

YOUR Money AND Family Today

AMERICA'S IRA CENTERS™ NEWSLETTER

JULY 2013



BOOSTING YOUR SOCIAL SECURITY BENEFITS



Will Benefits Be Available When I Need Them?

A growing concern in the forefront of most Baby Boomers' minds is whether or not Social Security will be there for them to collect when they need it. With so many Americans approaching or beginning their retirement years, this concern seems to stem from the fact that not enough money is being paid into the Social Security trust fund. In response to this concern, reform proposals are being studied to come up with a solution to this potential disaster. To restore solvency to the Social Security system, there is talk about increasing the "normal" retirement age, which is currently 66, lowering the Social Security benefit for future retirees. Reducing COLAs is something that may be considered in addition to possibly increasing the maximum earnings that are subject to Social Security taxation. That said, Baby Boomers are not likely

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What You Need To Know About Maximizing Your Retirement Income

Baby Boomers in particular want to know whether Social Security will be there for them and how much they can expect to receive. Most Baby Boomers do not know when they should apply for their Social Security benefits and how to maximize that benefit. Most importantly, many Baby Boomers are concerned that their Social Security benefit will not be enough for them to live on during their retirement.

Before strategies can be discussed, it is crucial to understand the value of Social Security and what it can mean for you. Social Security basically offers a stream of income that you cannot outlive and it includes inflation adjustments, familiarly known as COLAs. For example, if your monthly Social Security income today is \$2,000 and the annual COLAs are 2.8%, in 20 years your monthly Social Security benefit will be \$3,474.

Besides the monthly benefit you may be entitled to based on your own work records, Social Security also offers survivor benefits. To illustrate, if a married woman receiving a monthly benefit of \$2,000 dies, her surviving husband, who only had a monthly benefit of \$1,200, can now step up and begin receiving his deceased wife's \$2,000 monthly benefit rather than his own.



to be impacted by Social Security reforms as changes would not likely be applied retroactively.



Survivor Benefits

What if your spouse passes away? How will it impact your Social Security benefit? If your spouse dies, you will be able to collect the higher of your benefit or your deceased spouse's benefit. The rules for survivor benefits are as follows: the couple must be legally married, common law marriages will only be recognized under specific circumstances. Unless the death was due to a genuine accident, the couple must have been married for at least 9 months and the survivor must be at least 60 years old for the reduced benefit (50 years old if disabled). For example, Jack and Jill are married but Jack dies in a hiking accident. His benefit is \$2,000 and Jill's is \$1,200. Jill's survivor benefit kicks in and her benefit is automatically replaced with his \$2,000 benefit because it is higher. In the event of the death of a divorced spouse, the survivor benefit will be available if the marriage lasted at least 10 years.



How Much Will I Get?

The amount of Social Security each Baby Boomer is entitled to depends upon their individual earnings over their respective working careers. Your monthly benefit will also be affected by the age at which you choose to apply for your benefits. Social Security is calculated by looking at your highest 35 years of earnings. Any "missing" years count as zeros. Your earnings are then indexed for inflation and averaged, referred to as AIME (Average Indexed Monthly Earnings). A formula is applied to your AIME to calculate your individual primary insurance amount (your PIA). The PIA is the amount that you will receive at your full retirement age, which is 66 for Baby Boomers. Your monthly benefit is then increased each year based on COLAs. Of course, if you apply for your Social Security benefits early, your monthly benefit will be lower. If you chose to apply for your Social Security benefits after your full retirement age, then you will earn delayed credits. For example, if you choose to apply at age 66 and your PIA is \$2,230, you will receive 100% of that PIA benefit. If you wait to apply until you turn 70 (assuming the same \$2,230 PIA) you will receive 132% of your PIA benefit without factoring in any COLAs.

Age at Which Benefits Are Claimed	% of PIA	Benefit Without COLAs	Benefit With COLAs
62	75	\$1,672	\$1,672
63	80	\$1,784	\$1,834
64	87	\$1,933	\$2,043
65	93	\$2,081	\$2,261
66	100	\$2,230	\$2,491
67	108	\$2,408	\$2,765
68	116	\$2,587	\$3,053
69	124	\$2,765	\$3,355
70	132	\$2,944	\$3,672

This chart illustrates an example of what hypothetical benefits look like assuming a PIA of \$2,230 and annual 2.8% COLAs.



What Happens If I Went Through a Divorce?

The divorced spouse benefit is the same as the benefit for spouses as long as the marriage lasted at least 10 years and the ex-spouse who is receiving the spousal benefit has not re-married. The interesting part is that more than one ex-spouse can receive spousal benefits on the same worker's record. Any spousal benefits paid to one ex-spouse will not impact any benefit payments made to the worker, the worker's current spouse or other former spouses. The minute an ex-spouse re-marries, the divorced spouse benefits stop and it cannot be reclaimed even if the new marriage doesn't last. On a side note, workers are not notified that an ex-spouse has applied for spousal benefits as a matter of public policy to avoid potential conflict.



