



# Mastering Social Security

## Options for Spouses, Survivors and Divorcees

This is for informational purposes only. MFS does not provide legal, tax or accounting advice. Clients of MFS should obtain their own independent tax and legal advice based on their particular circumstances.

Please contact the Social Security Administration for more information.

The views expressed in this presentation are those of the speaker and are subject to change at any time.



## Agenda

- Fundamentals
- Options for married couples
- Options for survivors
- Options for divorcees
- Certain government pensions and Social Security
- Taxes



# Fundamentals

# Full Retirement Age



**SOCIAL SECURITY BENEFITS  
ARE BASED ON YOUR  
FULL RETIREMENT AGE.**

Year of Birth		Full Retirement Age (FRA)
1943-1954	◆	66 years
1955	▼	66 years and two months
1956	▼	66 years and four months
1957	▼	66 years and six months
1958	▼	66 years and eight months
1959	▼	66 years and ten months
1960+	▼	67 years

Source: Social Security Administration

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## Full Retirement Age

*Determines if benefits are reduced or maximized*

### Before Full Retirement Age

- Reduced retirement benefits
- Any benefit could be withheld if working
- Reduced spousal benefits
- Restricted application not available
- Minimum survivors benefits

### At or After Full Retirement Age

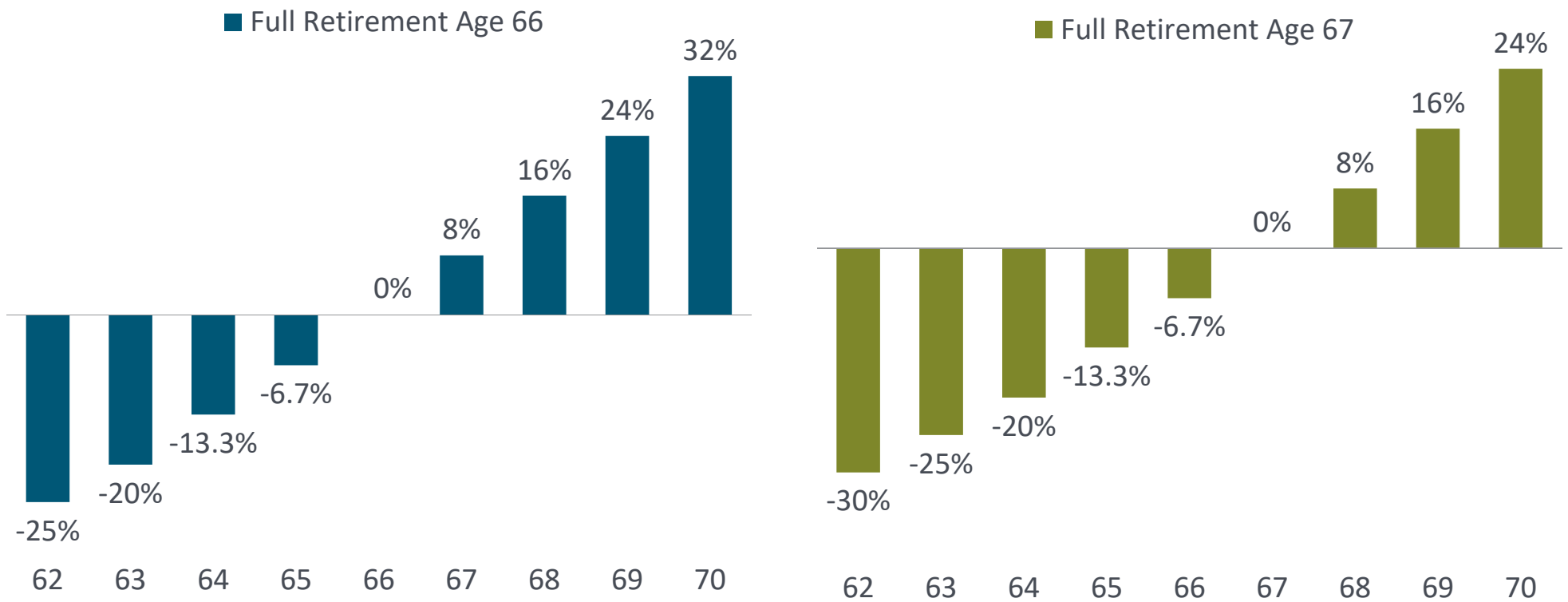
- Full to maximum retirement benefits
- Work and receive full Social Security benefits
- Maximum spousal benefits
- Restricted application may be available if born before 1/1/1954
- Maximum survivors benefits

Source: Social Security Administration

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# Reduction #1: Social Security retirement benefits

40 quarters to qualify for Social Security retirement benefits; averaged over 35 highest years of earnings



Source: Social Security Administration

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## Reduction #2: Work and receive benefits

Earnings limit applies to all Social Security benefits (retirement, spousal, survivor, divorce)

	Through year before turning Full Retirement Age	In the year of turning Full Retirement Age	Month you turn Full Retirement Age and older
<b>Earnings Limit (2020)</b>	<b>\$18,240</b> (\$1,520 per month)*	<b>\$48,600</b> (\$4,050 per month)*	No restrictions
<b>Amount of Withholding</b>	\$1 of benefits withheld for every \$2 of earnings above limit	\$1 of benefits withheld for every \$3 of earnings above limit until the month you turn FRA	No restrictions

- Earnings limit looks at wages only. Unearned income (pensions, IRAs, rental income, etc.) does not cause Social Security benefits to be withheld
- Earnings limit applies wages received after starting Social Security.

\*Special monthly earnings test may apply the first calendar year. Under this test, Social Security only considers your monthly earnings after you claim Social Security, regardless of the amount of wages earned prior to claiming Social Security.

Source: Social Security Administration

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## Retirement benefits: Ways to stop it

### Before FRA

Go back to work

Benefits will be temporarily withheld\*

### At/after FRA

Suspend benefits

8% annual growth continues off the current amount;  
cannot receive spousal benefits nor can your spouse receive a spousal benefit off you  
Medicare premiums paid out of pocket;

### Any age

Withdraw application

Must be done within first twelve months  
Must repay everything (Social Security, taxes withheld, Medicare)

If some of your retirement benefits are withheld because of your earnings, your monthly benefit will increase starting at your Full Retirement Age to take into account those months in which benefits were withheld. Additionally, if your latest year(s) of earnings turns out to be one of your highest years, the SSA will refigure your benefit and pay you any increase due in December of the following year. The increase would be retroactive to January.

