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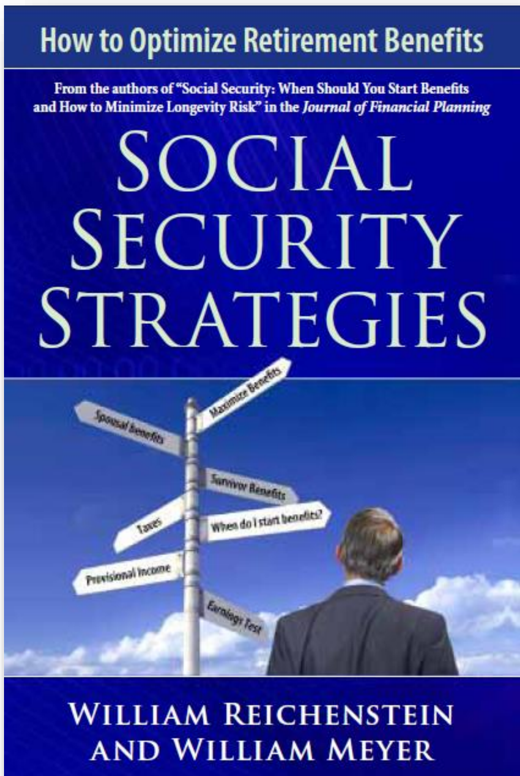
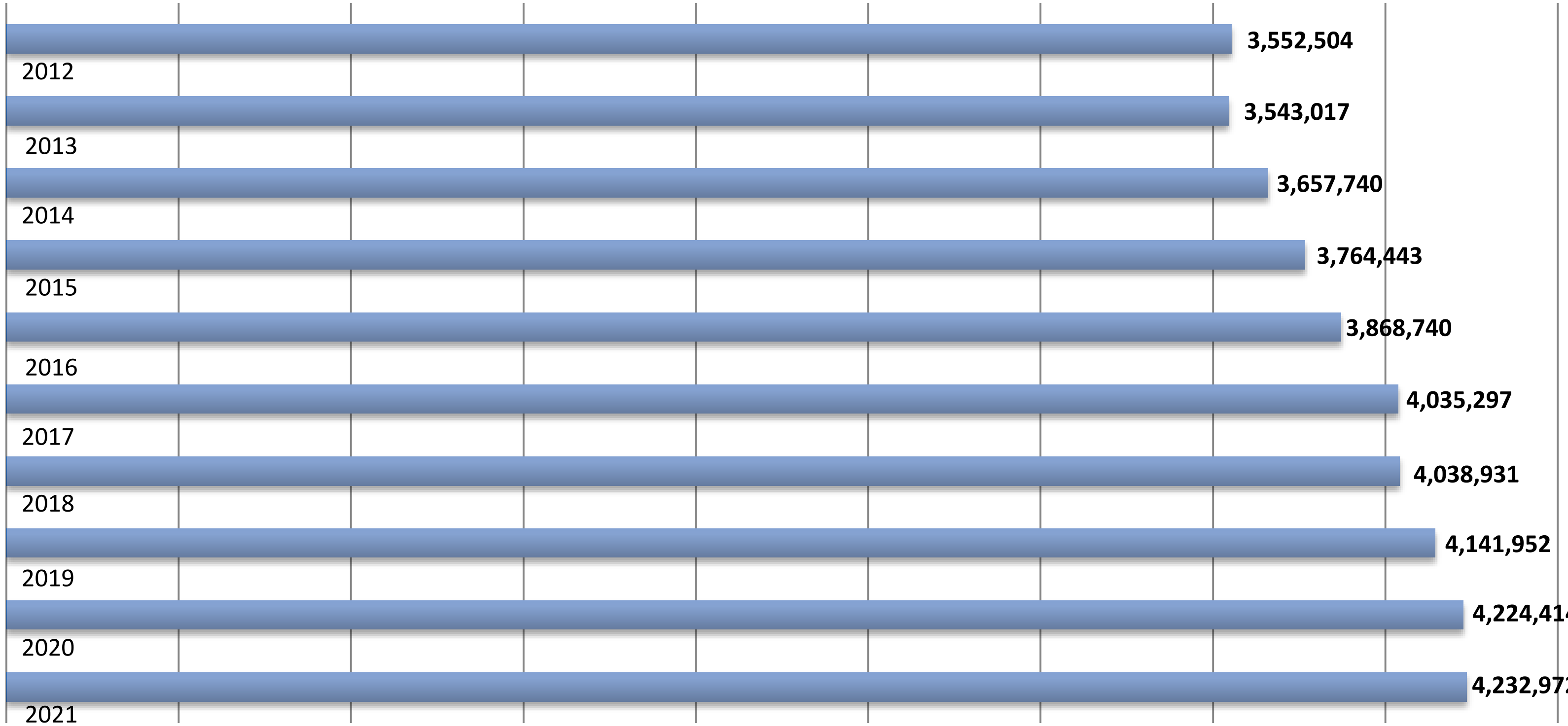


