

Social Security Planning



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Social Security

- History
- Life Expectancy
- Viability
- How are benefits calculated?
- How can you optimize how you fund your benefit?
- How do you help clients maximize benefits based on how they draw?



Terms

- FRA – Full retirement age
- AIME – Average Indexed Monthly Earnings
- FICA – Federal Insurance Contributions Act
- COLA – Cost of Living Adjustments
- MFJ – Married Filing Jointly

History of Social Security

- Social Security Act signed into law by President Roosevelt in 1935. Now referred to as Old-Age, Survivors and Disability Insurance (OASDI)
- Ida May Fuller was the first beneficiary (age 65) in 1940 and died in 1975 at the age of 100.

Life Expectancy

Average Life Expectancy		
Year	Men	Women
1930	58	62
2016	84	87

- About one out of four 65-year-olds today will live past age 90, and one out of 10 will live past age 95.

- In 2015, reserves increased by \$23B to \$2.8T.
- Projected to be able to pay full funds until 2035.
 - After, income will be sufficient to pay about 79% of promised benefits
- FICA Limit
 - 2016 \$118,500
 - 2017 \$127,200
- Closing 'file and suspend' and 'restricted applications'
 - Proposals to raise FRA and use chained CPI.

➤➤➤ Calculating Benefits

- Average Indexed Monthly Earnings
- FICA tax paid on income up to \$127,200 in 2017
- To get AIME, add highest 35 years of earnings, adjust by national average wage index & divide by 420 (35x12)
- Minimum of 40 credits to qualify for a benefit
 - Can earn 4 credits/year (\$1,300/credit in 2017)
 - All credits can be earned in one quarter or one month
 - If one spouse has at least 32 credits, may try getting them to 40

Bend Points

- Designed to replace a higher portion of income for lower income earners than for high income earners. Adjusts annually for inflation.
- Multiply your AIME by each bend point.

2017's maximum AIME is \$9,784

Bend 1: 90% of first \$885 = \$ 796

Bend 2: 32% of next \$4,451 = \$ 1,424

Bend 3: 15% of last \$4,448 = \$ 667

Sum: Maximum FRA benefit = \$ 2,888

Optimize Benefits

- If and only if you get to 'choose' your income and if you are looking at social security as an investment.
 - Bend 2: 32% of next \$4,451 = \$1,424.32 of SS benefit
- Using FICA, $12.4\% \times \$4,451 = \551.92 paid in FICA tax
- If you 'invest/pay' \$551.92/month for 35 years, you will get \$1,424/month starting at full-retirement age, 66 or 67, for the rest of your life and possibly your spouses life. This will increase with COLA's and can increase if you utilize delayed retirement credits.



How are Social Security Benefits Taxed

- Social Security benefits may or may not be taxable. Whether or not you're taxed depends on what's known as your provisional income:

Your adjusted gross income, plus any tax-free interest, plus 50% of Social Security benefits.

- If provisional income exceeds \$32,000, (MFJ) 50% of your benefit is taxable. If your income exceeds \$44,000, 85% of your benefit is taxable.



Questions?

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