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The Financial Advisor's Guide to Savvy Social Security for Boomers

2010 Update

Elaine Floyd, CFP®

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The Financial Advisor's Guide to Savvy Social Security Planning for Boomers
2010 Update

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Overview of 2010 Update

The Financial Advisor's Guide to Savvy Social Security Planning for Boomers

Dear Savvy Social Security Planners,

It has been almost one year since the Savvy Social Security Planning for Boomers package has been in advisors' hands. From the reports we are receiving, the information you are giving out at client seminars and in one-on-one consultations has been a revelation to clients. Just as we thought, 62 is the magic age at which baby boomers start thinking about Social Security. But thanks to your savvy guidance, fewer people are opting for early reduced benefits and seeking to maximize their Social Security income over their (hopefully long) life expectancies. This will provide them with significantly higher income in their old age, especially for their survivors.

We are continuing to update the program and post updates on the SSSB resource page at *http://www.horsesmouth.com/sss4b/index.html*. In May, we replaced the calculators with some more robust and graphically attractive calculators. In that update we also reported on the Social Security trustees' projections following the release of their annual report and posted the regulatory citations for the file-and-suspend strategy.

In July, we explained survivor benefits in more detail, and made a few tweaks to the client seminar. In November, we clarified some of the complex rules for spousal benefits and discussed the 0% COLA for 2010. We also showed how a maximum wage earner can increase his benefit by working until age 70.

These periodic updates, which are sent to all SSSB subscribers by email and posted on the resource page for ongoing reference, are an integral part of your Social Security training and are important supplements to the Financial Advisor's Guide to Savvy Social Security Planning for Boomers.

As you prepare to launch your Social Security client education and marketing campaign for 2010, please review this update package and add it to your existing materials. It includes the following:

- **COLA updates for 2010.** Most numbers didn't change since there will be no cost-of-living adjustment in 2010. However, a few tweaks to the manual were in order and are noted in this update.

- **Corrections to the manual.** A few errors were discovered after the manual went to press. Corrections are listed here.
- **Updated Appendix A.** This was updated in May when the new calculators were released. The only changes this time were the numbers for Boomer Bob. They now reflect benefits for a maximum wage earner who turns 62 in 2010.
- **Supplement to Appendix B.** Here you will find a comprehensive list of articles and papers on Social Security published during 2009.
- **Client seminar update.** Now that we have clarified rules for claiming dual spousal benefits, we wanted to make sure clients understood their options. Slide 34, where Jim claims his spousal benefit on Josie's record, is not incorrect, but for clarity we have replaced it with two separate slides which better explain the "claim and suspend" and "claim now, claim more later" strategies. The script has been updated accordingly.
- **Client handout update.** This has been updated for 2010. Also, the opening paragraphs have been revised since some people objected to the rather strong language claiming that Social Security is not "going broke." Since the objective of the seminar is to learn about how to maximize Social Security benefits, not focus on the solvency issue, we revised the opening paragraphs.
- **Spousal Planning Calculator update.** This calculator now allows for six scenarios instead of five. Also, the summary sheet has been embedded into the calculator so you can more easily compare scenarios. Key numbers from the scenario worksheets automatically transfer over to the summary page, to make scenario comparisons easier.
- **New marketing materials.** A Savvy Social Security invitation, press release, poster, and brochure, all FINRA reviewed, have been designed and may be customized with your information to publicize your client seminars.

I hope you find these updates useful and that they inspire you to ramp up your Savvy Social Security client education and marketing programs in 2010. Baby boomers are becoming increasingly curious about Social Security, and we are hearing that seminars are very well attended and leading to lively discussions and one-on-one appointments. As we've said before, advisors who can help baby boomers with their Social Security strategies will be the ones who'll be trusted to handle all of these clients' retirement planning needs.

As always, send your questions and success stories to:
socialsecurity@horsesmouth.com

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New numbers for 2010

The Financial Advisor's Guide to Savvy Social Security Planning for Boomers

Page 42

1st paragraph under "Determining basic eligibility":
The earnings needed to acquire one quarter of coverage in 2010 are $1,120, or $4,480 for four quarters (credits).

Page 53

2nd paragraph under "How working affects benefits":
The earnings test amounts in 2010 are $14,160 and $37,680.

Page 54

Last paragraph under "How cost-of-living adjustments (COLAs) affect Social Security benefits, add:
The COLA for 2010, announced in October of 2009, is zero. This is because the CPI-W was lower than the previous year. By law, there can be no COLA until the CPI-W exceeds the previous high. Social Security trustees project a resumption of COLAs starting in January 2012.

Page 55

Table 8
The cost-of-living adjustment (COLA) announced in 2009 was 0%.

Page 56

Table 9
The substantial earnings for the WEP test in 2009 are $19,800.

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2010 Tax Rate Schedule

Taxable Income ($)	Base Amount of Tax ($)		Rate on Excess (%) (Also called Marginal Tax Rate or Tax Bracket)	Of the Amount Over ($)
Single				
0 to 8,375	0	+	10	0
8,376 to 34,000	837.50	+	15	8,375
34,001 to 82,400	4,681.25	+	25	34,000
82,401 to 171,850	16,781.25	+	28	82,400
171,851 to 373,650	41,827.25	+	33	171,850
Over 373,650	108,421.25	+	35	373,650
Married Filing Jointly and Surviving Spouses				
0 to 16,750	0	+	10	0
16,751 to 68,000	1,675.00	+	15	16,750
68,001 to 137,300	9,362.50	+	25	68,000
137,301 to 209,250	26,687.50	+	28	137,300
209,251 to 373,650	46,833.50	+	33	209,250
Over 373,650	101,085.50	+	35	373,650
Head of Household				
0 to 11,950	0	+	10	0
11,951 to 45,550	1,195.00	+	15	11,950
45,551 to 117,650	6,235.00	+	25	45,550
117,651 to 190,550	24,260.00	+	28	117,650
190,551 to 373,650	44,672.00	+	33	190,550
Over 373,650	105,095.00	+	35	373,650
Married Filing Separately				
0 to 8,375	0	+	10	0
8,376 to 34,000	837.50	+	15	8,375
34,001 to 68,650	4,681.25	+	25	34,000
68,651 to 104,625	13,343.75	+	28	68,650
104,626 to 186,825	23,416.75	+	33	104,625
Over 186,825	50,542.75	+	35	186,825

