



# Optimizing Social Security Benefits for Your Clients

Presented by:  
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# Today's Speaker



Ted Sarenski, CPA/PFS, CFP®, AEP

President & CEO



# The Basics

# What is this person looking for?

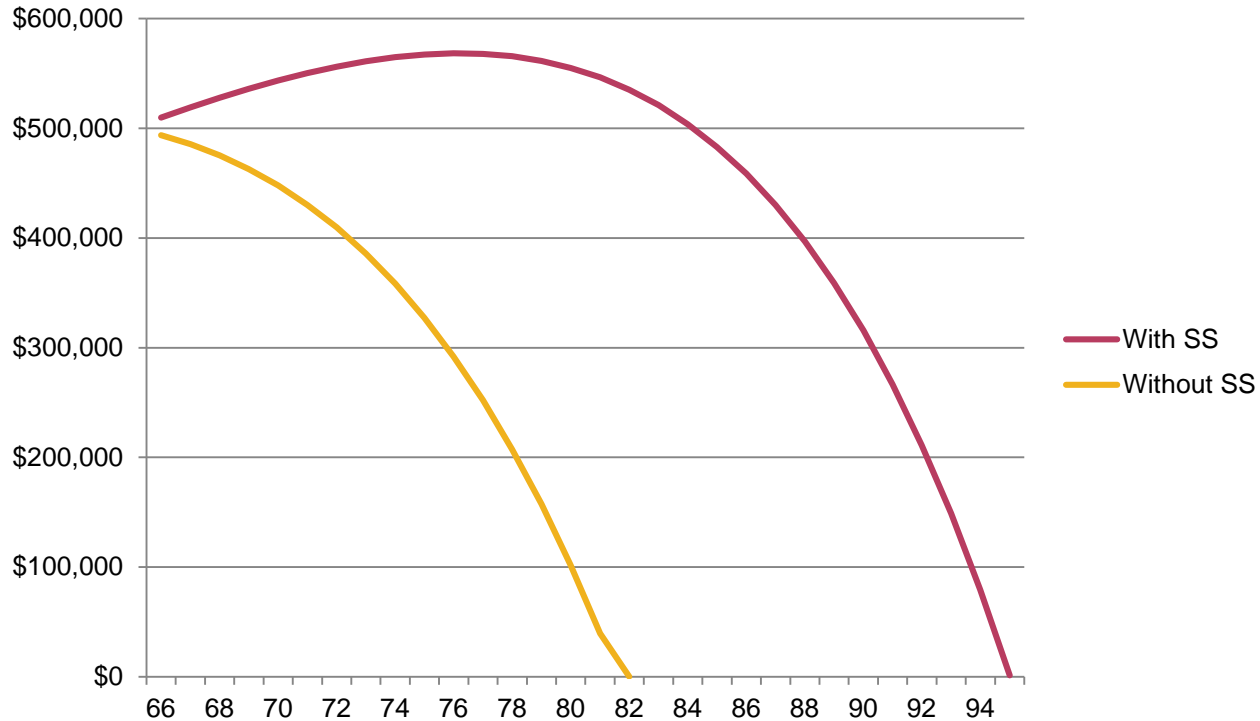


***We can never insure 100% of the population against 100% of the hazards and vicissitudes of life but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty ridden old age.***

# Basics: Why Does Social Security Matter?

- A 66 year old individual.
- The individual receives \$1,250 per month of Social Security benefits with the benefits increasing each year using a 2% annual COLA.
- A pool of after-tax savings of \$500,000 which is earning 7% annually.
- The individual spends \$3,215 per month and increases the spending annually at a 3.5% inflation rate.

# Basics: Why Does Social Security Matter?



# Basics: SOCIAL SECURITY STATEMENTS – or – HOW DO THEY COMPUTE THAT NUMBER?

- First step is to compute your Average Indexed Monthly Earnings (AIME)
  - Multiply your earnings or the Maximum Taxable Amount, whichever is greater, for each year since 1950 by the index amount for that year.
  - Add up the best 35 years indexed earnings
  - Divide by 420 to get your AIME
- Second step is to compute your Primary Insurance Amount (PIA)
  - Take 90% of the first \$895 of AIME, plus
  - 32% of the next \$4,502 of AIME, plus
  - 15% of AIME in excess of \$5,397
- This calculation is done for the year you reach age 62, whether you retire or not, and then indexed for inflation from that year.

# Basics: WHAT DISCOUNTS FOR TAKING SOCIAL SECURITY BENEFITS EARLIER THAN FRA?

<u>Year of Birth</u>	<u>Full Retirement Age</u>	<u>Payment at age 62</u>
1937 or earlier	65	80%
1938	65 + 2 months	79.2%
1939	65 + 4 months	78.3%
1940	65 + 6 months	77.5%
1941	65 + 8 months	76.7%
1942	65 + 10 months	75.8%
1943 – 1954	66	75%
1955	66 + 2 months	74.2%
1956	66 + 4 months	73.3%
1957	66 + 6 months	72.5%
1958	66 + 8 months	71.7%
1959	66 + 10 months	70.8%
1960 and after	67	70%