Using Social Security to Optimize Retirement Benefits

PRESENTER: BILL MEYER, CEO
SOCIAL SECURITY SOLUTIONS, INC.

Over the next 10 years, more than 46 million Americans will reach Social Security retirement age



Americans turning 62 and eligible to file for Social Security

SOURCE: http://www.census.gov/population/projections/data/national/2008/downloadablefiles.html

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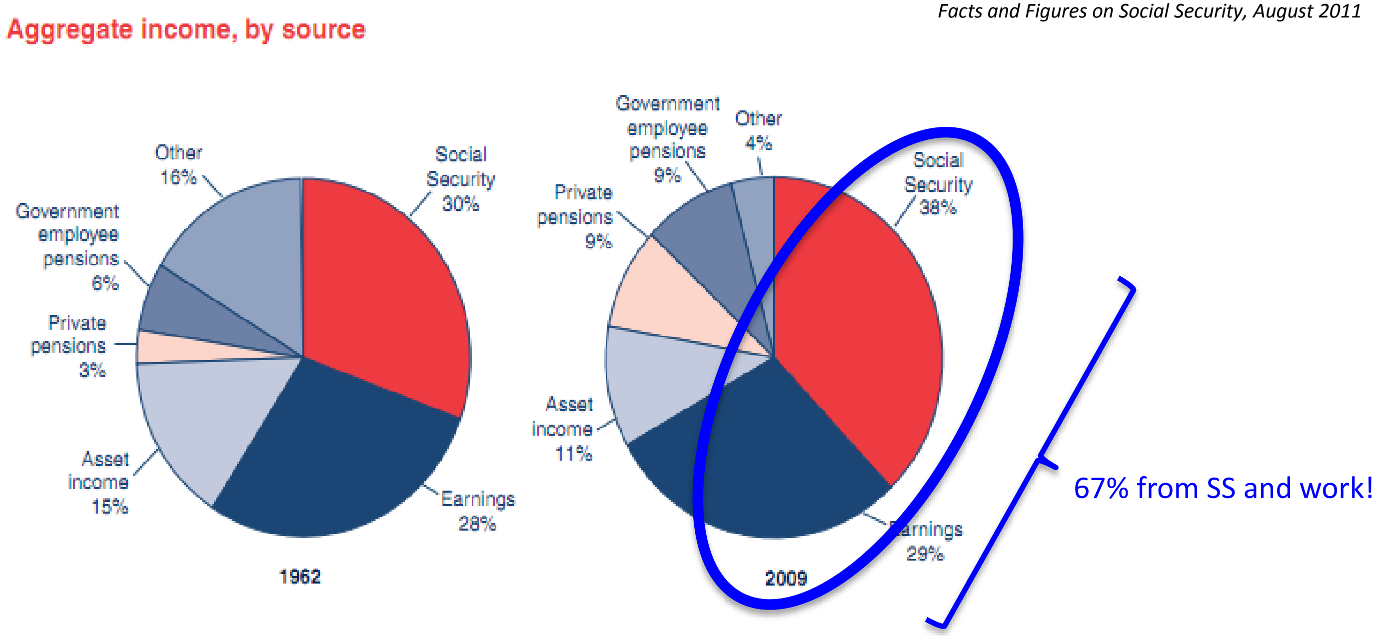
Social Security is the largest income source

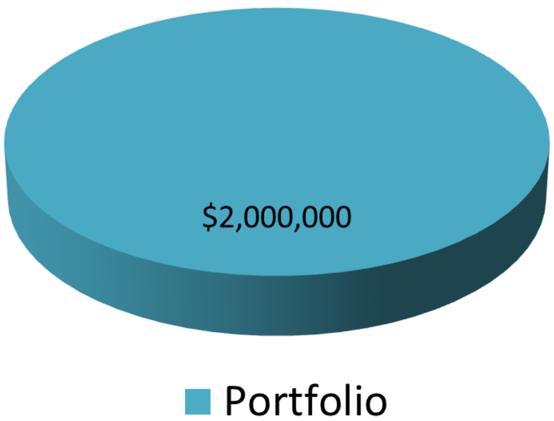
Social Security was once an afterthought among affluent Americans. Now, it's a keystone of a secure retirement. Social Security represents 38% of all income for those over age 65; that's up 8% from 1962.