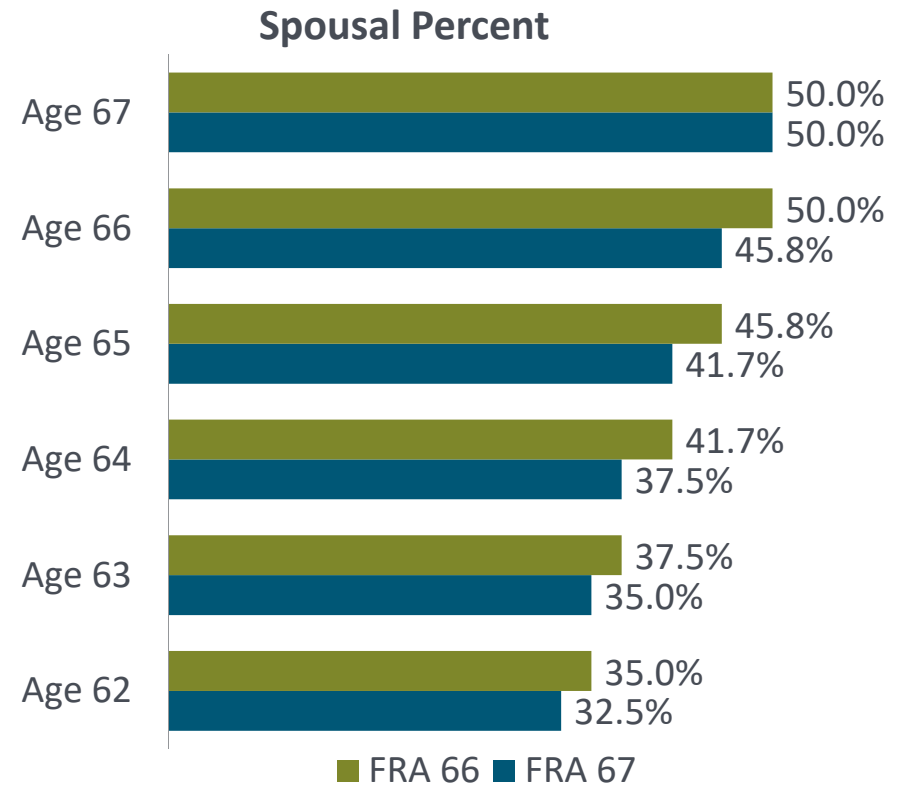
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# Options for married couples

## Reduction #3: Spousal benefits

- Available even if you did not work
- Requirements
  - Must be married to current spouse at least one year
  - Your spouse must be receiving his or her retirement benefit
- If both spouses worked
  - Generally receive the greater of your retirement or spousal benefit\*
  - Only one spouse at a time can receive a spousal benefit



\*Exception: Restricted application may be available if you were born on or before 1/1/1954  
Source: Social Security Administration

## Case study: Calculating spousal benefit

*Spousal benefits based on higher earner's benefit at FRA*

### Chris and Jackie

- Chris is the higher earner
- Jackie's spousal benefits are greater than her retirement benefits
- Chris' annual Social Security retirement benefits at
  - Age 62: \$7,500
  - Age 66: \$10,000
  - Age 70: \$13,200
- What is Jackie's maximum and minimum spousal benefit?

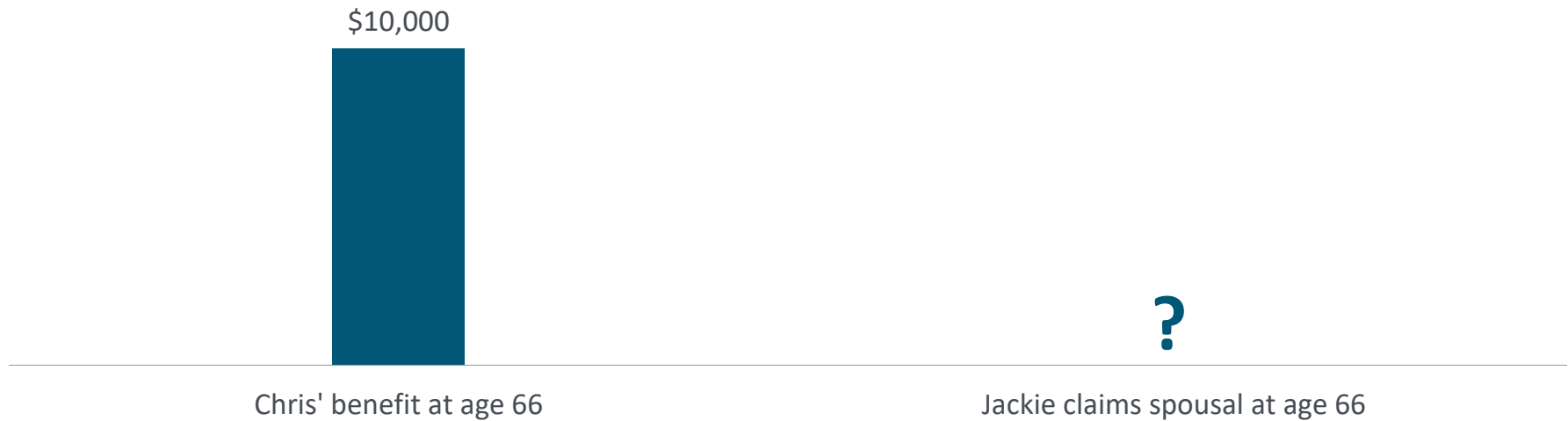
For illustrative purposes only. Based on full retirement age (FRA) of 66. Calculations will vary if your FRA is different.  
Divorced spousal benefits are calculated in the same manner.  
Source: Social Security Administration

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## Case study: Calculating spousal benefit

*Chris claims retirement benefit at age 66*



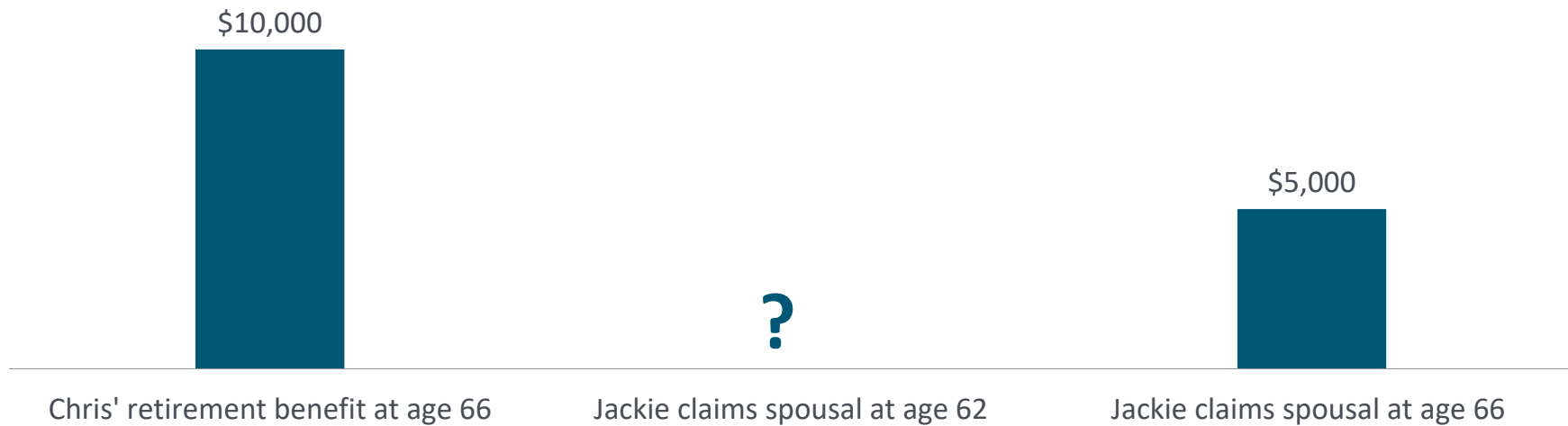
For illustrative purposes only. Based on Full Retirement Age (FRA) of 66. Calculations may vary if client's FRA is different. Divorced spousal benefits are calculated in the same manner.  
Source: Social Security Administration