Source: IRS Rev. Proc. 2009-50; http://www.irs.gov/pub/irs-drop/rp-09-50.pdf

Page 128

Part A deductibles for 2010:
$1,100 for the first 60 days of hospitalization
$275 per day for 61-90 days of hospitalization
$550 per day for more than 90 days of hospitalization

Medicare Part B premiums for 2010

MAGI Single ($)	MAGI joint ($)	Monthly premium amount ($)
85,000 or less	170,000 or less	110.50*
85,000 - 107,000	170,000 - 214,000	154.70
107,000 - 160,000	214,000 - 320,000	221.00
160,000 - 213,000	320,000 - 426,000	287.30
Over 213,000	Over 426,000	353.60

*If the Part B premium is deducted from their Social Security check, Medicare beneficiaries fall under the "hold harmless" provision that maintains the Part B premium at $96.40.

The Part B annual deductible in 2010 is $155.

Page 129

The maximum out-of-pocket cost for Part D is $4,550 in 2010.

Page 133

Eligible long-term care premiums

Age at end of year	Eligible deduction 2009	Eligible deduction 2010
Over 70	$3,980	$4,110
61-70	3,180	3,290
51-60	1,190	1,230
41-50	600	620
40 or younger	320	330

Chapter 12, History and Financing of the Social Security System
Key updates from the 2009 OASDI Trustees Report:

Page 150

In 2008, income to the system was $805 billion; costs totaled $625 billion.

Page 151

In 2008 the average rate earned on the special-issue Treasury securities was 3.6%, down from 4.6% in 2007, reflecting the general decline in interest rates.

Page 152

As of November 2009, the total U.S. federal debt was about $12 trillion. About $4.4 trillion was owed to various government accounts, including $2.2 trillion to Social Security; the remaining $7.5 trillion was owed to the Federal Reserve, foreign governments, state and local governments, mutual funds, insurance companies, and other investors.

Page 153

According to the 2009 OASDI Trustees report issued in May 2009, income will continue to exceed costs until 2016. At this time, the trust fund will gradually be liquidated until 2037, when it will be exhausted. At that time income will be sufficient to pay 76% in promised benefits.

Pages 154-155

The three remedies for bringing the system into actuarial balance are:

- A cash infusion of $5.3 trillion (up from $4.3 trillion)
- Raise payroll taxes by 2% (up from 1.70%) to 14.4% paid by the employee and employer combined.
- Cut benefits by 13.3% (up from 12%)

Corrections and Amplifications

After the book went to press we discovered a few errors. Please make the following corrections.

Page 16

Paragraph that begins "By employment status," 5th line: delete "or hinder"

We have learned that when benefits are recomputed after retirement as additional earnings are reported, the benefit can never go down; it can only go up.

Page 47

Last paragraph: If a person applies for benefits after reaching FRA, the benefit (not PIA) is increased by 8% each year benefits are delayed, up to age 70.

Page 52

1st bullet point: If the wife is already receiving auxiliary benefits (such as survivor or divorced-spouse benefits) when she marries, she does not need to be married to the worker for one continuous year before applying for her spousal benefit.

3rd bullet point: The worker must be entitled to (not eligible for) benefits. This is a fine distinction. Eligibility simply means the worker has accumulated enough credits. Entitlement means the worker has applied for benefits and is currently receiving them or has voluntarily suspended them.

Page 84

Second table, wife's spousal benefit

2nd column heading should read: % of husband's (not wife's) PIA

3rd column heading should read: Benefit if husband's (not wife's) PIS is $2,000

Page 85

Second table, wife's spousal benefit

3rd column heading should read Benefit if husband's PIA is $2,000 (not $800)

Top row, 3rd column should be $1,000 (not $2,000)

Page 91

Delete last sentence: "She can still claim her spousal benefit at FRA, just as her husband is doing as noted above."

At the time this was written it was unclear whether or not two high-earning spouses could each claim spousal benefit on the other's record. We now know that they cannot.

Page 92

3rd paragraph under the heading "Planning for a possible gap in survivor benefits:"

Delete second sentence: "As with spousal benefits, once the actuarial reduction is applied, it applies to the wife's own benefit should she decide to switch over later."

We have since learned that taking reduced survivor benefits before FRA does not cause the worker's own benefit to be reduced. In fact, a savvy strategy for unmarried high-earning widows and widowers is to claim their survivor benefit anytime after age 60 and delay their own benefit to age 70 in order to earn maximum delayed credits.

APPENDIX A

How to Use the Savvy Social Security Calculators

Updated for 2010

The Savvy Social Security Calculators on the enclosed CD utilize Excel spreadsheets to help you run various scenarios when doing Social Security planning for clients. They are used in conjunction with the calculators on the Social Security web site to give clients an accurate picture of their Social Security benefit income stream going forward, including annual cost-of-living adjustments (COLAs).

Important: In order to preserve the calculators in their original form for use with many clients, do this when you first open the Excel file:

1. Enter your name, firm and phone number at the top of the worksheet.
2. Enter your client's name in the cell next to "Social Security Analysis for:" Let's say it's Joe Smith.
3. From the File menu choose "save as." In the dialog box replace "Simple Breakeven Calculator" with the name "Simple Breakeven Analysis for Joe Smith" and save it to your hard disk.Do this for each of the four calculators, each time you use them.

Overview of the five Savvy Social Security Calculators

Simple Breakeven Calculator — This basic calculator helps you advise clients on when to apply for Social Security benefits. It allows you to run two scenarios — apply earlier and receive a smaller amount, or apply later and receive a larger amount. The calculator shows the age the client must live beyond in order for delayed benefits to produce a higher cumulative amount. This calculator is designed for simplicity and does not take into account investment returns if benefits are invested.