Facts and Figures on Social Security, August 2011

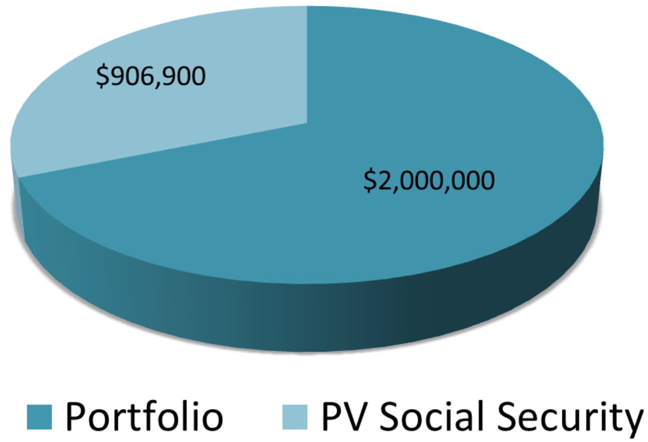


That changes things…

You're advising your clients on their retirement savings.



What about the rest of their retirement assets?



PV Social Security assumes that his PIA is $2000, hers is $1800. Both live to 90. 1% real discount rate.

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Your clients expect that you can give them advice

Recent survey findings from 532 married couples between 60-66:*

- ✧ Advice on Social Security is “expected” to be given by financial professionals.
- ✧ 73% of people surveyed were not aware of claiming options such as “file and suspend” and “restricting an application,” which can significantly increase lifetime benefits.
- ✧ 57% are willing to seek help from a new financial advisor if their current one is unable to provide advice on Social Security.

This is your opportunity to advise customers on the most important financial decision of their retirement and to offer financial peace of mind!

**www.lifehealthpro.com, “Social Security Planning, A New Angle for Your Senior Clients, October 12, 2011.*

Why add Social Security claiming strategies to your practice?

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1. Improve your "advice quality" and "efficiency"
    - *Sophisticated SS strategies are not integrated into leading financial planning and tax planning software packages; and the rules are too complex to do this yourself.*
    - *Quality SS strategies materially impact outcomes within both 1) a financial planning projection and 2) investment management risk budgets and target asset allocation.*
    - *Includes a tax calculator and the most robust logic for annual and forecasted projections, including the Earnings Test.*
2. High consumer demand
    - *Retirees expect you to know these details.*
    - *The SSA is not prepared to help or give advice.*
    - *More reliance on SS after market meltdown.*
3. Potential to differentiate your practice
    - *Few advisors incorporate SS as part of their advisory process.*
    - *High value niche that engenders trust – deepens your relationship, good client acquisition strategy to "hook" new clients or receive referrals.*

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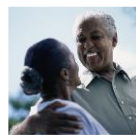
The Impact of SS Strategy

The average couple leaves about $150,000 in benefits on the table because they don't know how and when to claim.

Our software and training equip agents with the ability to deliver expert claiming advice and enhance a client's long-term financial security.

Couple #1

- Concerned about survivor benefits for wife
- Optimal strategy meant $1,300 more per month in survivor benefits
- $156,000 more over 10 years



Couple #2

- Wanted to maximize cumulative lifetime benefits to extend spend-down of savings
- Optimal strategy will reap almost $260,000 more over 30 years

Single

- Wanted the greatest monthly income possible for later in life
- Optimal strategy resulted in lowering savings withdrawal by $1,100 per month, meaning savings last longer

www.SocialSecuritySolutions.com www.SSAnalyzer.com

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Primary Insurance Amount

- Primary Insurance Amount (PIA) is the basis of most Social Security benefits.
- PIA is derived from a worker's lifetime earnings record.
- It is the retirement benefit one would receive if claimed at Full Retirement Age.
- Go to www.ssa.gov/estimator

Your Estimated Benefits

***Retirement** You have earned enough credits to qualify for benefits. At your current earnings rate, if you stop working...