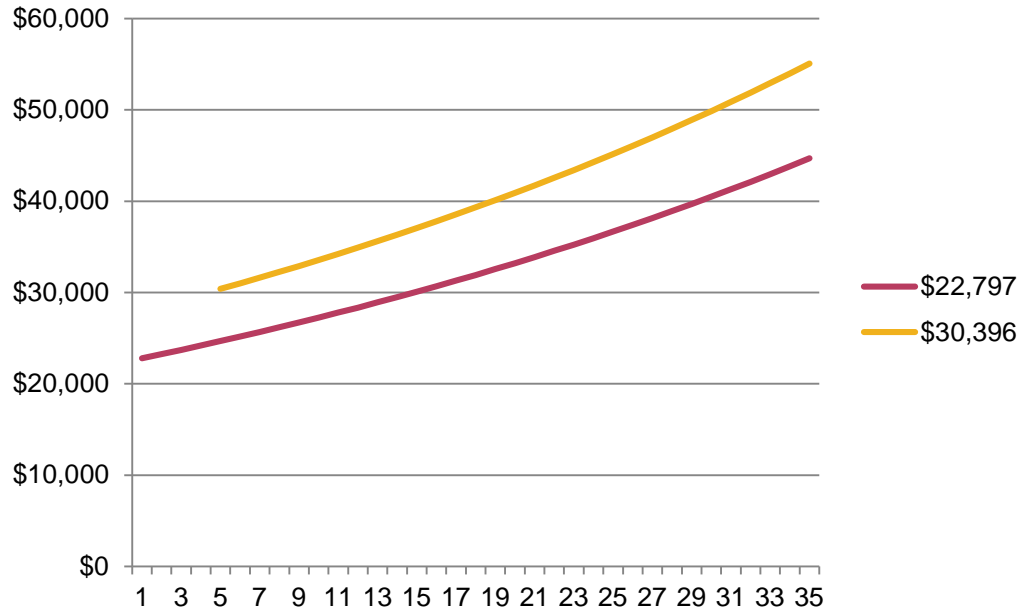


## Basics: Difference in Monthly Benefit – No Time Value or COLA

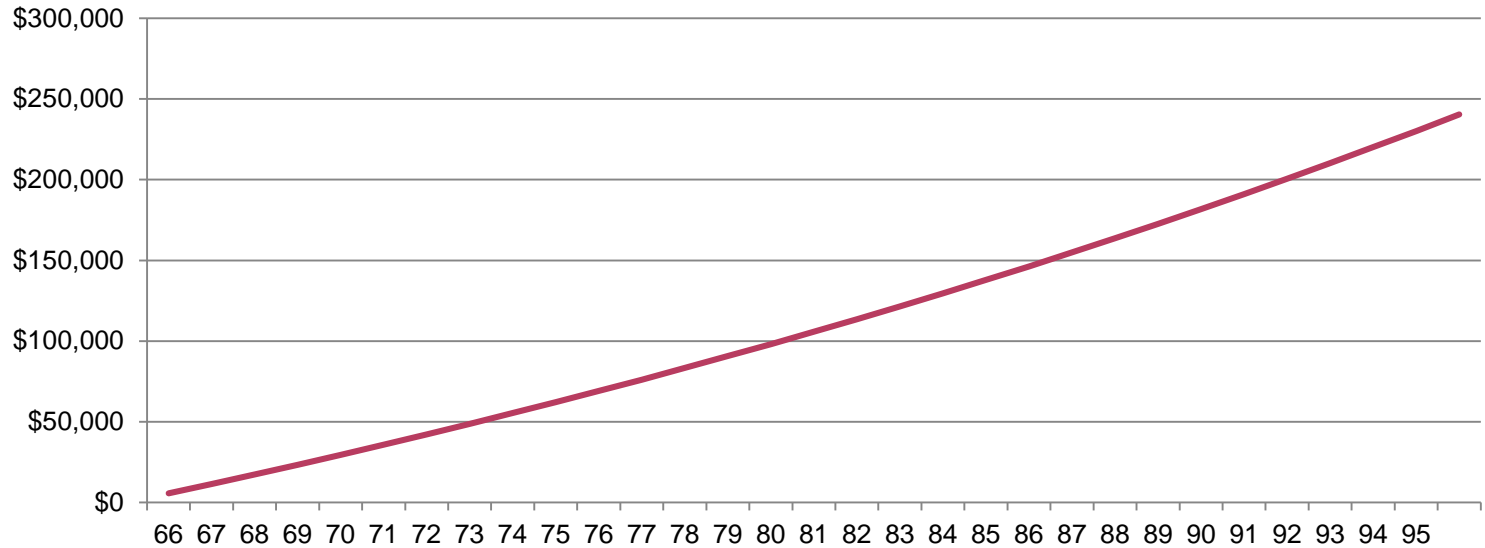
AGE	% of PIA	Benefit at Max Social Security
62	75	\$2,091
64	86.67	2,416
66	100	2,788
67	108	3,011
68	116	3,234
69	124	3,457
70	132	3,680

# Basics: Social Security Benefit - \$2,533

## 100% at Age 66 versus 75% at age 62

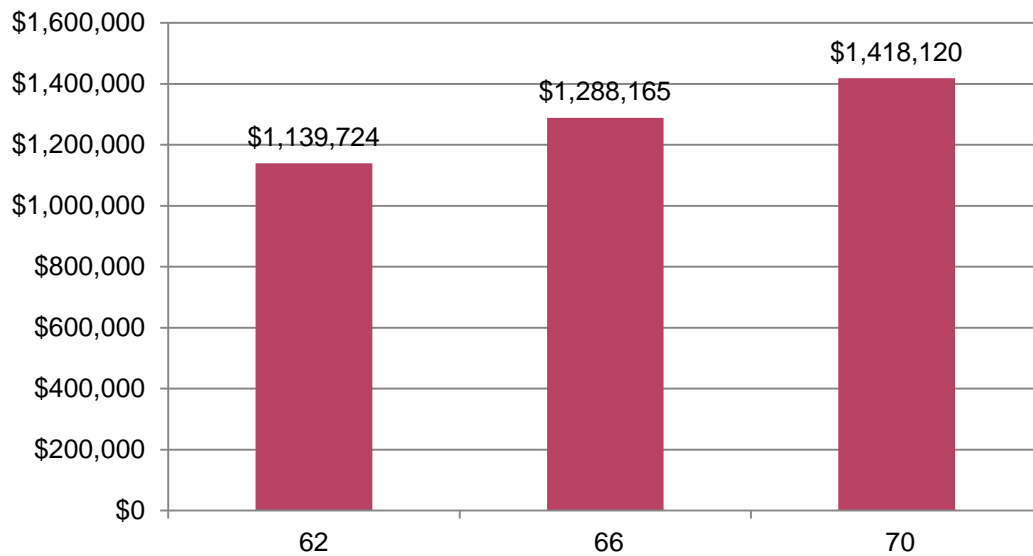


# Basics: Cumulative Difference From Age 66 to Age 95



## Basics: \$2,533 Claimed at Age 62, 66 or 70

- Cumulative Collected from Age 62, 66 or 70
- Each to Age 95 with 2% COLA



# Some Facts

## Facts and Figures - 2018

- Social Security maximum taxable income - \$128,400
- Medicare maximum taxable income – no limit
- Earnings exempt amount before penalty of \$1 of benefit for every \$2 earned when under age 66 the entire year - \$17,040
- Earnings exempt amount before penalty of \$1 of benefit for every \$3 earned in the year you become age 66 - \$45,360
- Maximum monthly Social Security benefit - \$2,788