Retirement Spending Breakeven Calculator — This calculator assumes the client has personal assets in addition to Social Security. If the client retires sometime between the ages of 62 and 70, should he apply for Social Security immediately and leave the personal assets invested, or should he draw from the personal assets first and wait to apply for Social Security in order to build delayed credits? A year-by-year run shows how much of each year's spending need is met by personal assets vs. Social Security. The objective is to determine which strategy (early or later filing) requires the least amount to be drawn from personal assets to meet the same spending need.

Reinvest Breakeven Calculator — This calculator is designed for high-income clients who will not need Social Security to meet living expenses. If their intent is to invest their monthly benefits, should they apply early and get those benefits invested as soon as possible, or should they delay their application in order to receive a higher benefit? At varying return assumptions, the calculator shows the year-by-year results and cumulative totals so you can see the crossover point, or breakeven age, at which delaying benefits produces the higher total amount.

Spousal Planning Calculator — One of the most challenging aspects of Social Security planning is coordinating spousal benefits, especially when the spouses are of different ages. This simple calculator allows you to enter each spouse's age and respective benefit amount, along with the projected COLA, and see a year-by-year run of the couple's combined benefits and the cumulative total. Six identical worksheets allow you to try out several scenarios (wife applies at 62, husband applies at 66; wife applies at 66, husband applies at 70, and so on), so you can see what their combined benefit would be in 2010, 2011, 2012, etc.

Using the Savvy Social Security Calculators

The primary purpose of the Savvy Social Security Calculators is to help you advise clients on when to apply for benefits. The underlying principle in each breakeven analysis is that benefits: (1) are reduced if the application is made prior to full retirement age (FRA); (2) build delayed credits if the application is made after FRA (up to age 70). Early application results in more checks but in a reduced amount, while later application results in fewer checks in a higher amount. Social Security actuaries have determined that the net effect upon the system is the same regardless of when people apply. But for individual clients, especially those at risk for living a long time and who may end up depending on Social Security in their old age, the decision is a crucial one. Taking early benefits leaves them with a reduced benefit for life; this not only results in a lower cumulative benefit but also gives them less annual income in their later years, when they are likely to need it most.

One way to help clients decide when to apply for benefits is to show them their year-by-year benefits, as well as the cumulative total of benefits, under each scenario. The crossover year, or breakeven age, is the age the client must live beyond in order for the later application to be worth more. Put simply, if the client thinks he will *not* outlive the breakeven age, he should apply for benefits early; if he thinks he — or his surviving spouse — will live longer than the breakeven age, he should delay applying for benefits. Each of the Savvy Social Security Calculators considers the breakeven analysis in a slightly different way. It is important to note that while the income stream revealed by the calculators can be exceedingly helpful, the "when to apply?" question involves more than mere number crunching. There are many qualitative issues that must be considered as well, such as a client's health status and need for income; please see Chapter 5 of the Financial Advisor's Guide to Savvy Social Security Planning.

The classic breakeven analysis compares two scenarios where benefits are claimed at age 62 vs. 70. Other ages may be used, but these produce the most extreme results. To use the calculators, you will enter the client's current age, the age at which early benefits are claimed and the age at which later benefits are claimed. You will also enter the corresponding benefit amounts for each age for each individual client as obtained in one of several ways (see below). Starting benefits are increased each year by an assumed cost-of-living adjustment (COLA). The default COLA is 2.8% because this is the inflation rate assumed by Social Security trustees under their intermediate-cost scenario. However, you can override the default rate and use a more conservative estimate if you wish. (See Chapter 3 of the Financial Advisor's Guide to Savvy Social Security Planning for more information on COLAs.)

Estimating a client's Social Security benefit

The first step in using the Savvy Social Security Calculators is to obtain a client's Social Security benefit estimate based on his or her individual age and earnings. There are several ways to do this using the the client's annual statement or the calculators on the Social Security website.

- **Annual Social Security statement —** This paper statement that everyone receives three months prior to their birthday gives the client's benefit estimate at ages 62, 66, and 70. To save time, ask each client to bring his latest Social Security statement to your meeting. If he does not have it, he can request it by calling 800.772.1213 or online at http://www.ssa.gov/mystatement/. Always remind clients to check their earnings record as it is listed on the statement and contact the Social Security Administration if there are errors.
- **SSA Quick Calculator —** Of the SSA calculators, this is the easiest and fastest but least accurate method.
- **SSA Online Calculator —** Requires you to enter annual earnings, but is more accurate than the SSA Quick Calculator and much easier to use than the SSA Detailed Calculator.
- **SSA Detailed Calculator —** This downloadable calculator has the Social Security formula embedded in it. You enter the client's birth date and earnings history and can save the information and access it off your hard drive rather than returning to the SSA website and entering the information again. You can create a separate file for each client and update it as new earnings are posted. Warning: this calculator is not very user-friendly. But if you get the hang of it, you can obtain a wealth of information that will satisfy any Social Security math geek, such as the wage indexing formula used to calculate the average indexed monthly earnings (AIME) and the bend points used to calculate the primary insurance amount (PIA).
- **SSA Retirement Estimator —** This new calculator on the SSA website taps into the client's actual earnings record. You cannot run this for the client. The client must register and enter personal identifying information to obtain his or her individual benefit estimate.

Important note about COLAs: The Annual Social Security Statement and the SSA Retirement Estimator do not factor COLAs into the age-70 estimate. In other words, they are stated in present dollars, not future dollars. For example, one sample run showed an age-70 benefit of $2,908 using the SSA Retirement Estimator versus $3,642 using the SSA Online Calculator. This results in a significantly lower estimate than the client is likely to receive at that age and would give a misleading answer if used in the breakeven calculators. The other three SSA calculators — the Quick Calculator, Online Calculator, and Detailed Calculator — allow you to ask for the benefit estimate in future dollars. This produces a better apples-to-apples comparison when you are doing the breakeven analyses.