At age 62, your payment would be about .... $ 1,364 a month

If you continue working until. . .

your full retirement age (67 years), your payment would be about .... $ 1,941 a month

age 70, your payment would be about .... $ 2,407 a month

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Full Retirement Age *(own & spousal ben)*

Year of Birth*	Full Retirement Age (FRA)	Per Month Reduction Benefits If Benefits Begin Prior to Full Retirement Age	Age 62 Benefits as % of PIA	Per Month Delayed Retirement Credit	Age 70 Benefit as % of PIA
1943-54	66	5/9% for 36 mos. + 5/12%/mo.**	75%	2/3%	132%
1955	66 and 2 mos	5/9% for 36 mos. + 5/12%/mo.**	74 1/6%	2/3%	130 2/3%
1956	66 and 4 mos	5/9% for 36 mos. + 5/12%/mo.**	73 1/3%	2/3%	129 1/3%
1957	66 and 6 mos	5/9% for 36 mos. + 5/12%/mo.**	72 ½%	2/3%	128%
1958	66 and 8 mos	5/9% for 36 mos. + 5/12%/mo.**	71 2/3%	2/3%	126 2/3%
1959	66 and 10 mos	5/9% for 36 mos. + 5/12%/mo.**	70 5/6%	2/3%	125 1/3%
1960 or later	67	5/9% for 36 mos. + 5/12%/mo.**	70%	2/3%	124%

**Social Security considers people to attain an age 1 day before their birthday. Thus someone born on January 1 is considered to have been born in the prior year.*
***The monthly reduction is 5/9% for the first 36 months prior to Full Retirement Age, and 5/12% for every month after the first 36 months.*

STRATEGIES FOR SINGLES

- Two Criteria for Selecting Claiming Strategies

- Key Lesson: Criterion 1
  - Breakeven Dates Refined
  - Maximizing Present Value of Lifetime Benefits

Two Criteria for
Selecting Claiming Strategy

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Criterion 1: Which starting date for singles (or dates for couples) will maximize the present value of cumulative benefits?

(Today, maximizing present value of benefits is essentially the same thing as maximizing cumulative benefits in today's dollars. The latter is much easier to explain to clients.)

Criterion 2: Which starting date for singles (or starting dates for couples) will minimize longevity risk, that is, the risk of outliving their portfolio?

Lesson 1

Lesson 1: If a single individual lives to age 80, the cumulative lifetime benefits will be approximately the same whether benefits begin at 62, 63, 64, or any age through 70.

HOWEVER, there are a couple of spans during which a single should NOT claim benefits.

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Example: Two Criteria Matter

Suppose a single individual with PIA of $2,000 has a life expectancy of 76. We recommend that she claim benefits at 64.5.

- Begin at 62, cumulative benefits through 76 maxed at $252,000. Monthly benefit of $1,500.
- Begin at 64.5, cumulative benefits through 76 is $248,400. Monthly benefit of $1,800.
- By claiming at 64.5 instead of 62, she gets 1.4% less if she dies at 76, but 20% more per month. Breakeven age 77.
- We think most retirees would prefer the begin-at-64.5 claiming strategy.

STRATEGIES FOR COUPLES

- Rules Governing Spousal Benefits
- Rules Governing Survivor's Benefits
- Lessons 2 and 3
- Couples Examples

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Rules Governing Spousal Benefits

1. Dual entitlement: She is entitled to the larger of benefits based on her earnings record or, if eligible, spousal benefits, which is up to 50% of her husband's Primary Insurance Amount.

2. Both spouses cannot receive spousal benefits at the same time.

3. In order for her to receive spousal benefits, her husband must have "filed for benefits based on his earnings record.“ Suppose she wants to file for spousal benefits based on his earnings record. For her to be eligible for spousal benefits, he must 1) already be receiving benefits based on his earnings record, or 2) once he reaches FRA, he can file for his own benefits and immediately suspend them – that is, he can **file and suspend**.

Rules Governing Spousal Benefits

4. If she applies for benefits before attaining Full Retirement Age (FRA), she is “deemed” to be applying for both her own benefits, and if eligible, spousal benefits. Her own retirement benefits and spousal benefits are calculated separately and added together.

5. After attaining FRA or later, she can apply for spousal benefits only, if eligible, and later switch to her own benefits, or vice versa.

6. If she has attained FRA (and her husband has filed), then her spousal benefit is 50% of his PIA.

7. If she has not attained FRA (and her husband has filed), her spousal benefits are reduced by 25/36% for each of the first 36 months and by 5/12% for each additional month that benefits are begun before she attains FRA.

