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
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)*

<table>
<thead>
<tr>
<th>Earnings Limit (2020)</th>
<th>Through year before turning Full Retirement Age</th>
<th>In the year of turning Full Retirement Age</th>
<th>Month you turn Full Retirement Age and older</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$18,240 ($1,520 per month)*</td>
<td>$48,600 ($4,050 per month)*</td>
<td>No restrictions</td>
</tr>
</tbody>
</table>

| Amount of Withholding | $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.

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*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

<table>
<thead>
<tr>
<th>Before FRA</th>
<th>At/after FRA</th>
<th>Any age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Go back to work</td>
<td>Suspend benefits</td>
<td>Withdraw application</td>
</tr>
<tr>
<td>Benefits will be temporarily withheld*</td>
<td>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;</td>
<td>Must be done within first twelve months Must repay everything (Social Security, taxes withheld, Medicare)</td>
</tr>
</tbody>
</table>

If some of your retirement benefits are withhold 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

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Case study: Calculating spousal benefit

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

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**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
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
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

FOR INVESTMENT PROFESSIONAL USE ONLY. Should not be shown, quoted, or distributed to the public.
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

FOR INVESTMENT PROFESSIONAL USE ONLY. Should not be shown, quoted, or distributed to the public.
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

FOR INVESTMENT PROFESSIONAL USE ONLY. Should not be shown, quoted, or distributed to the public.
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.

<table>
<thead>
<tr>
<th></th>
<th>Alex</th>
<th>Blake</th>
<th>Chris</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement benefit</td>
<td>$1000</td>
<td>$1000</td>
<td>$0 Cared for family</td>
</tr>
<tr>
<td>at FRA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spousal benefit</td>
<td>$1000</td>
<td>$1200</td>
<td>$1200</td>
</tr>
<tr>
<td>at FRA</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Hypothetical examples provided for discussion purposes only.

*FOR INVESTMENT PROFESSIONAL USE ONLY.* Should not be shown, quoted, or distributed to the public.
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

Retirement Benefit at FRA $1000
Spousal Benefit at FRA $1000

Spouse applies when Alex is 66: no spousal step up because Alex’s retirement benefit at FRA ≥ spousal benefit at FRA

Blake

Retirement Benefit at FRA $1000
Spousal Benefit at FRA $1200

Spouse applies when Blake is 66: receives reduced step-up in spousal benefits

Chris

No Retirement Benefits
Spousal Benefit at FRA $1200

Spouse applies when Chris is 66: receives max possible spousal benefit because this is the first time Chris receives Social Security

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**

Switch to retirement benefit plus 8% annual accrual at any time between ages 66 and 70

Start with spousal benefit at age 66+

*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?
Restricted application case study

Diego claims his spousal benefit

AGE 67

Dana claims her reduced retirement benefit at 62

AGE 62

Diego switches to his maximum retirement benefit

AGE 70

Diego passes away

AGE 70

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.*

<table>
<thead>
<tr>
<th>Minimum Benefit</th>
<th>Maximum Benefit</th>
<th>Amount Based on</th>
<th>Percentage Based on</th>
</tr>
</thead>
<tbody>
<tr>
<td>71.5% at age 60*</td>
<td>Limited to what deceased would receive if still alive</td>
<td>Age at which deceased claimed Social Security retirement benefits</td>
<td>Age you claim the survivors benefit.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The greater the deceased’s benefit, the greater the survivors benefit</td>
<td>Your age when you claimed spousal or retirement benefit doesn't impact the survivors benefit percent</td>
</tr>
</tbody>
</table>

*50 if surviving spouse is disabled

Source: Social Security Administration

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# Calculating survivors benefits

*Deceased's claiming decision impacts survivors benefit*

<table>
<thead>
<tr>
<th>Deceased's claiming decision</th>
<th>Survivors benefit based on</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claimed at or after Full Retirement Age</td>
<td>Amount deceased was receiving at death</td>
</tr>
<tr>
<td>Passed away before Full Retirement Age, did not claim Social Security</td>
<td>Deceased's benefit at Full Retirement Age</td>
</tr>
<tr>
<td>Passed away at or after Full Retirement Age, did not claim Social Security</td>
<td>Amount deceased was entitled to receive at death (includes credits)</td>
</tr>
<tr>
<td>Claimed before Full Retirement Age</td>
<td>Widow(er) limit may apply</td>
</tr>
</tbody>
</table>

Source: Social Security Administration
Deceased claimed before FRA
(Widow(er) Limit)

Surviving Spouse receives lesser of

A. Survivor percent based off deceased's FRA benefit

OR

B. Greater of

Benefit that the deceased was receiving at death
82.5% of deceased's FRA benefit

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

- **Start with reduced survivors**
- **Switch to retirement**

**Option 2**
Start with reduced retirement benefit

- **Start with reduced retirement**
- **Switch to survivors**

Source: Social Security Administration
Divorcee benefits
Divorsee benefits available if marriage lasted 10+ years