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## Case study: Calculating spousal benefit

*Maximum spousal benefit at age 66*



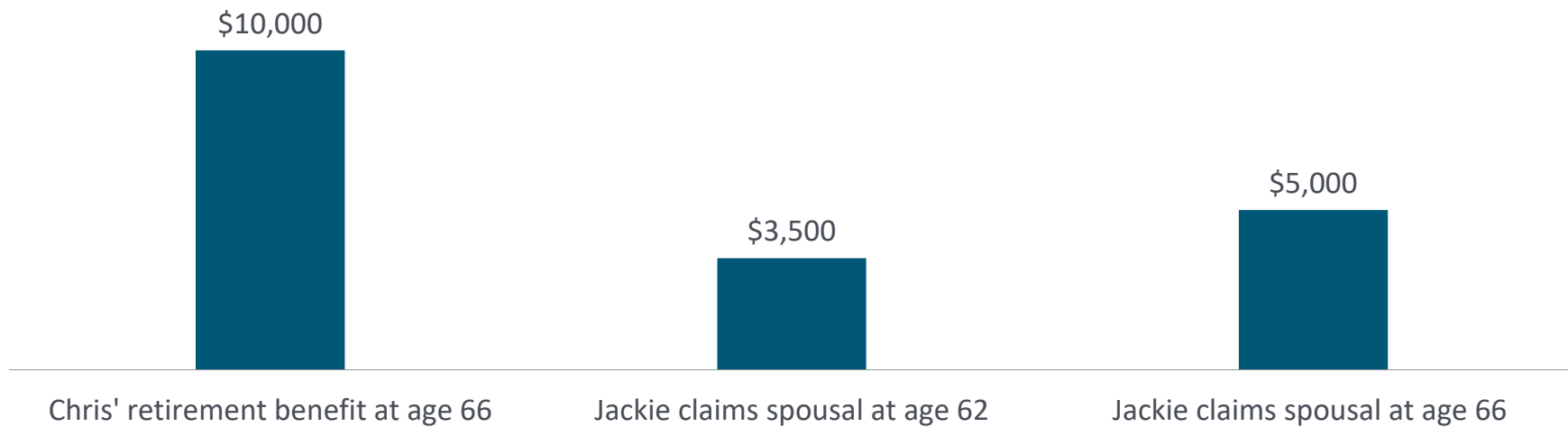
For illustrative purposes only. Based on Full Retirement Age (FRA) of 66. Calculations may vary if client's FRA is different. Divorced spousal benefits are calculated in the same manner.  
Source: Social Security Administration

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## Case study: Calculating spousal benefit

*Minimum spousal benefit at age 62*



For illustrative purposes only. Based on Full Retirement Age (FRA) of 66. Calculations may vary if client's FRA is different. Divorced spousal benefits are calculated in the same manner.

Source: Social Security Administration

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# Case study: Calculating spousal benefit

Chris claims retirement benefit at age 70



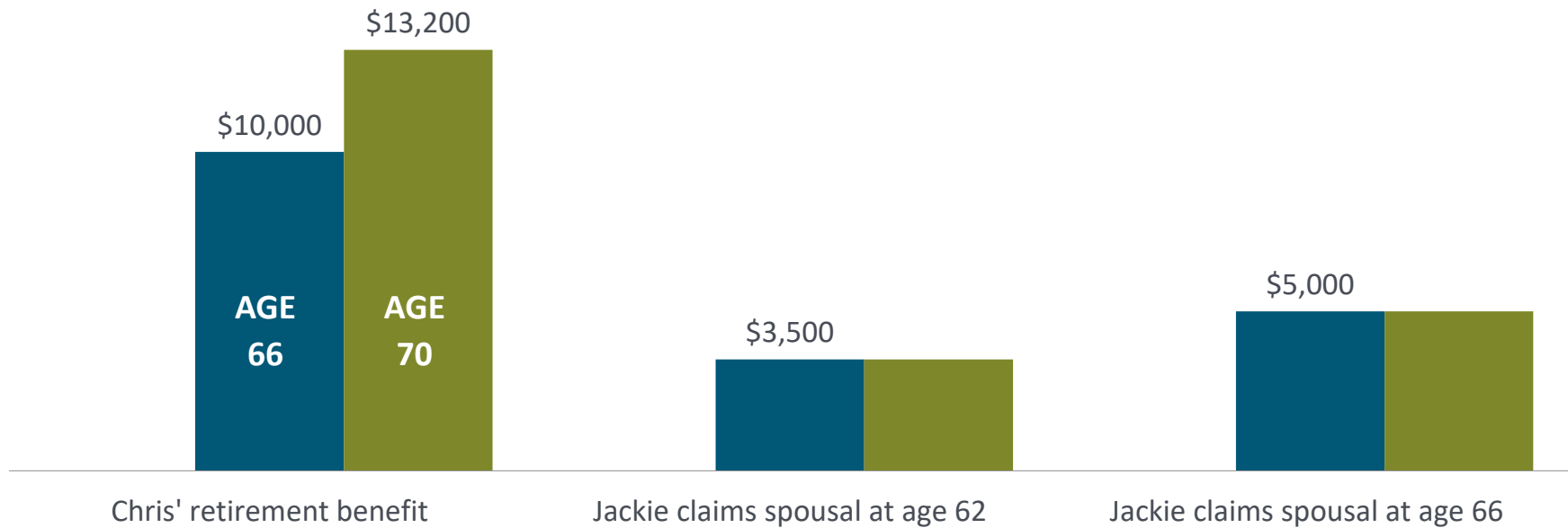
For illustrative purposes only. Based on Full Retirement Age (FRA) of 66. Calculations may vary if client's FRA is different. Divorced spousal benefits are calculated in the same manner.

Source: Social Security Administration

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# Case study: Calculating spousal benefit

*Spousal benefit based on Chris' age 66 retirement benefit*



For illustrative purposes only. Based on Full Retirement Age (FRA) of 66. Calculations may vary if client's FRA is different. Divorced spousal benefits are calculated in the same manner.