Rules Governing Survivor’s Benefits

You are entitled to survivor’s (a.k.a., widow(er)’s) benefits if:

- You are age 60 or over.
- You are not **entitled** to a retirement insurance benefit that is equal to or larger than the worker's Primary Insurance Amount.
- You did not remarry before age 60.
- The worker died fully insured.
- You were married to the deceased worker for at least the nine months just before the worker died.
- You have filed an application for widow(er)'s insurance benefits. (You must file to be **entitled** to benefits, but you may be eligible for benefits even if you have not filed for benefits.)

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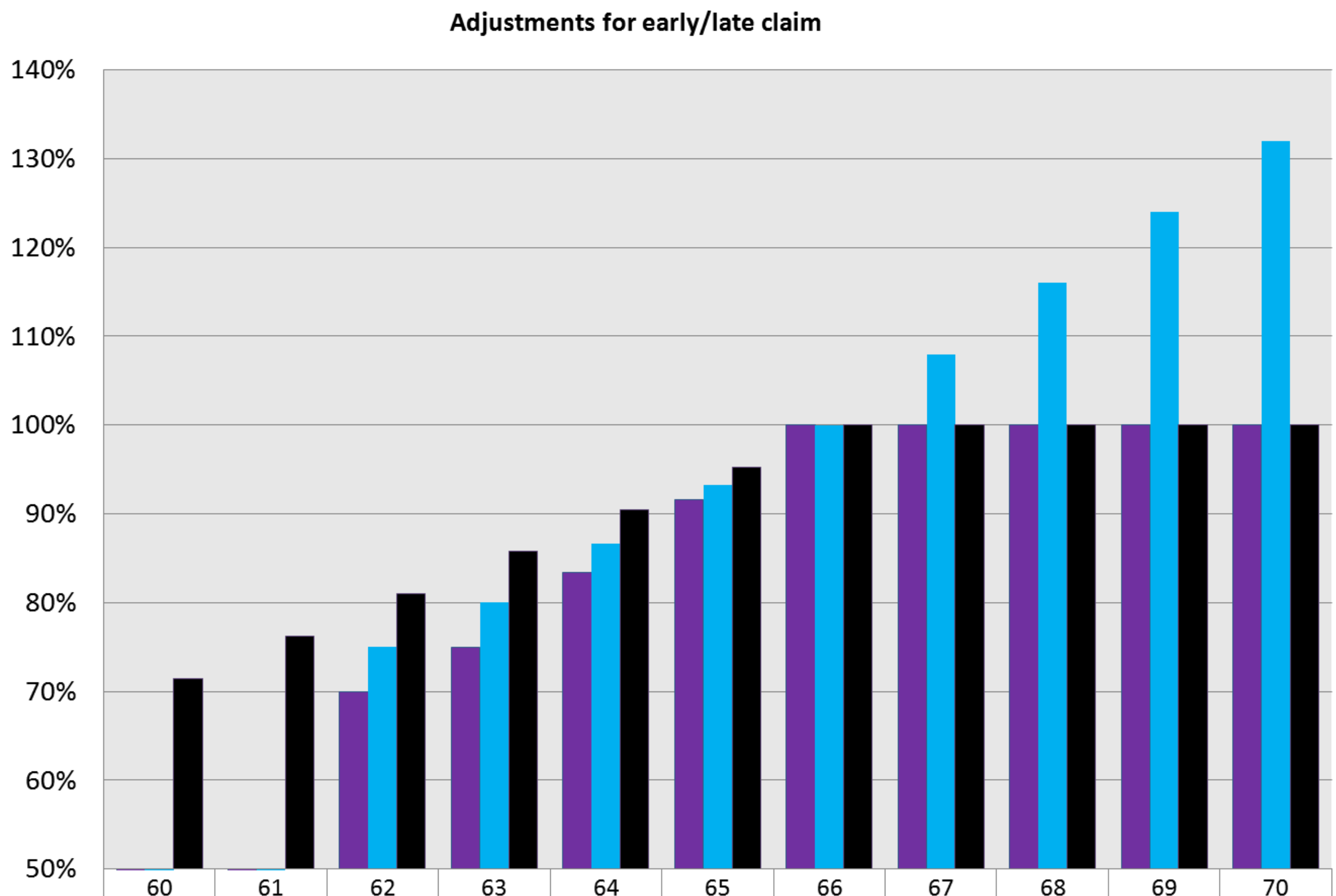

	60	61	62	63	64	65	66	67	68	69	70
Spousal	0%	0%	70%	75%	83%	92%	100%	100%	100%	100%	100%
Retirement	0%	0%	75.0%	80.0%	86.7%	93.3%	100%	108%	116%	124%	132%
Widow(er)	72%	76%	81%	86%	91%	95%	100%	100%	100%	100%	100%

 www.SocialSecuritySolutions.com www.SSAnalyzer.com

Lessons 2 and 3

(For clarity, we assume higher earning spouse is male.)