# Social Security Statistics

- Social Security is 90% or more of income to:
  - 23.7% of all married elderly and,
  - 42.6% of all unmarried elderly
- Social Security represents more than ½ of income
  - 45.9% of all married elderly and,
  - 71.0% of all unmarried elderly
- It represents 33% of income of ALL elderly
- The Poverty Rate of those 65 years of age and older:
  - In 1960 was 35%
  - In 2016 was 9.3%
  - In 2016 if there was no Social Security – 43%

# Social Security Statistics

- About 63 Million people will receive benefits in 2018 totaling \$1 Trillion

- Breakdown of:

72% Retirees

16% Disabled Workers and their Dependents

12% Survivors of Deceased Workers

- Average benefit at the end of 2017

Retired Worker	\$1,404
Widows and Widowers, non disabled	\$1,301
Disabled Workers	\$1,197



# SS Disability in Depth

# Disability Statistics

- From the Institute on Disability Awareness of the University of Vermont published January 2018

- 12.8% of the overall population in 2016 were disabled

- 51% of those were of working age 18 to 64

- Disabilities were defined in 6 major categories

- Hearing

- Vision

- Ambulatory

- Cognitive

- Independent living

- Self-care

# Disability Statistics

From the Council for Disability Awareness

- 24% to 26% of disabilities will last for three months or longer in a person's work life  
With a 38% chance that the disability will last 5 years or longer
- Factors that increase the possibility of a disability  
Excess Weight, tobacco use, high risk activities or behaviors, Chronic conditions like diabetes, high blood pressure, back pain, anxiety, depression, frequent alcohol consumption or substance abuse
- 90% of disabilities are caused by illnesses rather than accidents

# Disability Statistics

- From the Social Security Administration
  - Over one in four 20 year-olds will be disabled before retirement
  - \$1,172 was the average Social Security Disability Benefit in 2017

## How to apply for social security disability

- Apply online at [www.ssa.gov](http://www.ssa.gov) or
- If you do not have access to the internet call 1-800-772-1213. The line is open 24/7. If you wish to speak with a person, the phone line has staff attending from 7AM to 7PM Monday to Friday.
- You will also need to complete form SSA 827 – Medical Release form
- Apply as soon as you are disabled because the process takes time. Social Security Disability Income (SSDI) does not begin paying benefits until the 6th month after the onset of the disability

## How to apply for social security disability











- Information you need to have available for SSA when you apply:
  - Social Security number
  - Last W-2 or Form 1040 if self-employed
  - Direct deposit information of your banking institution
  - Worker's Compensation Claim information
  - Name, address and phone number of someone who knows your condition
  - Information about your condition
  - Name, Address and phone numbers of all of your physicians
  - Name and dates of all Medical Testing Procedures
  - Medicines being taken
  - Medical records in your possession
  - five jobs and dates you worked in the just prior 15 year time period

## How to apply for social security disability

- Determination of disability is made by the Disability Determination Services (DDS) in each individual state
- Initial criteria that is reviewed is:
  - is the applicant insured
  - is the applicant not yet retirement age
  - has the applicant filed an application for disability with SSA
  - is the applicant disabled for 12 months or more or expected to be disabled for 12 months or more OR is the disability expected to result in the death of the applicant
- The SSA office of Program and Integrity Reviews may override a disability ruling of the DDS

# How to apply for social security disability

- What the DDS process looks at:

1. Is the person engaged in substantial gainful activity?  
2. Does the person have a severe medically determinable physical or mental impairment?  
3. Is the impairment included in the list of impairments?  
4. Does the impairment prevent the person from doing past relevant work?  
5. Does the impairment prevent the person from doing any other work?  
6. QUALIFY for Social Security Disability



## What to do if denied

- Request a reconsideration and submit new evidence
- To appeal a case it will be before an administrative law judge or the Appeals Council of Hearings and Appeals
- Since 1996, alcoholism or drug abuse alone will be denied as a medically determinable reason for disability benefits
- Effective April 20, 2015 you must submit ALL evidence to SSA to determine your disability. Prior to that date “material” evidence was the only requirement. With all evidence there may be some evidence that does not support the application for disability
- Attorney-Client privilege applies to SSDI as it would in a court of law

# Work required to qualify

If you become disabled...	Then you generally need:
In or before the quarter you turn age 24	1.5 years of work during the three-year period ending with the quarter your disability began.
In the quarter after you turn age 24 but before the quarter you turn age 31	Work during half the time for the period beginning with the quarter after you turned 21 and ending with the quarter you became disabled. Example: If you become disabled in the quarter you turned age 27, then you would need three years of work out of the six-year period ending with the quarter you became disabled.
In the quarter you turn age 31 or later	Work during five years out of the 10-year period ending with the quarter your disability began.