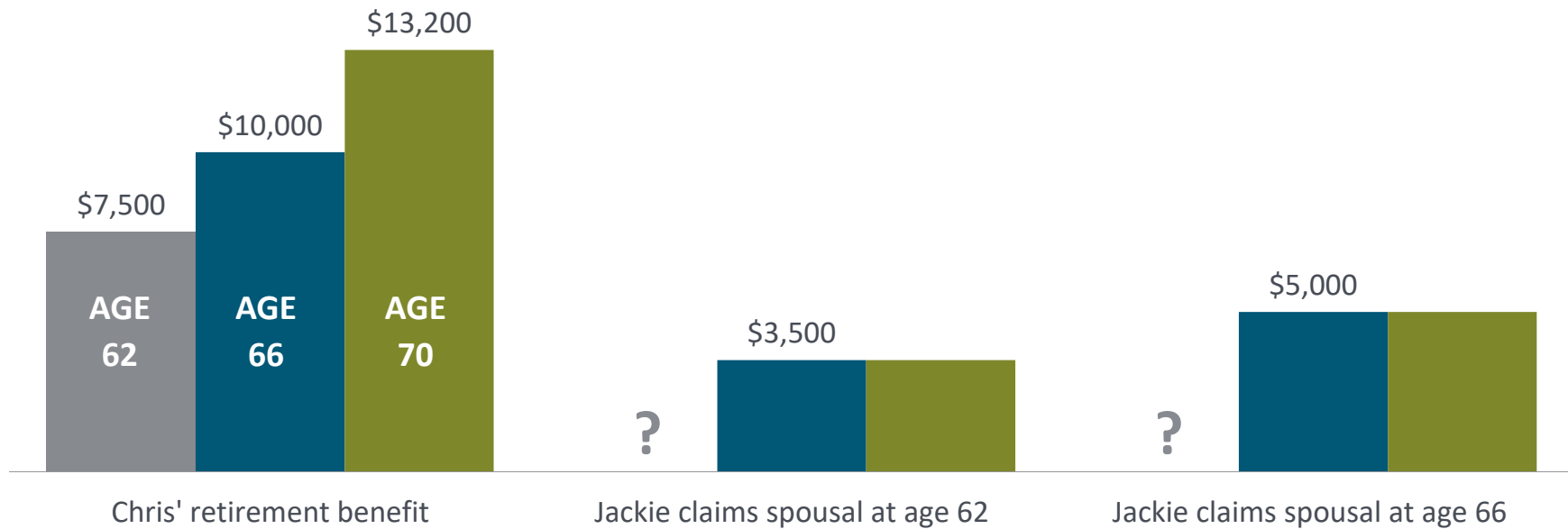
Source: Social Security Administration

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# Case study: Calculating spousal benefit

*Chris claims retirement benefit at age 62*



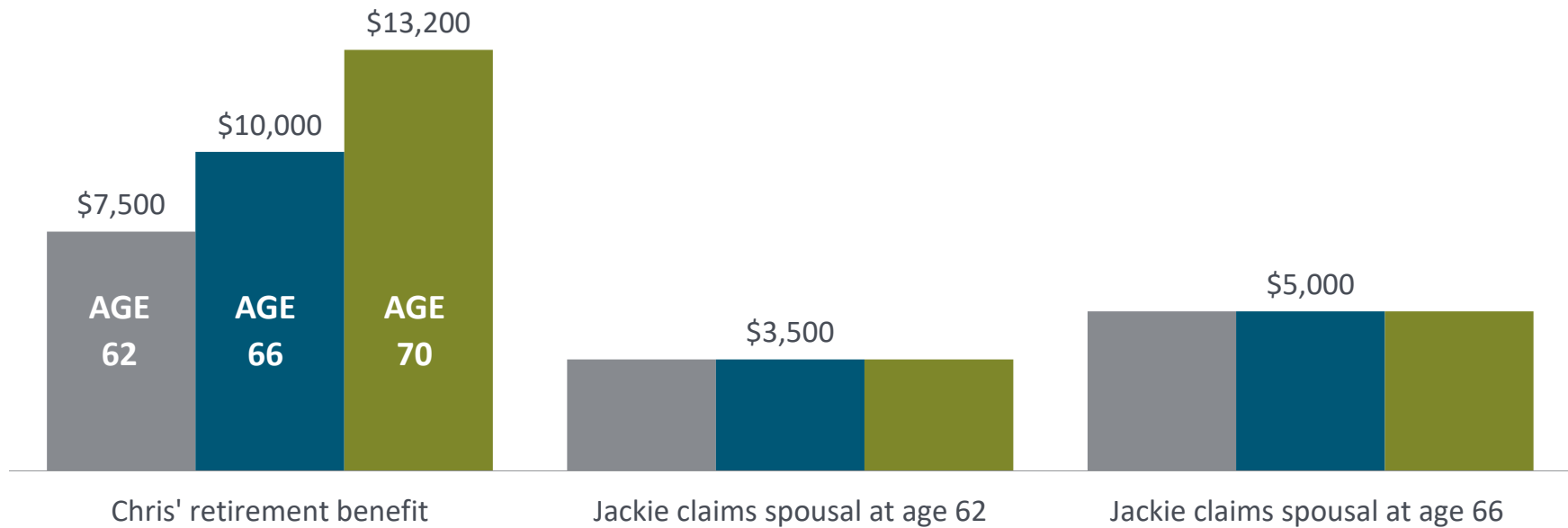
For illustrative purposes only. Based on Full Retirement Age (FRA) of 66. Calculations may vary if client's FRA is different. Divorced spousal benefits are calculated in the same manner.

Source: Social Security Administration

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# Case study: Calculating spousal benefit

*Spousal benefit based on Chris' age 66 retirement benefit*



For illustrative purposes only. Based on Full Retirement Age (FRA) of 66. Calculations may vary if client's FRA is different. Divorced spousal benefits are calculated in the same manner.

Source: Social Security Administration

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## Coordinating benefits if both spouses paid into Social Security

*May not refuse spousal if spouse has applied\*; may receive spousal if max spousal benefit > your retirement benefit at FRA*

Has your spouse applied for their retirement benefit?

Yes.  
Receive greater of retirement  
or spousal benefit\*

No.  
➤ Start with retirement.  
➤ May receive spousal step up after  
spouse applies.  
(if retirement benefit is reduced, may not receive max  
spousal benefit)

\*Exception: if you were born before 1/1/1954, may be eligible for restricted application which allows you to start with the spousal and switch to your retirement benefit. See slide 21 for more information

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## Case study: Spousal comparisons

*Options if lower earner's retirement benefit is greater than spousal benefit, less than spousal benefit, or zero*

- Three best friends who are all age 62 (born in 1958)
- They are all married, retired and want to take Social Security.
- What will they receive
  - Now
  - When their spouse applies. Assume
    - Alex and Blake apply at 62 for their retirement benefits
    - Alex, Blake and Chris are age 66 when their spouses apply.

