker and spousal draws are significantly impacted. However, the survivor draw is not impacted.

A “Do Over” is allowed!

- If you begin your draw and decide this was a mistake (e.g., you are still working and you realize the significance of the under FRA penalty), you may cancel your draw within the first year and return all of the payments received. You are allowed to do this only once in your lifetime.
- You may suspend your draw beginning at FRA up until age 70 and resume it at anytime. This will allow for your draw to increase up to 8% annually. So, if you delay beginning at age 66 to continue to age 70, or four years, your draw may increase up to 32%.
  - Note: if your children or dependents are receiving a draw based on your entitlement, their draw will also be suspended during this period.

Preparing for Social Security

- The creation of an online Social Security account is highly recommended.

https://www.ssa.gov/myaccount/

(800) 772-1213

- This will allow access to your earnings record to review for completeness and an estimate of your draw.

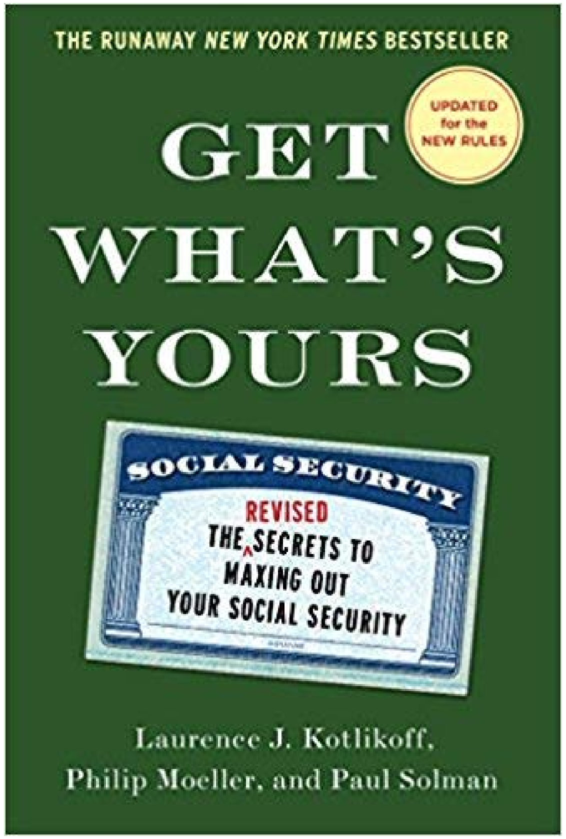
Challenging a Social Security Decision

- Approximately 10,000 workers become eligible for Social Security **DAILY!***
- Many Social Security offices are understaffed, and new employees may not be adequately experienced.
- You may receive incorrect info from Social Security. If you question their answers, do not hesitate to ask to speak with a supervisor at the Social Security office.

*According to https://www.ssa.gov/

Recommended Reading

Here is a book I have read twice which I found very informative on Social Security.



Questions

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