# Compassionate allowances

- <https://www.ssa.gov/compassionateallowances/conditions.htm>
- Is the website to visit to review the over 225 compassionate allowances
- Compassionate Allowances are a way to quickly identify diseases and other medical conditions that, by definition, meet Social Security's standards for disability benefits. These conditions primarily include certain cancers, adult brain disorders, and a number of rare disorders that affect children.
- The wait time for an applicant that has a condition listed in the compassionate allowances is greatly reduced as it immediately qualifies for SSDI benefits

## How Much will a disabled person receive?

- Using the work history just prior to the disability, Social Security applies the same formula they use for a retired person's calculation
- Determine the Average Indexed Monthly Earnings (AIME) for the worker
- Calculate the Primary Insurance Amount (PIA) for the person by taking:
  - 90% of the first \$895 of AIME
  - 32% of the AIME between \$895 and \$5,327
  - 15% of the AIME over \$5,327

# Who Else can receive benefits of the disabled worker?

- Family Maximum for SS Disability Benefits
  - 85% of the worker's Average Indexed Monthly Earnings (AIME)
  - HOWEVER – it cannot be less than the worker's Primary Insurance Amount (PIA) nor more than 150% of the PIA
  - Example: a worker's AIME is \$1,800. The worker would receive a disability payment of \$1,020.80 on his/her own. 85% of AIME is \$1,530; 150% of PIA is \$1,531.20 ( $\$1020.80 \times 150\%$ ). Therefore, spouse and children could receive the additional \$509.20. ( $\$1,530 - \$1020.80$ )
- Eligible people include:
  - Spouse (85%)
  - Children (50%)
  - Ex-Spouse (85%)

## Can benefits be reduced or changed?

- Worker's Compensation Benefits and State Disability Benefits can reduce the amount of SSDI collected if the total of the SSDI, Worker's Compensation and State Disability benefits are more than 80% of the average current earnings of the disabled person just prior to the disability.
- Excluded in determining SSDI reductions are:
  - VA Benefits
  - Needs Based benefits
  - Private Pensions
  - Private disability insurance
- IF Worker's Compensation is paid in a lump sum SS will estimate what the prorated monthly amount would have been and adjust accordingly

## Trial work period

- Social Security encourages people to attempt to go back to work by offering a 9 month work trial period
- The 9 months do not have to be consecutive within a 5 year time window
- Disability benefits will not be reduced or ended during the trial work period
- The maximum earnings during the trial work period so as not to affect a disability benefit is \$850 per month

## Children with disabilities

- Supplemental Security Income (SSI) is available to children prior to the age of 22 who are disabled as a child
- Similar to determining an adult to be disabled, a child is determined to be disabled if he or she has physical or mental marked and severe functional limitations that very seriously limit the child's activities AND that limitation is expected to last at least 12 months
- Doctors, teachers, therapists and other professionals who have information on the child are contacted to submit information
- The SSA may ask for an independent medical examination of the child that will be paid for by the SSA
- The amount of SSI benefit varies depending on the state of residence
- Income and resources of the child and of the family members living in the same household are taken into account as SSI has income limitations



## Children with disabilities

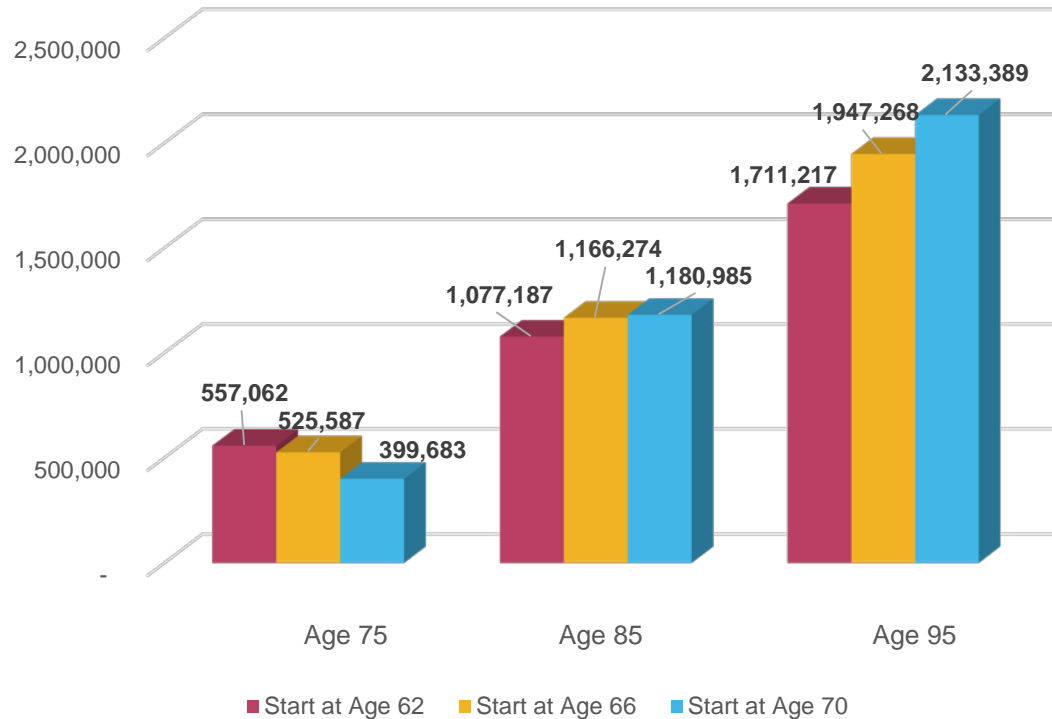
- Disability of a child will be determined immediately for the following conditions:
  - Total Blindness
  - Total Deafness
  - Cerebral Palsy
  - Downs Syndrome
  - Muscular Dystrophy
  - Sever Intellectual disability (only determined after age 4)
  - Symptomatic HIV Infection
  - Birthweight of 2lbs 10oz or less
- A review of the disabled child will be made every 3 years
- Medicaid is the medical coverage immediately with SSI and will continue for 9 years beyond the time that the child is determined to NOT be disabled