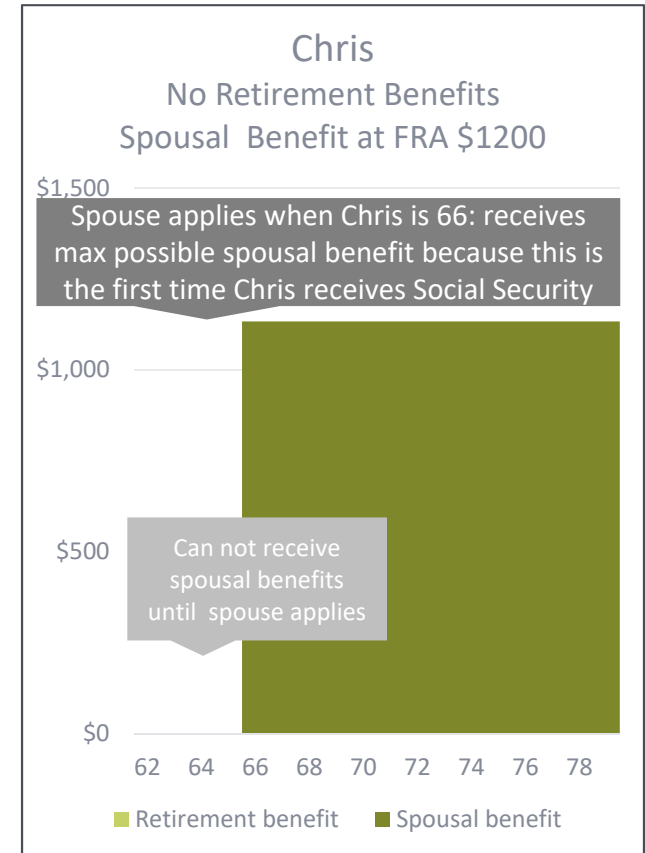
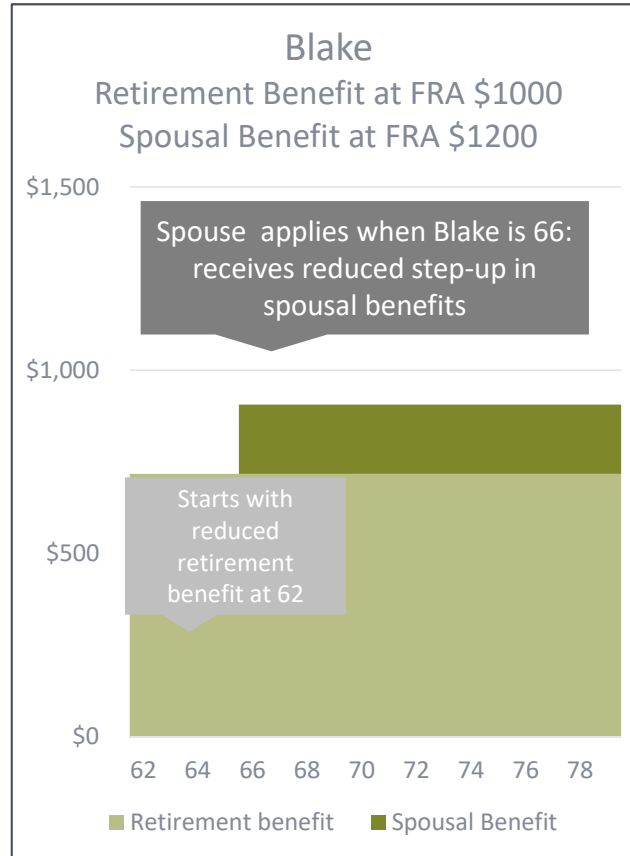
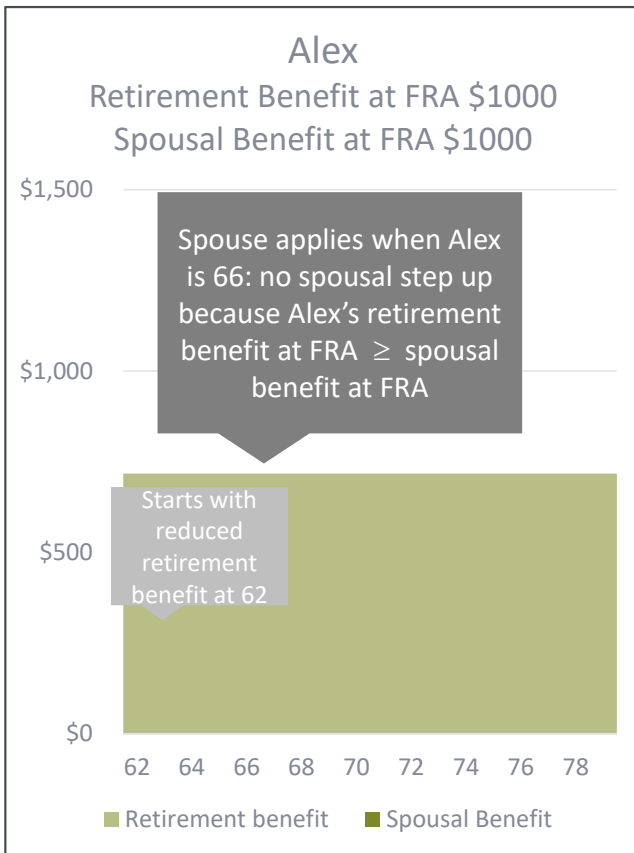
	Alex	Blake	Chris
Retirement benefit at FRA	\$1000	\$1000	\$0 Cared for family
Spousal benefit at FRA	\$1000	\$1200	\$1200

Hypothetical examples provided for discussion purposes only.

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# Max spousal only available if you apply at FRA or older for any benefit

*If you are receiving a reduced retirement benefit, you may not step up to max spousal amount*



Alex: Starts with reduced retirement benefit; does not step up to spousal because retirement benefit at FRA is greater than spousal benefit at FRA. Blake: Starts with reduced retirement benefit; can not receive spousal benefit until spouse applies; max amount received after spouse applies is reduced because Blake is receiving reduced retirement benefits; Chris can not receive anything at 62 because Chris does not qualify for retirement benefits; Chris must wait for spouse to apply in order for Chris to receive a Social Security benefit. Hypothetical examples provided for discussion purposes only.

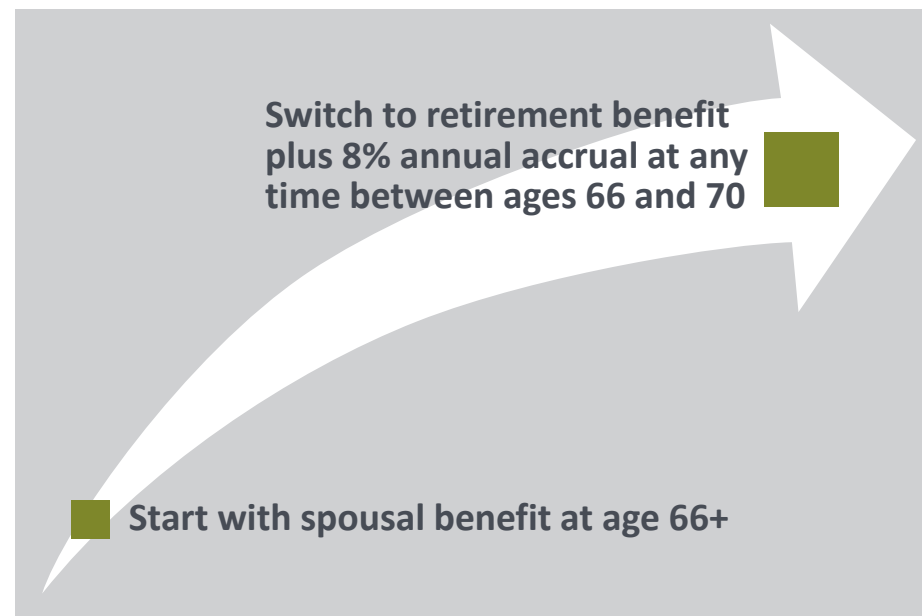
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## Restricted application: start with spousal, switch to retirement

*Only available to clients born on or before 1/1/1954*

### Requirements for Restricted Application

- You were born on or before 1/1/1954\*
- You apply at age 66 or older
- Your spouse is receiving their retirement or disability benefit\*\*



\*Clients who were born after 1/1/1954 will not be able to restrict their application to spousal benefits only. When they apply, they will receive the greater of their retirement or spousal benefit.