Automatic adjustment for clients born between 1943 and 1954. All of the Savvy Social Security Calculators, except for the Simple Breakeven Calculator, now adjust for age and COLAs for clients born between 1943 and 1954. (You can use them for clients whose birth years fall outside this range but they will not be quite as precise.) So now you can enter the client's PIA as shown on the annual statement next to the line "At your full retirement age (66 years), your payment would be about ..." and the calculators will automatically adjust the benefit for either the actuarial reduction or delayed credits as well as annual COLAs. The Simple Breakeven Calculator, designed for maximum simplicity, does not adjust for age or COLAs, so you will want to obtain the adjusted benefit amounts from one of the SSA calculators discussed below. Or, if you have the client's PIA from the annual statement, you can enter it into the Benefit Adjustment Calculator to obtain benefit estimates for ages 62 and 70 (or whatever ages you are using), and they will be adjusted for age and COLAs. So let's say the client is 62 now and has a PIA of $2,200 (in today's dollars) as shown on the statement. By entering the client's PIA and using the default 2.8% COLA (or another COLA you choose) the Benefit Adjustment Calculator shows what the actual benefit will be at the various ages depending on when he applies. You can then plug these numbers into the Simple Breakeven Calculator. As mentioned, the other calculators now do the adjustment automatically, so all you need is the client's PIA in present dollars.

How to estimate benefits using the SSA calculators

The three SSA calculators — the Quick Calculator, Online Calculator, and Detailed Calculator are fairly self-explanatory. But let's walk through the steps for estimating benefits.

Obtaining individual earnings records

Social Security benefits are based on each person's earnings record, specifically their highest 35 years of earnings. You will not be able to obtain clients' earnings records directly from Social Security. However, if you ask clients to bring their latest annual Social Security statement to your meeting, you can use the earnings listed on the statement for use with the SSA calculators.

Clients with maximum earnings

If you are working with a high-income client who has consistently earned the Social Security maximum in at least 35 years, you do not need access to the client's actual earnings record because the amounts shown on the statement (and in the Social Security databank) top out at the Social Security maximum for each year. When using the calculators for a high-income client, you can simply enter the amounts from the following table for the appropriate year, going back to when the client first started working.

Table of Maximum Earnings

Year	Maximum earnings	Year	Maximum earnings	Year	Maximum earnings
1964	$4,800	1980	$25,900	1996	$62,700
1965	4,800	1981	29,700	1997	65,400
1966	6,600	1982	32,400	1998	68,400
1967	6,600	1983	35,700	1999	72,600
1968	7,800	1984	37,800	2000	76,200
1969	7,800	1985	39,600	2001	80,400
1970	7,800	1986	42,000	2002	84,900
1971	7,800	1987	43,800	2003	87,000
1972	9,000	1988	45,000	2004	87,900
1973	10,800	1989	48,000	2005	90,000
1974	13,200	1990	51,300	2006	94,200
1975	14,100	1991	53,400	2007	97,500
1976	15,300	1992	55,500	2008	102,000
1977	16,500	1993	57,600	2009	106,800
1978	17,700	1994	60,600	2010	106,800
1979	22,900	1995	61,200		

Source: Social Security Administration

SSA Quick Calculator

This calculator is accessible on the Social Security website at http://www.ssa.gov/planners/benefitcalculators.htm. It is the quickest and easiest way to estimate benefits because all you need is a birth date and current year's earnings, not the client's entire earnings history. It is less accurate than the other calculators, but it's fast and doesn't require you to enter a lot of information to get a ballpark estimate that you can use for the Savvy Social Security Calculators. Do be aware, however, that if the client's current year's earnings are significantly higher or lower than previous years' earnings, the result may be skewed, and the actual benefit will be lower or higher, respectively.

In order to do the breakeven analysis using the Savvy Social Security Simple Breakeven Calculator, you will need to run the SSA Quick Calculator twice. The first time you'll ask for an estimate for the earlier age (such as 62); the second time for the later age (such as 70). The benefit estimates for the two ages are the amounts you will enter into the Savvy Social Security Calculators to determine the breakeven age.

Here's how to use it. Go to http://www.ssa.gov/planners/benefitcalculators.htm. Enter a client's birth date and current year's earnings. Under "Future Retirement Date Options," enter the month and year the client will turn 62 (or whatever age you wish to use for the earlier age in the breakeven analysis; it can't be less than 62 and it can't be a lower age than the client is now). Then select "inflated (future) dollars" and hit "Submit request." When the results page comes up, write down the benefit estimate or print out the page. Hit the "back" button on your browser and change the month and year under "Future Retirement Date Options" to the month and year the client will turn 70 (or whatever age you wish to use for the later age in the breakeven analysis; it can't be greater than 70). Again, write down the result or print the page.

> **Example:** Boomer Bob's birthday is January 15, 1948. His current salary is $150,000. The first time we ran the SSA Quick Calculator, we entered a retirement date of February 2010 (age 62). The benefit estimate is $1,810. The second time we ran the calculator we entered a retirement date of June 2018 (age 70). The benefit estimate in *future dollars* (very important) is $4,011. We can now enter these amounts into the Simple Breakeven Calculator to view his Social Security income stream going forward.

Keep in mind that the estimates you get from the SSA Quick Calculator are not based on the client's actual earnings history, but on the current year's earnings. In the case of a client who consistently earned the Social Security maximum, this is not a problem; if you enter a wage for the current year that is higher than the current Social Security maximum, it will assume maximum earnings for all years. To verify the earnings used in the calculation, you can click on "See the earnings we used" on the results page, and you can even change the amounts. However, if you are going to go to the trouble of entering earnings, it is better to use one of the other calculators, because if you click on the "back" button to run it again for a different age, it loses the earnings you entered.

SSA Quick Calculator

Please note: if you enter annual earnings into the SSA Quick Calculator, they are not saved when you click the "back" button on your browser.