## Children with Disabilities

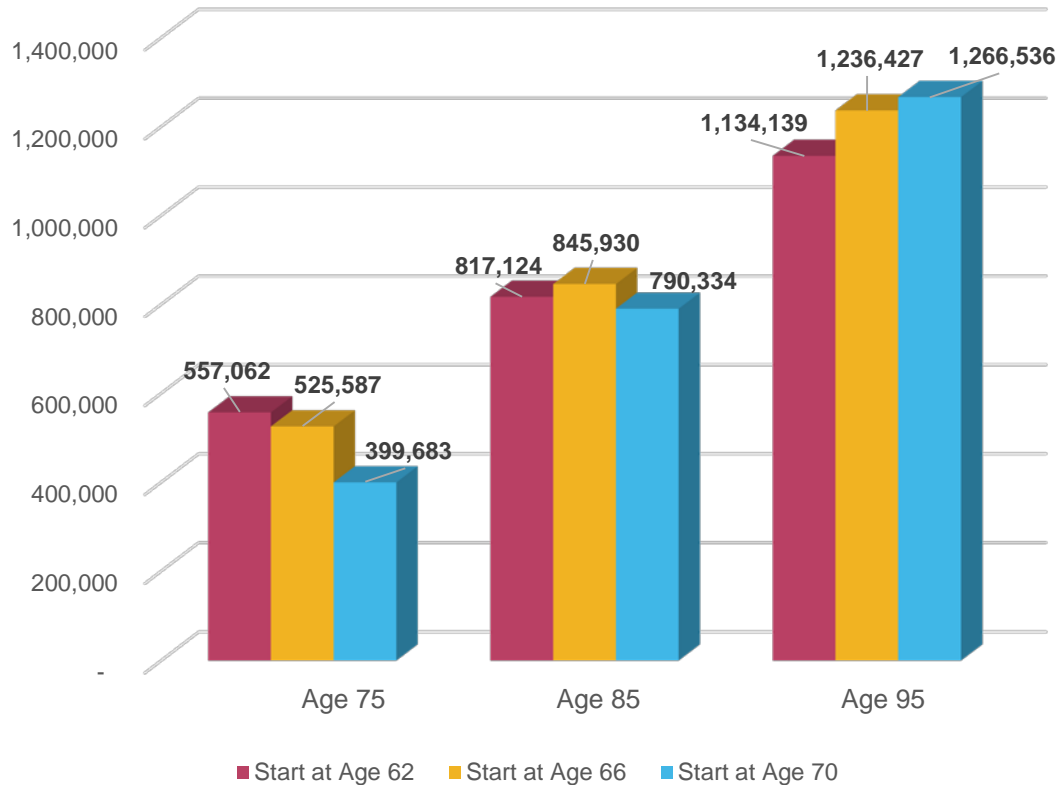
- At age 18, different medical and income rules are applied and the child is then determined an adult and the adult disability rules apply
- The largest difference is that only the income of the child is used rather than the income of the total household before the child became 18 years of age
- The adult/child will then qualify for SSDI if they have a parent who is currently collecting Social Security benefits or a deceased parent who had the proper number of quarters of coverage to qualify for Social Security benefits
- Income of the adult/child is limited to \$1,820 per month to an annual limit of \$7,350 to be able to collect full SSDI

# How to Advise

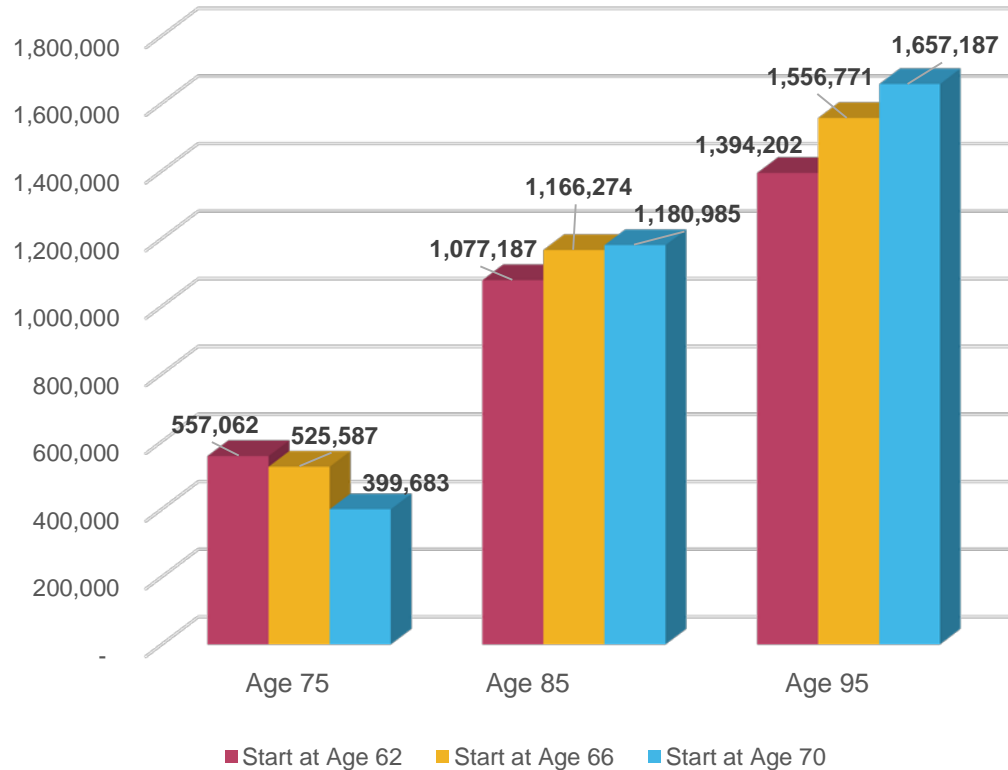
# Same Age, Same Benefit, Starting at Age 62, 66 or 70 and both dying at age 75, 85 or 95