\*\* Your spouse may be receiving a reduced retirement benefit and/or be born after 1/1/1954. The age and birth date requirements pertain only to the person who wants to start with spousal.

Source: Social Security Administration



## Restricted application case study

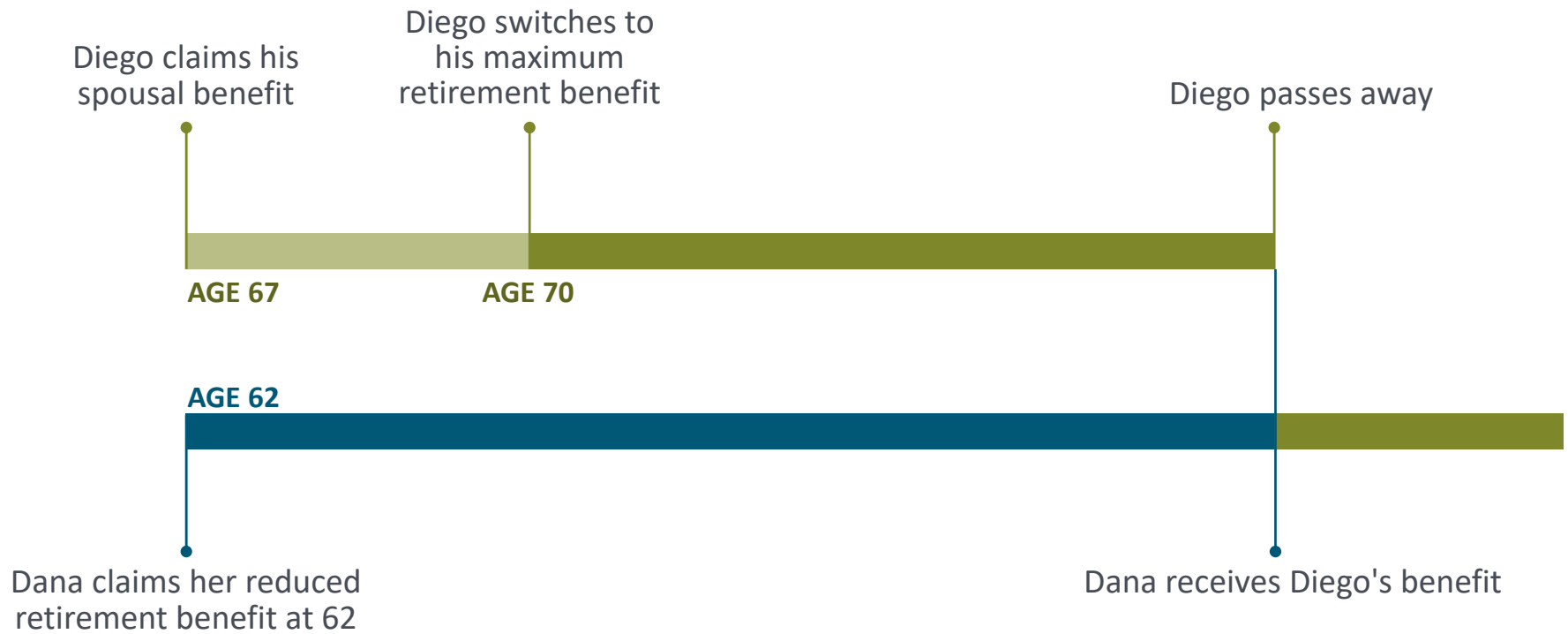
### Diego and Dana

- He is age 67, born in 1953 and the highest earner. He wants to start his retirement benefit at age 70.
- She is age 62, born in 1958, and retired.
- Is restricted application available?

For illustrative purposes only.

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## Restricted application case study



For illustrative purposes only. Whether this strategy is good for you depends on your income goals, retirement savings and health. Please discuss with an investment professional for more details.

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# Survivors benefits



## Reduction #4: Survivors benefits

*Earnings limit also applies to the survivor benefit until Full Retirement Age.*

Minimum Benefit	Maximum Benefit	Amount Based on	Percentage Based on
<ul style="list-style-type: none"><li>71.5% at age 60*</li></ul>	<ul style="list-style-type: none"><li>Limited to what deceased would receive if still alive</li></ul>	<ul style="list-style-type: none"><li>Age at which deceased claimed Social Security retirement benefits</li><li>The greater the deceased's benefit, the greater the survivors benefit</li></ul>	<ul style="list-style-type: none"><li>Age you claim the survivors benefit.</li><li>Your age when you claimed spousal or retirement benefit doesn't impact the survivors benefit percent</li></ul>

\*50 if surviving spouse is disabled

Source: Social Security Administration

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# Calculating survivors benefits

*Deceased's claiming decision impacts survivors benefit*

## Deceased's claiming decision

## Survivors benefit based on

Claimed at or after Full Retirement Age

Amount deceased was receiving at death

Passed away before Full Retirement Age, did not claim Social Security

Deceased's benefit at Full Retirement Age

Passed away at or after Full Retirement Age, did not claim Social Security

Amount deceased was entitled to receive at death (includes credits)