<u>Lesson 2</u>: The relevant age for the decision as to when the spouse with the higher PIA should begin benefits based on his earnings record is *his age* when the second spouse dies, while the relevant age for the decision as to when the spouse with the lower PIA should begin benefits based on her record is *her age* when the first spouse dies.

<u>Lesson 3</u>: If at least one spouse lives well beyond the age that the higher earner turns 80, the couple's cumulative lifetime benefits will usually be highest if he delays benefits based on his record until age 70.

	Deemed Application applies		Restricted Application possible
	62 through 65		66+ (Full retirement age)
Case 1			
Spouse 1	Claims his/her retirement (Spouse 1's acct. now open)		
Spouse 2		Deemed to be claiming both spousal and retirement	
Case 2			
Spouse 1		Claims his retirement	
Spouse 2	Can only claim his/her retirement (Spouse 1's acct. not opened)	Can claim spousal at any time	
Case 3			
	Spouse 1 claims retirement		S2 can restrict their claim to spousal or retirement
	Spouse 2 claims retirement		S1 can restrict their claim to spousal or retirement

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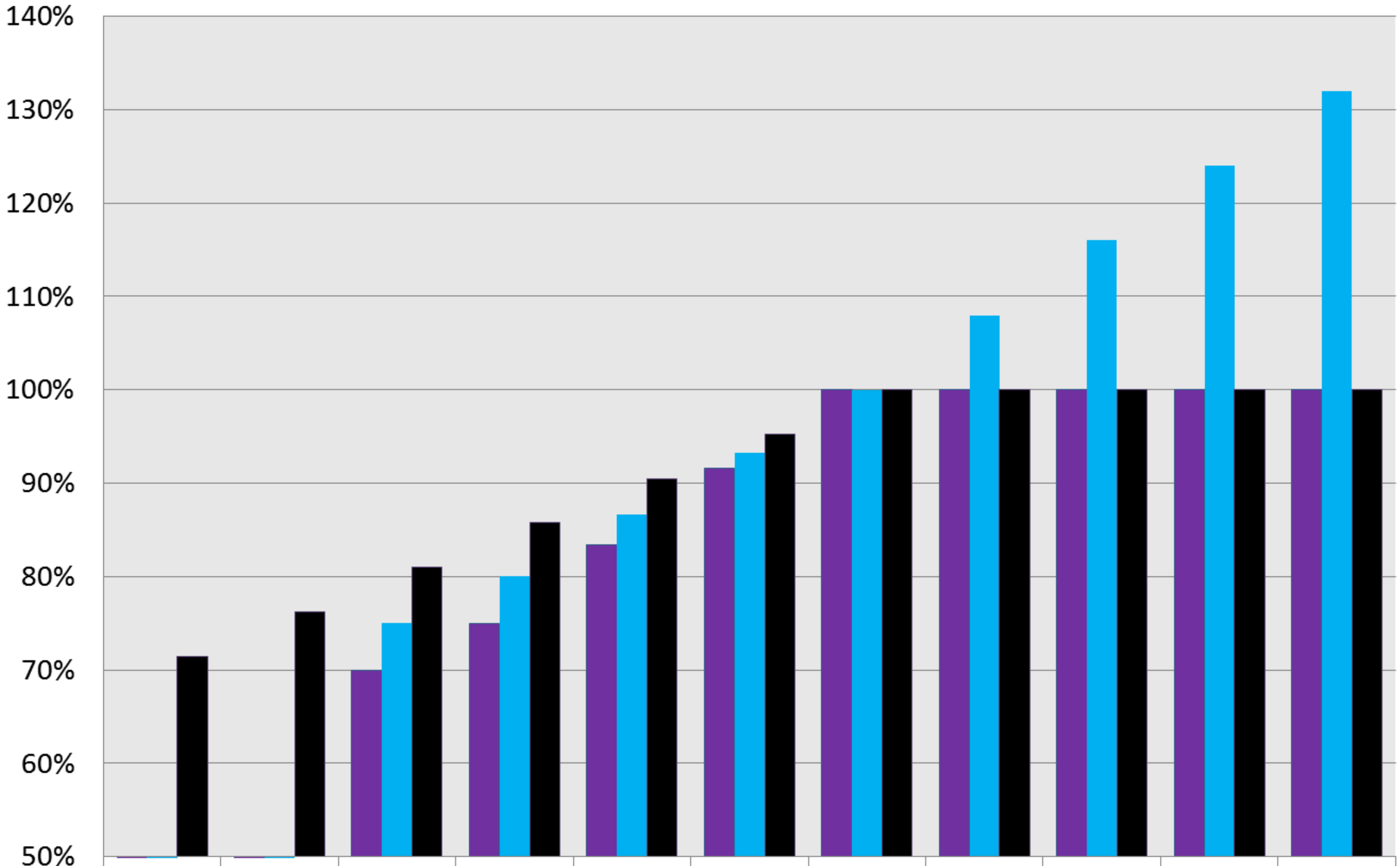
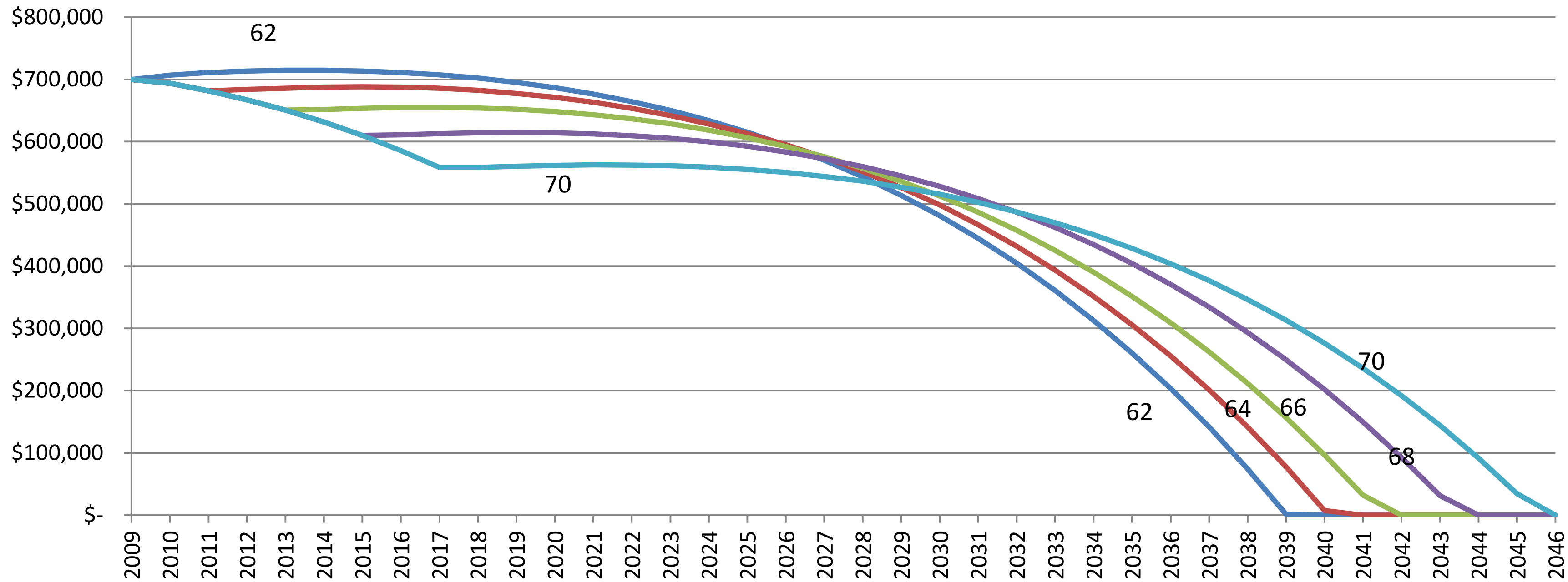
Adjustments for early/late claim



	60	61	62	63	64	65	66	67	68	69	70
Spousal	0%	0%	70%	75%	83%	92%	100%	100%	100%	100%	100%
Retirement	0%	0%	75.0%	80.0%	86.7%	93.3%	100%	108%	116%	124%	132%
Widow(er)	72%	76%	81%	86%	91%	95%	100%	100%	100%	100%	100%