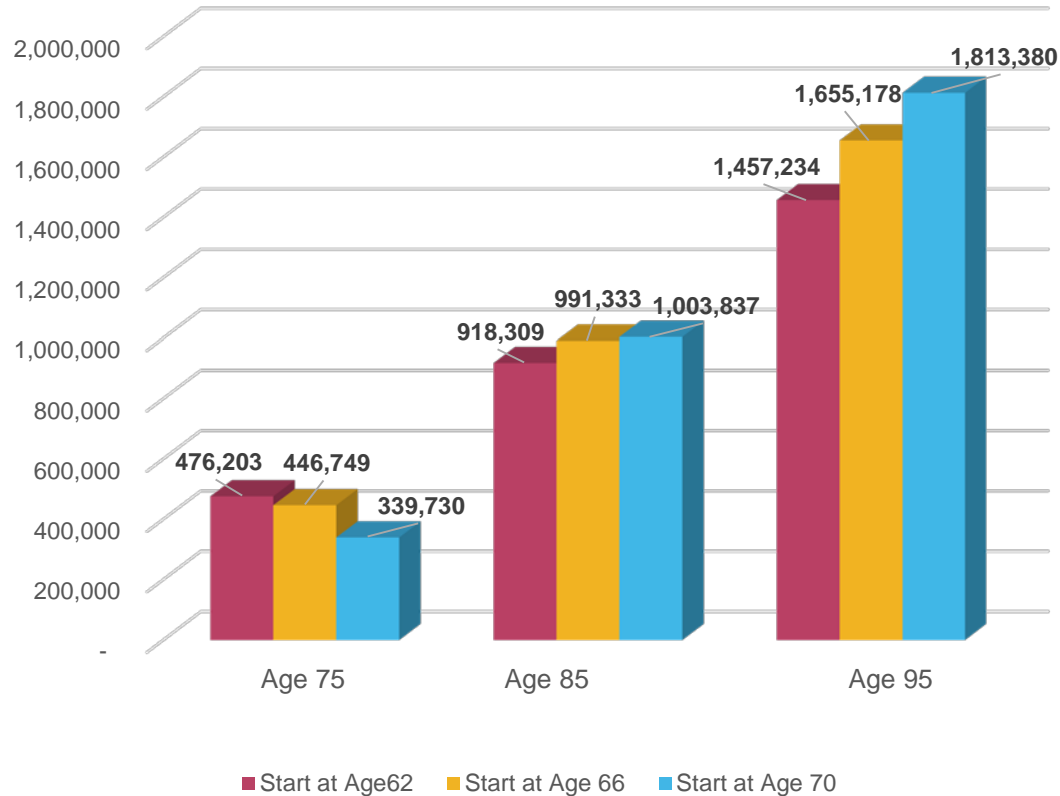
# Same Age, Same Benefit, Starting at Age 62, 66 or 70, One dies at Age 75