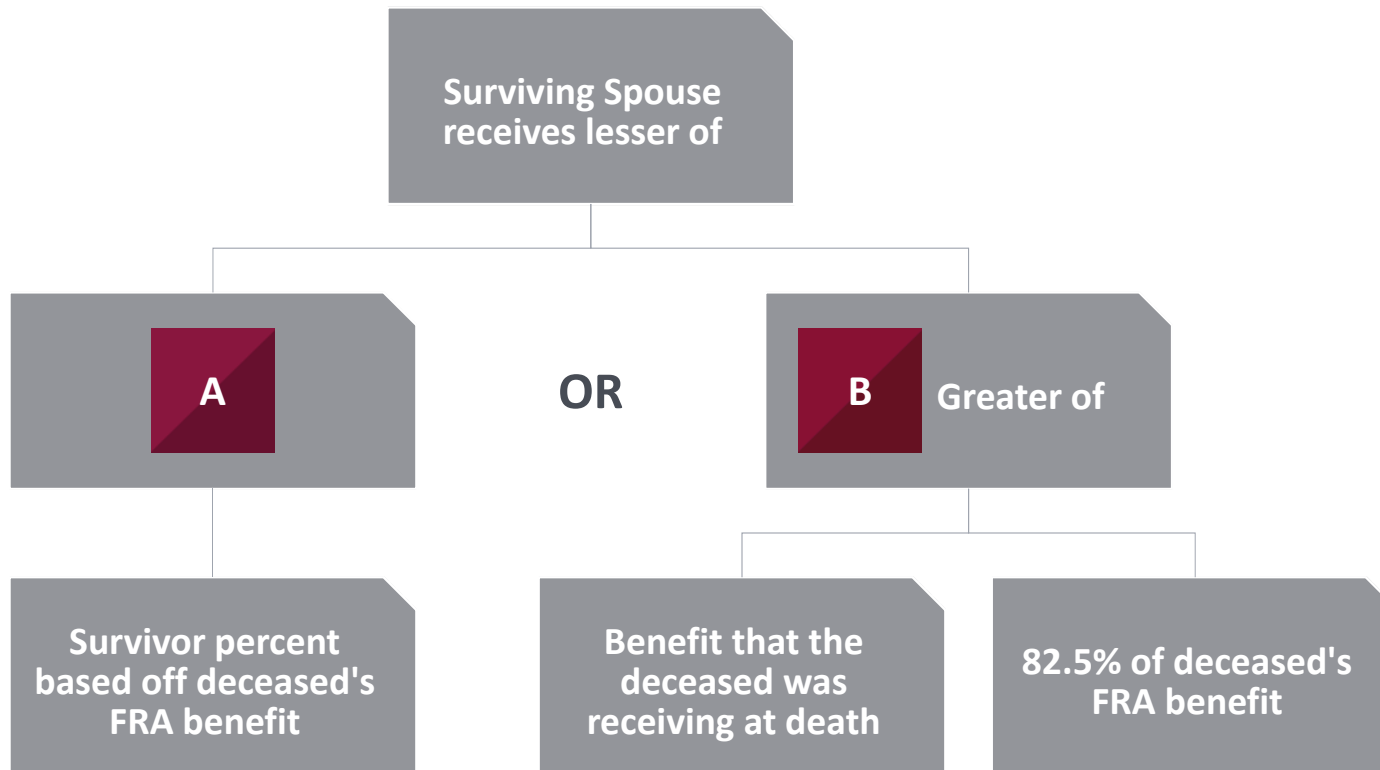
Claimed before Full Retirement Age

Widow(er) limit may apply

Source: Social Security Administration

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## Deceased claimed before FRA *(Widow(er) Limit)*

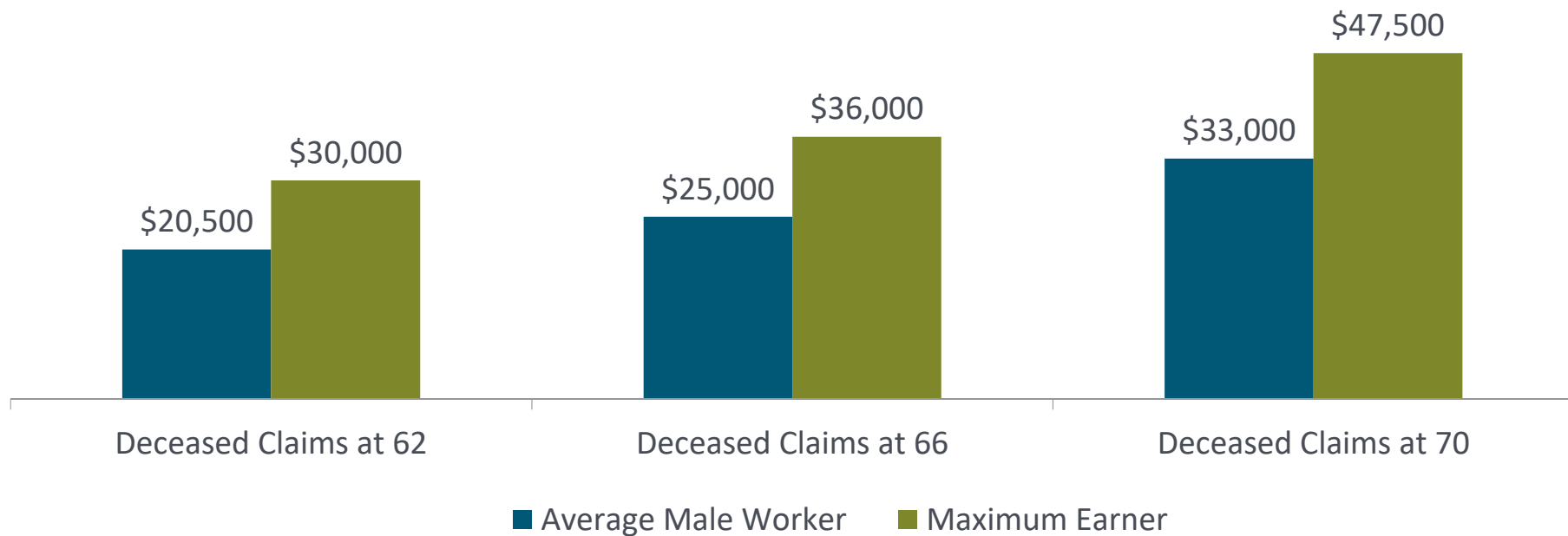


Source: Social Security Administration

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## Impact of claiming decision on survivor

### Hypothetical Survivors Benefits Based on Deceased's Claiming Age



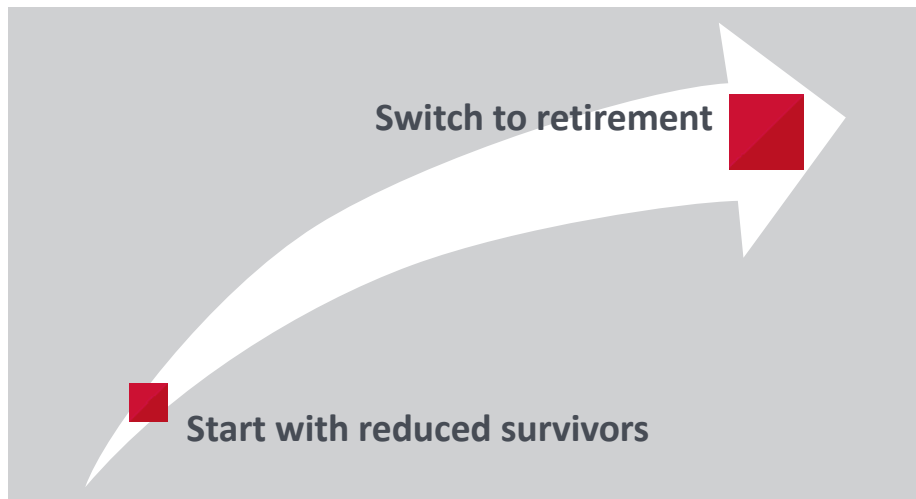
Based on average PIA for males at age 66 (Social Security Statistical Supplement, 5b, 2019)  
 Source: Social Security Administration  
 Hypothetical examples provided for discussion purposes only.  
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## Options for widow(er)s