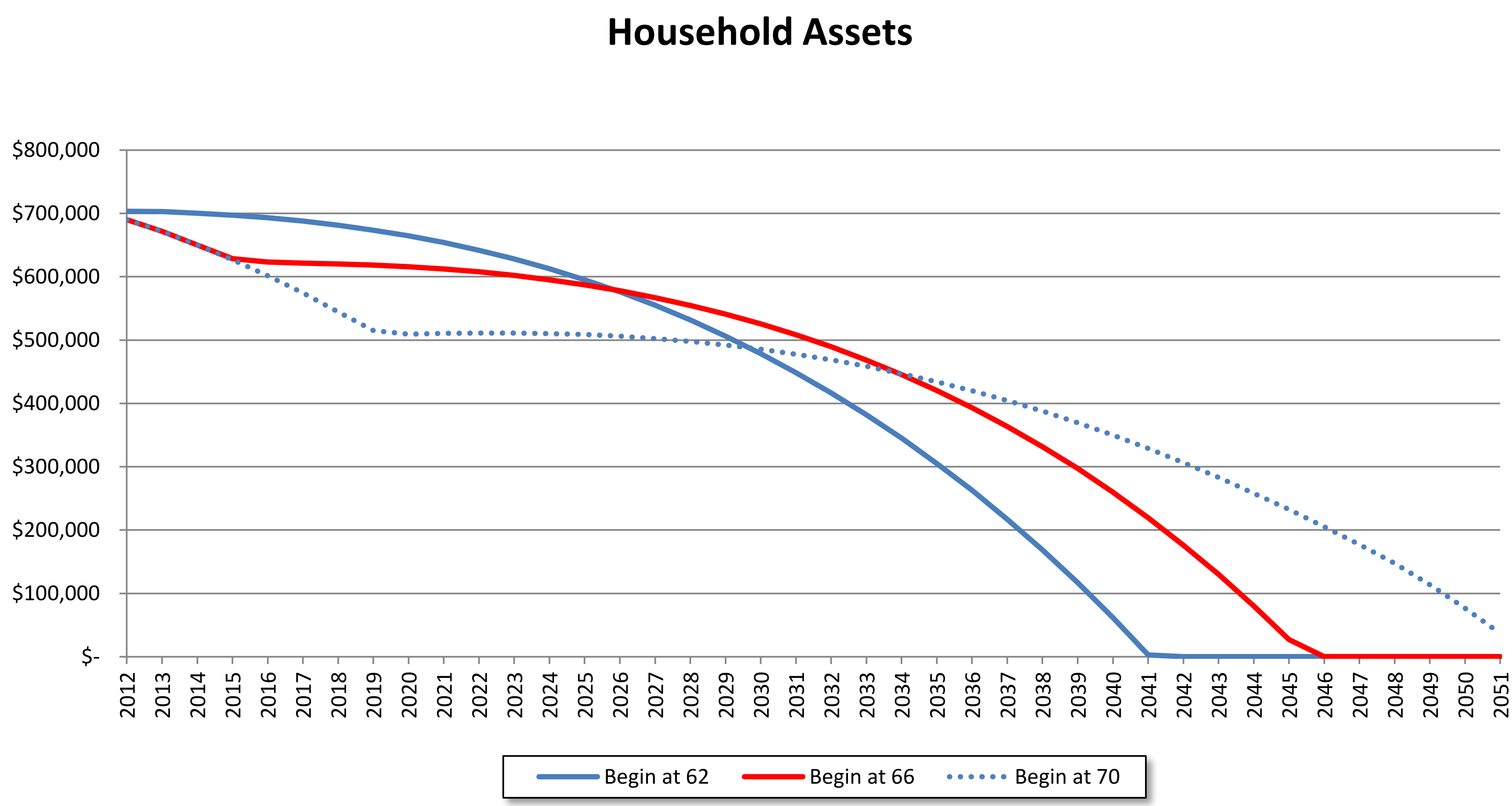
Claiming Strategy
Affects Portfolio's Longevity



The larger the Social Security benefit, the less that must be withdrawn from financial portfolio and the longer the portfolio will last. See www.retireeincome.com/resources/case_studies.html for additional examples.

From Meyer and Reichenstein, "Social Security: When to Start Benefits and How to Minimize Longevity Risk," *Journal of Financial Planning*, March 2010.

How the Social Security Claiming Decision Affects Portfolio Longevity (April 2012, Journal of Financial Planning)



Questions?