# Same Age, Same Benefit, Starting at Age 62, 66 or 70, One dies at Age 85

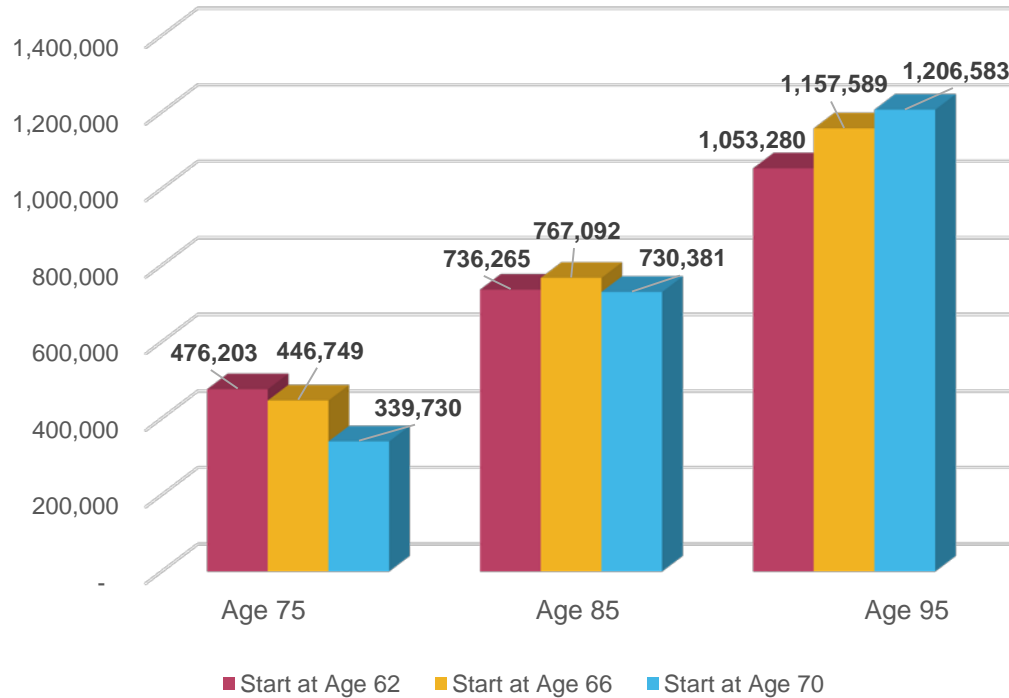


# Same Age, Different benefit, Starting at age 62, 66 or 70, and both dying at age 75, 85 or 95



# Same age, Different Benefit, Starting at Age 62, 66 or 70

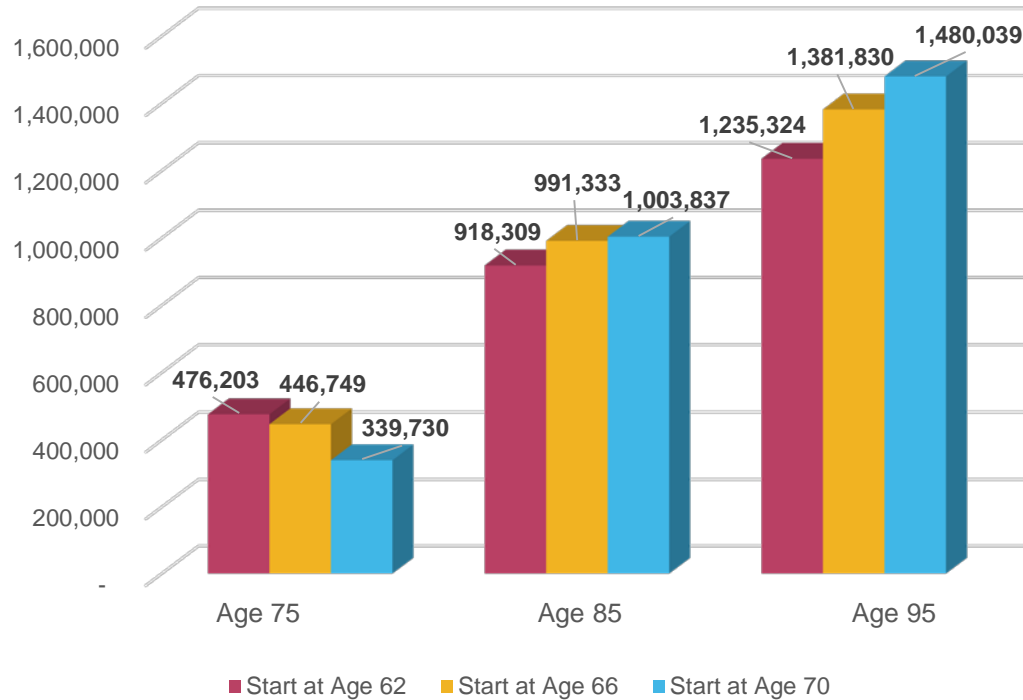
## One dies at age 75



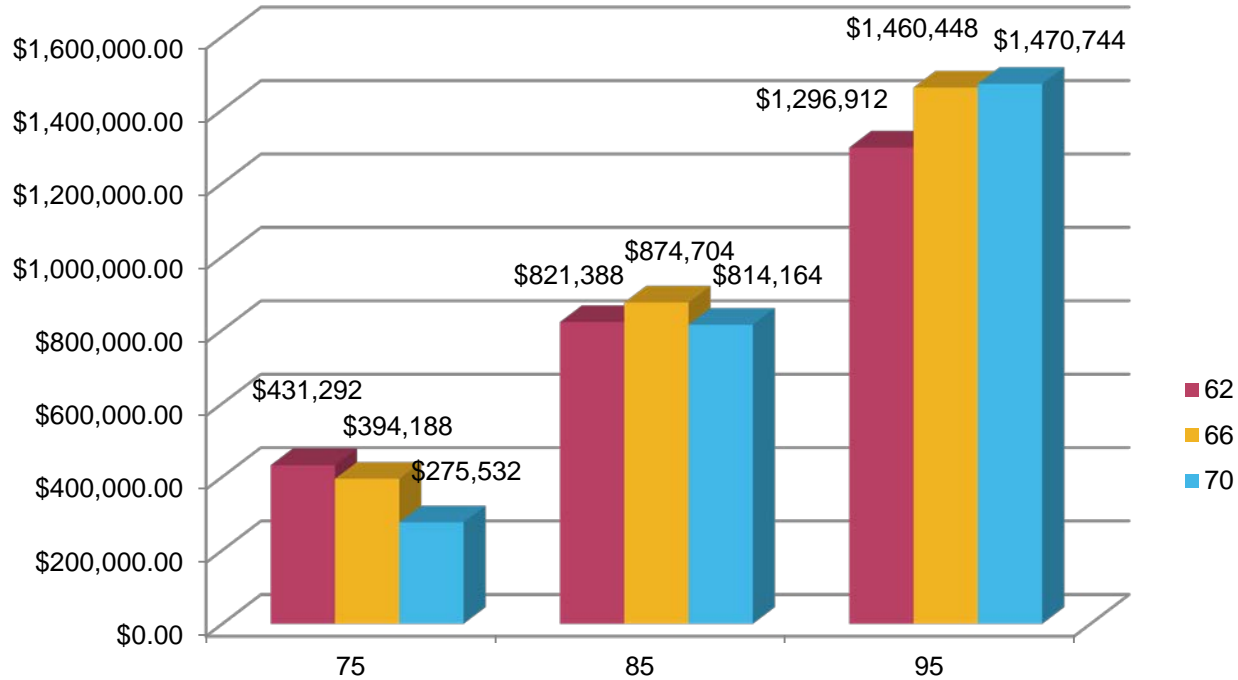