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

<table>
<thead>
<tr>
<th></th>
<th>Spousal</th>
<th>Survivors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Your age</strong></td>
<td>62 or older</td>
<td>60 or older</td>
</tr>
<tr>
<td><strong>Your current marital status</strong></td>
<td>Unmarried</td>
<td>Unmarried or remarried after age 60*</td>
</tr>
<tr>
<td><strong>Your former Spouse</strong></td>
<td>Must be age 62 or disabled Does not need to apply for a retirement benefit**</td>
<td>Must qualify for retirement or disability benefits</td>
</tr>
<tr>
<td><strong>Both of you worked</strong></td>
<td>• Generally receive greater of retirement or spousal benefit</td>
<td>Receive greater of retirement or survivors benefit</td>
</tr>
<tr>
<td></td>
<td>• Restricted application only available if you are born before 1/1/54 &amp; apply at age 66+</td>
<td></td>
</tr>
</tbody>
</table>

* 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)

**FORMER SPOUSE REMARRIES**
Does not dilute your benefits off former spouse

**YOU REMARRY BEFORE AGE 60**
Forfeit spousal benefit off ex
Forfeit survivors benefit off ex

**YOU REMARRY AFTER AGE 60**
Forfeit spousal benefit off ex
Keep* survivors benefit off ex

*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

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

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Windfall Elimination Provision (WEP)</td>
</tr>
<tr>
<td>2</td>
<td>Retirement benefits calculated using a modified formula to reduce amount of benefits received*</td>
</tr>
</tbody>
</table>

And their spouse worked in the private sector

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Government Pension Offset (GPO)</td>
</tr>
<tr>
<td>2</td>
<td>Spousal and survivors benefits reduced by two-thirds of the amount of the government pension</td>
</tr>
</tbody>
</table>

* 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

<table>
<thead>
<tr>
<th></th>
<th>Social Security benefits are not taxable</th>
<th>Up to 50% of Social Security Benefits May Be Taxable</th>
<th>Up to 85% of Social Security Benefits May Be Taxable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individuals</strong></td>
<td>&lt; $25,000</td>
<td>$25,000-$34,000</td>
<td>$34,001+</td>
</tr>
<tr>
<td><strong>Married Couples Filing Jointly</strong></td>
<td>&lt; $32,000</td>
<td>$32,000-$44,000</td>
<td>$44,001+</td>
</tr>
</tbody>
</table>

Source: IRS INFO 2001-0131

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Combined income determines if Social Security benefits are taxable

AGI + Tax-Exempt Income + Half of Social Security = Combined Income

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

<table>
<thead>
<tr>
<th></th>
<th>Begin Social Security at age 62</th>
<th>Begin Social Security at age 70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Social Security Benefit</td>
<td>$31,680</td>
<td>$52,461</td>
</tr>
<tr>
<td>Withdrawal from tax-deferred account</td>
<td>$48,322</td>
<td>$23,327</td>
</tr>
<tr>
<td>Combined Income¹</td>
<td>$64,162</td>
<td>$49,535</td>
</tr>
<tr>
<td>Taxable Social Security</td>
<td>$23,138</td>
<td>$10,705</td>
</tr>
<tr>
<td>AGI²</td>
<td>$71,460</td>
<td>$34,032</td>
</tr>
<tr>
<td>Taxable income³</td>
<td>$44,860</td>
<td>$7,432</td>
</tr>
<tr>
<td><strong>FEDERAL INCOME TAXES</strong></td>
<td><strong>$5,002</strong></td>
<td><strong>$743</strong></td>
</tr>
</tbody>
</table>

¹Modified AGI + Tax-exempt income + half of Social Security
²Withdrawal from tax-deferred account plus taxable portion of Social Security
³Standard deduction in 2018 is $24,000 per couple; additional deduction for aged over 65 is $1300 per person in 2018


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

<table>
<thead>
<tr>
<th>Roth IRA and Roth 401(k)/403(b)*</th>
<th>Qualified charitable distributions*</th>
<th>Nontaxable portion of pensions and annuities*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inheritance and gifts**</td>
<td>Life insurance proceeds**</td>
<td>HSA withdrawals for qualified medical expenses**</td>
</tr>
</tbody>
</table>

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

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Thank You
Appendix
## Disability benefits

<table>
<thead>
<tr>
<th>SSDI</th>
<th>SSI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social Security Disability Trust Fund</strong></td>
<td><strong>Supplement Social Insurance</strong></td>
</tr>
<tr>
<td><strong>Initial Qualifications</strong></td>
<td>Based on your work history</td>
</tr>
<tr>
<td></td>
<td>▪ (If 31 or older when disability occurred)</td>
</tr>
<tr>
<td></td>
<td>▪ Generally must have worked 5 out of the last 10 years)</td>
</tr>
<tr>
<td><strong>Full Retirement Age</strong></td>
<td>At Full Retirement Age:</td>
</tr>
<tr>
<td></td>
<td>▪ Amount does not change</td>
</tr>
<tr>
<td></td>
<td>▪ Funding switches from Disability to Retirement</td>
</tr>
<tr>
<td><strong>Dependent Eligibility</strong></td>
<td>Entitles children and spouse to Social Security benefits</td>
</tr>
<tr>
<td><strong>Health insurance</strong></td>
<td>Medicare after two years</td>
</tr>
</tbody>
</table>

Source: Social Security Administration