If you wish to estimate benefits by entering actual year-by-year earnings, use the SSA Online Calculator or the SSA Detailed Calculator, both of which allow you to run the estimate twice without reentering the data.

One drawback to the SSA Quick Calculator is that it assumes the client works right up until the age benefits begin. For clients who plan to stop working earlier and draw income from personal assets until applying for Social Security at 70, this skews the age-70 benefit on the high side and you can't override this.

SSA Online Calculator

The SSA Online Calculator is accessible at http://www.ssa.gov/retire2/AnypiaApplet.html. Here you will enter the client's date of birth, age at retirement, and complete earnings history, which may be obtained from the client's annual statement or the table of maximum earnings shown earlier. Again, you will run this twice, once for the earlier age and again for the later age, each time requesting that the benefit be stated in future dollars.

> **Example:** Again using the example of Boomer Bob, we entered a birth date

of January 15, 1948. For the first run we specified a retirement age of 62 and 1 month. In order for the result to correspond to the SSA Quick Calculator, we entered maximum earnings going back to 1970. We made sure it asked for the result in future dollars. For 2010 and later we entered $0 earnings, then clicked on "calculate benefit." The result for the age-62 benefit was $1,834. Then we scrolled back up to the top and changed the "Age at Retirement" to 70 years and 0 months, and again clicked "calculate benefit." The result was $3,861. (Note that this is slightly different from the $4,011 result we got from the Quick Calculator. The $3,861 is probably more accurate.) Now we are ready to enter these amounts into the Savvy Social Security Calculators.

Stop working at age 62?

We entered zero earnings for Boomer Bob for 2010 because earnings after age 62 complicate the breakeven analysis. If a client under FRA intends to keep working at a high-paying job, it probably doesn't make sense to start Social Security early because all or most of the benefits would be withheld. These breakeven analyses are primarily geared for clients who stop working at age 62 (except for small amounts of earned income) and wonder if they should start Social Security early or draw from personal resources in order to build delayed credits for Social Security.

SSA Detailed Calculator

The SSA Detailed Calculator is an application that you download to your computer. Go to http://www.ssa.gov/OACT/anypia/anypia.html and click on the "Download" link. To learn more about it, click on the "Description" link. You may also wish to download the complete 121-page User's Guide, or at least skim through it. This calculator is more complex, but also more accurate. Once you enter the client's information, you can save it to a file and maintain separate files for each client, which you can update each year with new earnings. You can download the newest version of the program each year in November, and it will automatically incorporate the latest COLA.

Example: Again, we entered the same information for Boomer Bob: birth date of January 15, 1948, complete earnings going back to 1970, and retirement dates of February 2010 (age 62) and February 2018 (age 70). We also asked it to increase future benefits and wages based on the 2009 Trustees report, alternative II (this is found in the Assumptions under the Forms menu). Alternative II is the Trustees' intermediate-cost scenario, calling for annual COLAs of 2.8%, which we also use in the Savvy Social Security Calculators. The age-62 and age-70 benefit estimates are $1,834 and $3,861, respectively.

Which SSA calculator is best?

Each calculator incorporates varying amounts of information into its formulas.

The SSA Detailed Calculator incorporates the most information, offers the most flexibility, and is the most accurate, but it is the most cumbersome to use. The SSA

Quick Calculator is the quickest and easiest and least accurate. However, if you do not have access to the client's complete earnings history, it may be your only option. Be sure to issue the appropriate disclaimers when relying on the estimate of the SSA Quick Calculator. Explain that it is based on this year's earnings only and that the actual result may be different when the entire earnings history is taken into account.

The SSA Online Calculator provides a good balance between accuracy and ease of use. Although it does require you to enter annual earnings, this takes just a few minutes and is worth the effort to obtain a more accurate estimate. The SSA Online Calculator is our preference for estimating client benefits, assuming you have access to the client's earnings record.

Always ask about pensions

Always ask about pensions. Don't forget that some clients may fall under the Windfall Elimination Provision, which reduces Social Security benefits for people who receive pensions under non-Social Security-covered jobs, such as civil service.

For these clients, use the WEP version of the SSA Online Calculator at http://www.ssa.gov/retire2/anyPiaWepjs04.htm. Or you may also use the SSA Detailed Calculator. Likewise, the Government Pension Offset may reduce spousal benefits for spouses who are receiving pensions from non-Social Security-covered jobs.

The GPO version of the SSA Online Calculator is at http://www.ssa.gov/retire2/gpo-calc.htm, or you may use the SSA Detailed Calculator, which will allow you to incorporate pension information. Your benefit estimates are especially important for these clients because the amounts shown on their annual statements or the SSA Retirement Estimator do not factor in reductions for the Windfall Elimination Provision or Government Pension Offset.

Retirement Estimator

The SSA Retirement Estimator, located at http://www.ssa.gov/estimator/ may be used only by the person whose benefit information is being accessed. You can try this on yourself, entering your own Social Security number and other identifying information, but you will not be able to use it for clients. Because it taps into actual earnings records, we were not able to run it for our hypothetical Boomer Bob to see how it compares to the other calculators. When I ran it on myself, I found that the age-62 benefit was close to what the other calculators estimated. However, the age-70 benefit was significantly lower, because the SSA Retirement Estimator does not factor COLAs into future benefits. This makes it less suitable for use with our Savvy Social Security Calculators, which attempt to show COLA-adjusted benefits.

Annual Social Security statement

As noted earlier, the annual Social Security statement is helpful in that it contains the full earnings history. However, the age-70 benefit was considerably lower than the three SSA calculators indicated because it does not include COLAs. However, for clients born between 1943 and 1954 (or thereabouts) you can take the PIA off the statement and let the Savvy Social Security calculators (with the exception of the

Simple Breakeven Calculator) adjust for COLAs.