Spousal Benefits

There are rules regarding Social Security spousal benefits that some Baby Boomers may not be aware of. A spouse will receive the higher of his or her own benefit or their spousal benefit. The spousal benefit is $\frac{1}{2}$ of the higher earning spouse's benefit. To claim the spousal benefit, however, the higher earning spouse must have applied for his or her benefits and the lower earning spouse must be at least 62 years old for a reduced benefit or 66 to receive a full benefit. There are no delayed credits on spousal benefits after age 66. To illustrate, if Harry's benefit is \$2,000 and Callista's benefit is \$800, Callista's spousal benefit is \$1,000 so she can receive her spousal benefit rather than her own because it is higher than her individual benefit.

Minimize the Taxation of Your Benefit



Social Security benefits are not automatically tax-free. There are ways to minimize taxation of your benefits such as reducing other income with tax advantaged investments. It is important to emphasize that municipal bonds will not result in minimizing taxes on Social Security benefits, other tax advantaged investments must be used to help reduce other income. If you have an IRA, you need to take into consideration your RMDs and how they may increase your tax bracket.



When is the Best Time For Me to Apply?

There is no catchall "best" age for Baby Boomers to apply for Social Security benefits because this will vary based on individual circumstances. Some factors to consider are your individual health status, your life expectancy based on that health status, your need for income during your retirement, whether or not you intend to work during your retirement years and whether or not there are (or you anticipate) any survivor needs. The most obvious perk of delaying your benefit is that you will have an opportunity to collect more money. If you apply early, your benefit not only starts lower but it will stay lower for the rest of your life, it does not increase when you turn 66. Remember, COLAs will increase your benefit and the longer you expect to live, the more beneficial it is for you to delay your Social Security benefits.

Also keep in mind that your decision will impact survivor benefits so it is an important consideration in planning your strategy as a delay will increase survivor benefits as well.

When Will My Social Security Benefit Be Enough For Me to Live On?



The real challenge is in determining whether or not your anticipated Social Security income stream will be enough for you. If you are still able to work, you can maximize your benefits by improving your earnings record. If you are unsure what to expect, take a look at your last Social Security statement and see what your estimated benefit is, whether

it is accurate, if there are any years missing and whether you will be able to improve that benefit by working longer and delaying retirement. If you are married, be sure to coordinate spousal benefits so that both you and your spouse can maximize your collective benefits. There is also a "file and suspend" strategy that you and your spouse may elect to implement. At full retirement age, a higher earning spouse can apply for Social Security benefits and later ask that the claim be suspended. The lower earning spouse in the meantime applies for a spousal benefit. The higher earning spouse then re-claims the benefit at age 70. This creates an opportunity for a lower earning spouse to receive higher benefits while the higher earning spouse continues to earn delayed credits, thereby increasing the higher earning spouse's benefit after it is "switched" back on at age 70.

The precise application language for this strategy is to say that the higher earning spouse is "restricting" his or her application to his or her spousal benefit. Also, only one spouse may do this, both spouses are not permitted to use a spousal benefit on each other. Beware that you cannot implement a file and suspend strategy before FULL retirement age!

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Key Points

Key Points to Keep in Mind

When you are deciding when you should begin your Social Security benefit based on your personal circumstance, there are some important things to keep in mind. When you are developing your overall retirement income plan, you should consider your life expectancy/health, projected income needs, whether or not you plan to work and survivor needs.

If you apply for your Social Security benefit early, your benefit will not only start lower but it will stay lower for the rest of your life. Contrary to a myth circulating out there, your Social Security benefit does not

go up when you reach age 66. COLAs will magnify the impact of your early or delayed retirement and the longer you expect to live, the more beneficial it is to delay your benefits. If married, you need to coordinate your spousal benefits to maximize Social Security.

Your decision to start your Social Security benefit impacts survivor benefits as well. Delaying your own benefits may give survivors more income. If you do not think your Social Security benefits will be enough to live on, consider other strategies you may need to explore to supplement your projected benefit.

A spousal planning analysis can help you and your spouse determine which of the various Social Security strategies may work best for you in your particular circumstance. Your overall retirement income plan should take into consideration Social Security in the context of pensions, IRAs, 401(k)s, your investment portfolio and work related issues to maximize your retirement income. Let us help you protect your nest egg and maximize your retirement income! 🏠

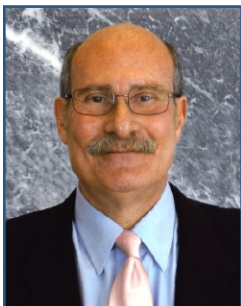
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America's IRA Centers™

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