*Earnings limit applies to any benefit received before Full Retirement Age.*

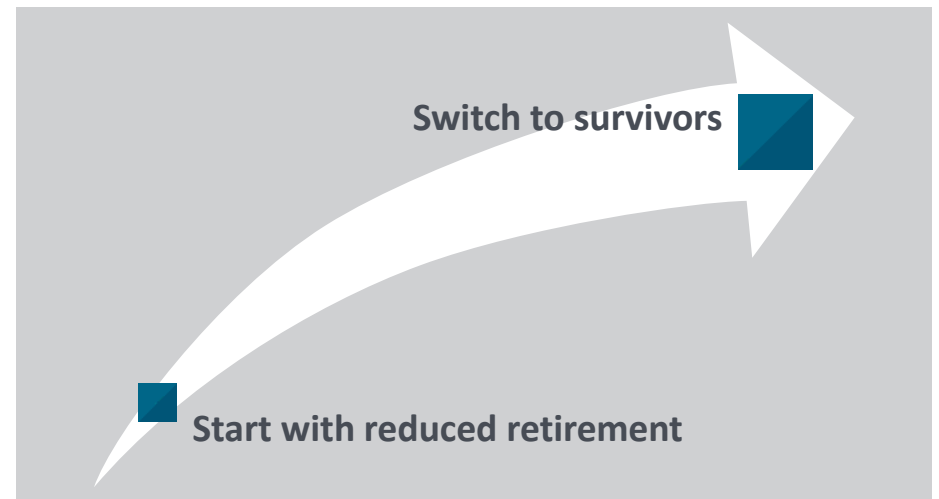
### Option 1

Start with reduced survivors benefit



### Option 2

Start with reduced retirement benefit



# Divorcee benefits



## Divorcee benefits available if marriage lasted 10+ years

*Earnings limit applies to any benefit received before Full Retirement Age*

	Spousal	Survivors
Your age	62 or older	60 or older
Your current marital status	Unmarried	Unmarried or remarried after age 60*
Your former Spouse	Must be age 62 or disabled Does not need to apply for a retirement benefit**	Must qualify for retirement or disability benefits
Both of you worked	<ul style="list-style-type: none"><li>▪ Generally receive greater of retirement or spousal benefit</li><li>▪ Restricted application only available if you are born before 1/1/54 &amp; apply at age 66+</li></ul>	Receive greater of retirement or survivors benefit

\* 50 if you are disabled

\*\*If divorce was less than two years ago, former spouse needs to apply in order for you to receive a spousal benefit

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## Remarriage and Social Security (applies to widows and divorcees)



**If your second marriage ends (either through divorce, annulment or death),  
you may become re-entitled to benefits off of the first marriage.**

\*If you remarry at or after age 60, you may receive greater of 1) spousal/survivor benefit of current spouse, 2) your retirement benefit, or 3) survivor benefit of former spouse  
Source: Social Security Administration

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# Certain government pensions and Social Security



## Client works in position that did not pay into Social Security

### And they also worked in the private sector

- 1 Windfall Elimination Provision (WEP)
- 2 Retirement benefits calculated using a modified formula to reduce amount of benefits received\*

### And their spouse worked in the private sector

- 1 Government Pension Offset (GPO)
- 2 Spousal and survivors benefits reduced by two-thirds of the amount of the government pension

\* May also reduced the spousal, but not the survivors, benefit.

Source: GAO 08-248T: Social Security - Issues Regarding the Coverage of Public Employees

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# Taxes and your retirement plan

# Taxes and Social Security



	<b>Social Security benefits are not taxable</b>	<b>Up to 50% of Social Security Benefits May Be Taxable</b>	<b>Up to 85% of Social Security Benefits May Be Taxable</b>
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**Individuals**

< \$25,000

\$25,000-\$34,000

\$34,001+

**Married Couples Filing Jointly**

< \$32,000

\$32,000-\$44,000

\$44,001+

Source: IRS INFO 2001-0131  
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# Combined income determines if Social Security benefits are taxable



Source: Social Security Administration

\* This is not all - encompassing. May include income from savings bonds to pay for higher education and deductions for qualified educational loans. Contact a qualified tax advisor for more information. MFS does not provide tax advice. For informational purposes only.

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## Taking Social Security at 70 vs 62 may reduce taxes

### Federal taxes for married couple, age 71, after-tax income goal of \$75,000

	Begin Social Security at age 62	Begin Social Security at age 70
Annual Social Security Benefit	\$31,680	\$52,461
Withdrawal from tax-deferred account	\$48,322	\$23,327
Combined Income <sup>1</sup>	\$64,162	\$49,535
Taxable Social Security	\$23,138	\$10,705
AGI <sup>2</sup>	\$71,460	\$34,032
Taxable income <sup>3</sup>	\$44,860	\$7,432
<b>FEDERAL INCOME TAXES</b>	<b>\$5,002</b>	<b>\$743</b>

<sup>1</sup>Modified AGI + Tax-exempt income + half of Social Security

<sup>2</sup>Withdrawal from tax-deferred account plus taxable portion of Social Security

<sup>3</sup>Standard deduction in 2018 is \$24,000 per couple; additional deduction for aged over 65 is \$1300 per person in 2018

Source: William Reichenstein, Ph.D., CFA and William Meyer. "Understanding the Tax Torpedo and Its Implications for Various Retirees." *Journal of Financial Planning*, July 2018

This situation is hypothetical in nature and for informational use only. Every situation is different. MFS does not provide tax advice.

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## Combined income exclusions

**Roth IRA and Roth  
401(k)/403(b)\***

**Qualified charitable  
distributions\***

**Nontaxable portion  
of pensions  
and annuities\***

**Inheritance and  
gifts\*\***

**Life insurance  
proceeds\*\***

**HSA withdrawals  
for qualified  
medical expenses\*\***

Sources: \* IRS Publication 590-B \*\* IRS Publication 525. This may not be a comprehensive list.  
MFS does not provide tax, legal, retirement, or accounting advice. Please consult with a qualified tax advisor for more information.  
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## Questions to consider

*Discuss claiming options and the impact clients' long-term retirement income goals*

- How long will the client work?
- What is their withdrawal rate?
- What is their (combined) life expectancy?

### Guidelines to Claim Social Security and Minimize Longevity Risk\*



#### Single\*

- Average life expectancy: take as soon as possible
- Long life expectancy: let Social Security grow as long as possible



#### Married\*

- Lower earning spouse begins as soon as possible
- Highest earning spouse lets benefits grow as long as possible

\*Source: William Meyer and William Reichenstein, "Social Security: When Should You Start Benefits and How to Minimize Longevity Risk", Journal of Financial Planning. March 2010. MFS does not provide tax, legal, retirement, or accounting advice..



Thank You

# Appendix



## Disability benefits

	<b>SSDI Social Security Disability Trust Fund</b>	<b>SSI Supplement Social Insurance</b>
Initial Qualifications	Based on your work history <ul style="list-style-type: none"><li>▪ (If 31 or older when disability occurred)</li><li>▪ Generally must have worked 5 out of the last 10 years)</li></ul>	Must have limited income and resources.
Full Retirement Age	At Full Retirement Age: <ul style="list-style-type: none"><li>▪ Amount does not change</li><li>▪ Funding switches from Disability to Retirement</li></ul>	Assuming assets, income and life circumstances do not change, then dollar amount will not change
Dependent Eligibility	Entitles children and spouse to Social Security benefits	Does not entitle children and spouse to Social Security benefits
Health insurance	Medicare after two years	Medicaid

Source: Social Security Administration

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