Real-world example

To see how all the Social Security benefit estimate methods compared, I ran them all using my own personal information. This what I found:

Estimate method #	Calculator	Age 62 benefit	Age 70 benefit if stop work at 62	Age 70 benefit if keep working to age 70
1	SSA Quick Calculator using this year's earnings	$1,582	Does not allow	$3,757
2	SSA Quick Calculator using complete earnings history	1,537	Does not allow	3,729
3	SSA Online Calculator	1,626	$3,407	3,754
4	SSA Detailed Calculator	1,572	3,300	3,640*
5	Retirement Estimator	1,634	3,069	$3,069
6	Latest annual statement	$1,502	$2,848	Does not allow

** Assumes wages are adjusted under Alternative II; $3,561 if no rise in wages.*

Survivor benefits

When discussing survivor benefits with clients, remember that the surviving spouse receives the higher of the two benefits. So if Boomer Bob's age-70 benefit is estimated to be $3,861, and if he dies when he is 70, this is the amount his surviving spouse will receive after his death, assuming her benefit had been lower. If he claims benefits at age 62 and receives a starting benefit of $1,834, his benefit will be just $2,287 when he turns 70, assuming 2.8% annual COLAs. This is a pretty powerful argument for encouraging the higher-earning spouse to delay benefits to age 70. The Savvy Spousal Planning Calculator will give you the tools to illustrate this, once you have obtained the benefit estimates from Social Security.

Using the Savvy Social Security Calculators

Once you have a client's benefit estimates for ages 62 and 70 (or whatever ages you wish to use in your breakeven analyses), you are ready to use the Savvy Social Security Calculators.

Simple Breakeven Calculator

To do a simple breakeven analysis that will help clients decide when to apply for Social Security, open the file Simple Breakeven Calculator.xls. Enter your client's name and do a "save as" giving the file a unique name such as "Simple Breakeven Analysis for Joe Smith." This will protect the original calculator file for use with other clients.

In column H, enter the age and benefit estimate for the earlier age, and the age and benefit estimate for the later age. The default COLA is 2.8%, but you may change it if you wish. As soon as you enter the information, Excel will calculate the income streams under the two scenarios.

Notice the two cumulative columns. For each year, Excel compares the two cumulative amounts and shows the higher amount in bold. You will see that "Cumulative benefit if start at earlier age" is in bold during the first several years, then switches to "Cumulative benefit if start at later age." The crossover year is the client's breakeven age. If the client or his surviving spouse expects to live beyond the breakeven age, the client will receive more cumulative benefits by waiting until the later age to apply.

Example: We open the Simple Breakeven Calculator.xls file for Boomer Bob and immediately save it as "Simple Breakeven Analysis for Boomer Bob.xls."

Here are our entries for Boomer Bob:

Enter the earlier age benefits may be claimed	62
Enter the corresponding monthly benefit amount	$1,834
Enter the later age benefits may be claimed	70
Enter the corresponding monthly benefit amount in future dollars	$3,861
COLA% (Annual cost-of-living adjustment)	2.80%

Instantly, we see Boomer Bob's Social Security income stream for the two scenarios along with the cumulative totals. From age 62 through 78, he receives more cumulative benefits if he applies at 62. Beginning at age 79, the cumulative total for the later scenario starts to pull ahead and remains higher for the rest of his life. The longer he lives, the greater the disparity becomes as COLAs are applied to the higher amount.

In addition to showing clients the cumulative totals, also show them the annual income they can expect to receive in the future. For example, if Boomer Bob (or his surviving spouse) is still alive at age 85, annual Social Security income will be $70,110 ($5,842 per month) if he delays applying for benefits, but just $41,536 ($3,461 per month) if he applies at age 62.

IMPORTANT DISCLAIMER.

Make sure that clients understand that Social Security benefit estimates are just that — estimates. Many factors influence the actual benefit amount, including additional earnings and the unpredictability of future COLAs. Clients won't know the exact amount of their Social Security benefits until they actually apply — and even then they can change. The Savvy Social Security Calculators allow you to update the income projections as new information becomes available. Still, it is important that clients understand that the calculations are used for planning purposes only and that their actual benefit may be different.

Age	Monthly benefit if start at earlier age	Annual benefit if start at earlier age	Cumulative benefit if start at earlier age	Monthly benefit if start at later age	Annual benefit if start at later age	Cumulative benefit if start at later age
62	$1,834	$22,008	**$22,008**	$0	$0	$0
63	1,885	22,624	**44,632**	0	0	0
64	1,938	23,258	**67,890**	0	0	0
65	1.992	23,909	**91,799**	0	0	0
66	2,048	24,578	**116,377**	0	0	0
67	2,106	25,267	**141,644**	0	0	0
68	2,165	25,974	**167,618**	0	0	0
69	2,225	26,701	**194,319**	0	0	0
70	2,287	27,449	**221,768**	3,861	46,332	46,332
71	2,351	28,218	**249,986**	3,969	47,629	93,961
72	2.417	29,008	**278,993**	4,080	48,963	142,924
73	2,485	29,820	**308,813**	4,194	50,334	193,258
74	2,555	30,655	**339,468**	4,312	51,743	245,001
75	2.626	31,513	**370,981**	4,433	53,192	298,193
76	2,700	32,395	**403,376**	4,557	54,681	352,875
77	2,775	33,303	**436,679**	4,684	56,212	409,087
78	2,853	34,235	**470,914**	4,816	57,786	466,874
79	2,933	35,194	506,107	4,950	59,404	**526,278**
80	3,015	36,179	542,286	5,089	61,068	**587,346**
81	3,099	37,192	579,478	5,231	62,778	**650,124**
82	3,186	38,233	617,712	5,378	64,535	**714,659**
83	3,275	39,304	657,016	5,529	66,342	**781,002**
84	3,367	40,404	697,420	5,683	68,200	**849,202**
85	3,461	41,536	738,956	5,842	70,110	**919,311**
86	3,558	42,699	781,655	6,006	72,073	**991,384**
87	3,658	43,894	825,549	6,174	74,091	**1,065,475**
88	3,760	45,123	870,672	6,347	76,165	**1,141,640**
89	3,866	46,387	917,059	6,525	78,298	**1,219,938**
90	3,974	47,686	964,745	6,708	80,490	**1,300,428**
91	4,085	49,021	1,013,766	6,895	82,744	**1,383,172**
92	4,199	50,393	1,064,159	7,088	85,061	**1,468,233**
93	4,317	51,804	1,115,964	7,287	87,443	**1,555,676**
94	4,438	53,255	1,168,219	7,491	89,891	**1,645,566**
95	4,562	54,746	1,223,965	7,701	92,408	**1,737,974**
96	4.690	56,279	1,280,244	7,916	94,995	**1,832,970**
97	4,821	57,855	1,338,009	8,138	97,655	**1,930,625**
98	4,956	59,475	1,397,573	8,366	100,389	**2,031,014**
99	5,095	61,140	1,458,713	8,600	103,200	**2,134,215**
100	5,238	62,852	1,521,565	8,841	106,090	**2,240,305**
101	5,384	64,612	1,586,177	9,088	109,061	**2,349,365**

Retirement Spending Breakeven Calculator

To find out the amount of annual spending needs that will be met by Social Security vs. personal assets, open the file Retirement Spending Breakeven Calculator.xls. Immediately enter your client's name at the top and do a "save as," giving the file a unique name such as "Retirement Spending Breakeven Analysis for Joe Smith."

In column H enter the information as requested: If you want the calculator to fill in the benefit amounts based on the PIA, enter the client's PIA as shown on the annual statement. Enter the current year and the client's current age. Enter the earlier age benefits may be claimed. If there is an entry for PIA, the corresponding benefit amount will automatically be filled in. If you want to override the automatic benefit adjustment and enter your own benefit as determined by one of the SSA calculators (say the client's birth year falls outside the 1943-1954 range), choose "Unprotect sheet" from the Tools menu, enter the password "security" when prompted by Excel and enter the appropriate amount. Do the same for the later age benefits may be claimed. Leave the annual COLA at 2.8% or enter a different number.

In cell H15 enter the client's annual spending need the first year of retirement and in H16 enter the year the spending need begins. The "First year's annual spending need" is the amount the client expects to spend the first year of retirement. It should include all expenses, including annual income taxes.

> **A word about taxes.** Please note that these calculators do not attempt to calculate a client's income tax because that would require far too many inputs and complex algorithms. However, annual income taxes should be included in the client's annual spending need. Based on income tax projections by the client's CPA or an estimate based on last year's tax return (see the line "Total Tax" on page 2 of Form 1040), simply add the amount of income tax to the client's other spending needs. For example, if a client's living expenses total $70,000 and federal and state income taxes are $10,000, you would enter $80,000 as the client's first year's annual spending need.

> **Example.** We opened the Retirement Spending Calculator.xls file for Boomer Bob and immediately saved it as "Retirement Spending Analysis for Boomer Bob.xls." Next, we entered the following information (for simplicity we are using a PIA of $2,200 in the rest of the examples):

PIA	$ 2,200
Enter the current year	2010
Enter the client's current age	62
Enter the earlier age benefits may be claimed	62
Monthly benefit amount	$ 1,650
Enter the later age benefits may be claimed	70
Monthly benefit amount	$ 3,622
COLA% (Annual cost-of-living adjustment)	2.80%
Enter the first year's annual spending need	$ 72,000
Enter the year the spending need begins	2010

Immediately, we see how much of each year's spending need is met by Social Security vs. personal resources. Personal resources include pension income, withdrawals from retirement accounts, income from taxable investments, income from work, and any other asset or source of income. You are not concerned here with the client's actual income (which may be higher than the spending need). Rather, you simply want to determine where the income will come from to meet a specific spending need in retirement. The goal is to choose the scenario that will require the least personal resources to meet the same spending need. It is another form of breakeven analysis.

For Boomer Bob, we see that if he applies at age 62, the annual spending need is met by a combination of Social Security and personal resources. If he waits until age 70 to apply for Social Security, all of his spending needs must be met by personal resources from ages 62 through 69. However, under the later scenario, pretty soon his Social Security benefit is enough higher that he requires *less* personal resources to meet the same spending need. The breakeven age is 78. After age 78, he'll need to draw less from personal resources if he applies at age 70 than if he applies at 62. And the disparity grows with each passing year.

Here are a few points to keep in mind when using the Retirement Spending Calculator with clients.

- **Lead in to discussion of overall retirement income plan.** This calculator should help you branch out from your initial focus on Social Security to a serious discussion of clients' personal resources and their overall retirement income plan. Assuming clients can't meet all of their spending needs with Social Security, what other resources are available to them? Explore IRAs, 401(k)s and other retirement plans, investment accounts, income-generating assets such as real estate, potential inheritances, potential liquidity events such as the sale of a business, and plans for working in retirement.
- **Consider taxes.** Although these calculators are not designed for tax advice, it is worth exploring the tax consequences of the various forms of income that will be meeting the client's spending needs from age 62 on. Consider taxation of Social Security benefits: will one scenario result in less tax? Also consider RMDs at age 70½: will drawing down the IRA early keep the client out of a high tax bracket later on? Engage the client's tax advisor in this discussion.

Reinvest Breakeven Calculator

Some clients think they will come out ahead if they take Social Security early and invest the income as it is received. The theory here is that they can do a better job investing their benefits compared to leaving them in the system to build delayed credits and COLAs. With the Reinvest Breakeven Calculator, you can show the income stream under the two scenarios (early or later filing) under varying return assumptions.

When you run this calculator you will find that the larger the return assumption is, the later the breakeven age will be. In other words, the more successful a client expects to be in investing Social Security income, the more sense it makes to take benefits early because he is less and less likely to outlive the breakeven age.

> **Example.** We opened the Reinvest Breakeven Calculator.xls file for Boomer Bob and immediately saved it as "Reinvest Breakeven Analysis for Boomer Bob.xls."

Next, we entered the following information:

PIA	$ 2,200
Enter current year	2010
Enter client's current age	62
Enter the earlier age benefits may be claimed	62
Monthly benefit amount	$ 1,650
Enter the later age benefits may be claimed	70
Monthly benefit amount in future dollars	$ 3,622
COLA% (Annual cost-of-living adjustment)	2.80%
Enter investment return rate	4.00%

When we look at the amounts under the two columns "Amount at end of year if all benefits are invested at Return%" we see that Boomer Bob can compile a tidy sum by investing all of his Social Security benefits. While it can be tempting to take benefits early in order to get a head start, we see that the later-filing scenario eventually catches up. At age 81 — the breakeven age in this case assuming a 4% return — Boomer Bob earns more by taking delayed benefits at age 70. Even though there are fewer years of compounding, the starting amount is enough higher that it eventually overtakes the claim-at-62 scenario.

If we change the return assumption to 6%, the breakeven age rises to 84. If we change it to 8%, the breakeven age jumps to 90. Under this scenario it makes more sense for Boomer Bob to take early benefits in order to enjoy the extra years of compounding at the higher rate. But do keep in mind that 8% returns entail some risk, while delayed credits and COLAs do not.

Investment Disclaimer

Clients must always be reminded that investment returns are not predictable and may vary dramatically from the assumptions used in any planning analysis. This is especially important when doing Social Security breakeven analyses, because you are comparing a scenario of unpredictable investment returns with a scenario that builds delayed credits and COLAs under an established formula.

Spousal Planning Calculator

Social Security planning for spouses is one of the most complex undertakings of all, especially when the spouses are of different ages. The Spousal Planning Calculator will enable you to show married couples their respective Social Security income streams under several different scenarios.

The procedure for estimating spousal benefits is the same as for individual benefits. If both husband and wife were born in 1943-1954, you can let the calculator figure their benefit amounts off the PIA. Alternatively, you can use one of the SSA calculators to estimate benefits for each of the two spouses at ages 62, 66, and 70.

Example. We opened the Spousal Planning Calculator and immediately saved it as "Spousal Planning Analysis for Bob and Betty Smith." We entered the current year, the spouses' current ages, and their respective PIAs. For scenario 1, we chose starting ages of 62 for each spouse. We were not sure whether Betty's benefit on her own work record or her spousal benefit based on Bob's work record was higher, so we entered age 62 in cells H15 and H17 and let the calculator choose the higher amount. We left the default COLA as is. For survivor planning, we entered hypothetical life expectancies for husband and wife. Automatically, the spreadsheet shows the couple's Social Security income on a year-by-year basis.

Scenario 1

Enter the current year		2010
Enter the husband's current age		62
Enter the wife's current age		60
Husband's PIA (in present dollars)		$ 2,200
Wife's PIA (in present dollars)		$ 800
Enter the age at which the husband will claim benefits	Age	62
on his work record	Monthly benefit	$ 1,650
Enter the age at which the wife will claim benefits	Age	62
on her work record	Monthly benefit	$ 634
Enter the age at which the wife will claim benefits	Age	62
on her husband's work record	Monthly benefit	$ 814
Enter the age at which the husband will claim benefits		
on his wife's work record COLA% (Annual cost-of-living adjustment)		2.80%
Enter the age of death of husband		85
Enter the age of death of wife		95

The Scenario Box allows you to write a description of the scenario. Here we write "Betty and Bob each file for benefits at age 62. Because Betty's spousal benefit is higher than her own benefit, that is the benefit she will receive. If Bob dies at age 85, his benefit will transfer to Betty and her spousal benefit will cease."

To try another scenario, we click on the "Scenario 2" tab on the bottom of the page and enter different ages and starting benefit amounts. Now we can compare the two scenarios to see which income stream works better for them, also taking into account other income sources. Each file allows you to run six scenarios. A summary tab at the end shows the income and cumulative benefits under each scenario at key ages so you can compare the scenarios at a glance.

One popular strategy for coordinating spousal benefits is for spouses to switch from one type of benefit to another. For example, Bob might want to delay his own benefit to age 70 but start receiving his spousal benefit at age 66. We show this in Scenario 5. The calculator shows Bob's starting benefit to be $447 at 66, and then jumps to $3,622 at age 70. If Bob dies at age 85, the calculator shows his benefit switching over to Betty as her survivor benefit. This causes her own income to rise, but their income as a couple will decline because she must give up her spousal benefit.

Spousal planning requires some knowledge of Social Security rules because you will not want to show scenarios that are not possible. For example, if Bob wanted to delay his benefit to age 66 or 70, Betty would not be able to claim her spousal benefit at 62 because he would not have filed yet. So it is important to check the other spouse's age in the year the one spouse wants to claim spousal benefits. Also, be careful of any scenario that calls for claiming benefits before FRA because once the actuarial reduction is applied, it is permanent.

Special adjustment for the spousal benefit at FRA if early benefits were taken. If a lower-earning spouse starts taking her own reduced benefit at 62 and then applies for her spousal benefit at 66, a special adjustment must be made. You'll recall from page 83 that her spousal benefit would not be the full 50% of the higher-earning spouse's PIA, but would rather be a combination of her own reduced benefit plus the amount attributed to the spousal benefit. A special section in the Benefit Adjustment Calculator performs this calculation, but it is easy enough to do by hand if you know both spouses' PIAs. Simply subtract her PIA from one-half of his PIA and add that amount to her existing benefit.

> **Example:** Mary's PIA is $800. She applies for reduced benefits at 62, so her benefit is $600 (75% of $800). When she turns 66, her husband, John, applies for his benefit (he may file and suspend if he wants to build delayed credits). At that time, Mary becomes entitled to her spousal benefit. If John's PIA is $2,000, you would subtract Mary's PIA of $800 from one-half of John's PIA of $1,000, to get $200. The $200 would be added to her existing $600 benefit to give her a new benefit of $800.

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