# Same Age, Different benefit, Starting at age 62, 66 or 70

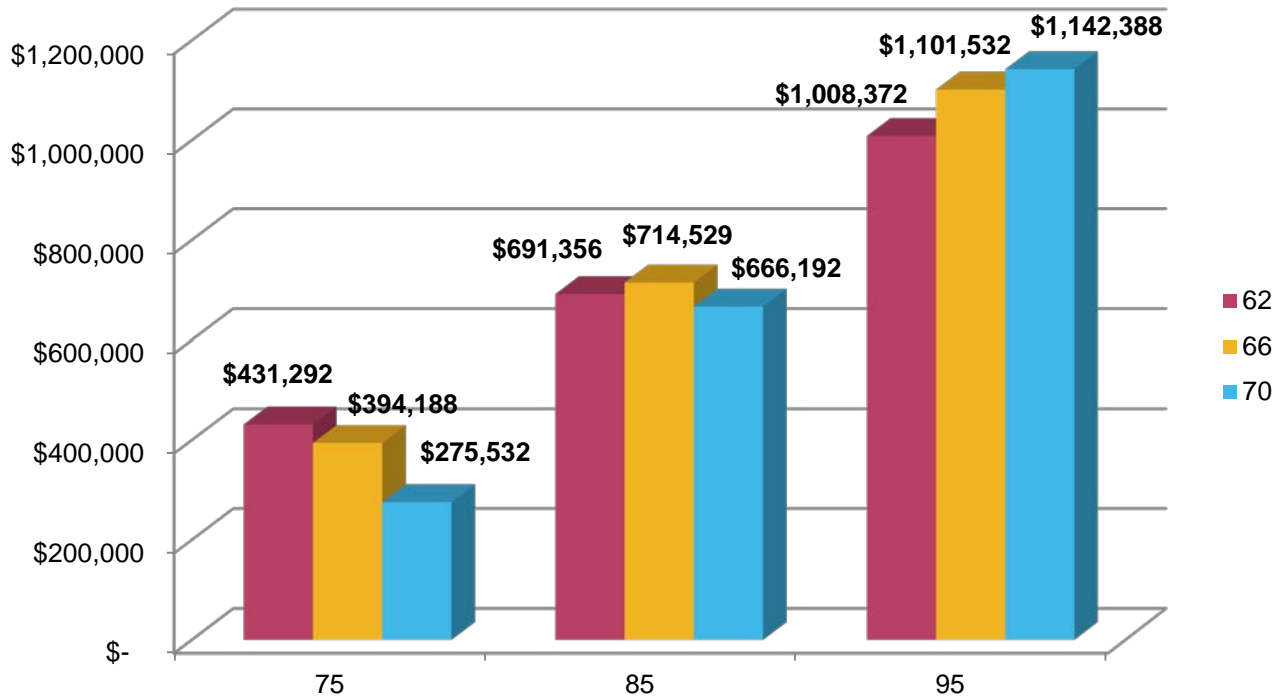
## One dies at age 85



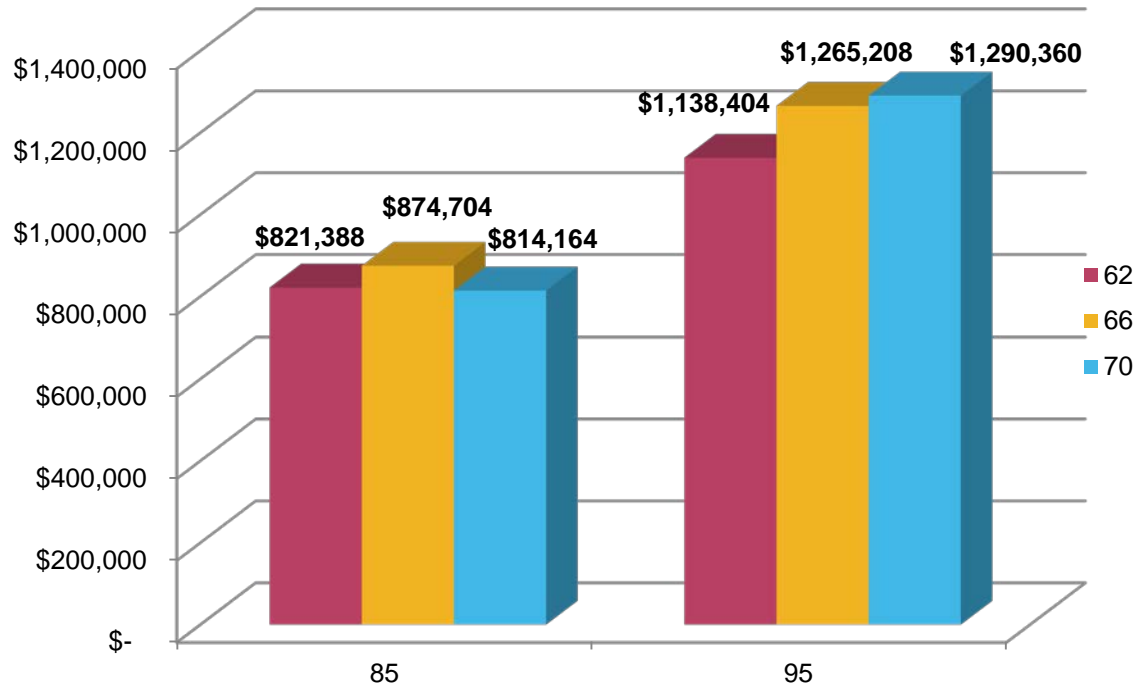
# Low or No Wage Earner married to worker with FRA benefit of \$2,000, both the same age



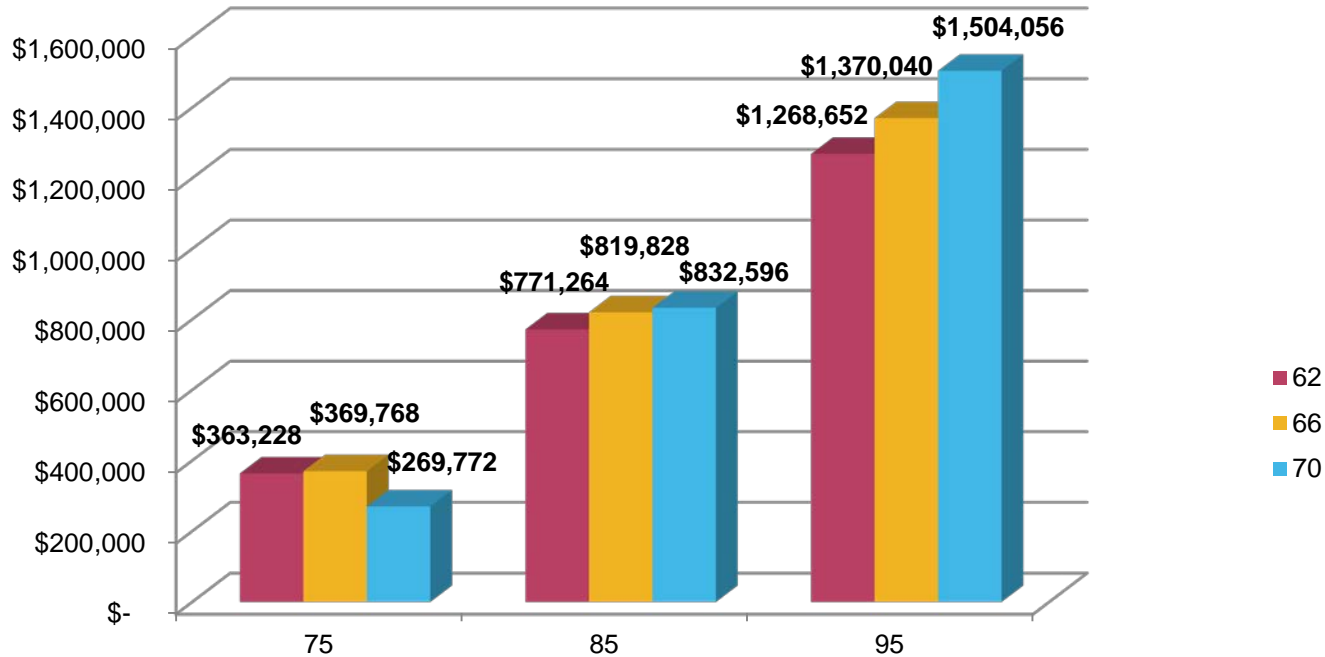
# Low or No Wage Earner married to worker with FRA benefit of \$2,000, both the same age, one dies at age 75



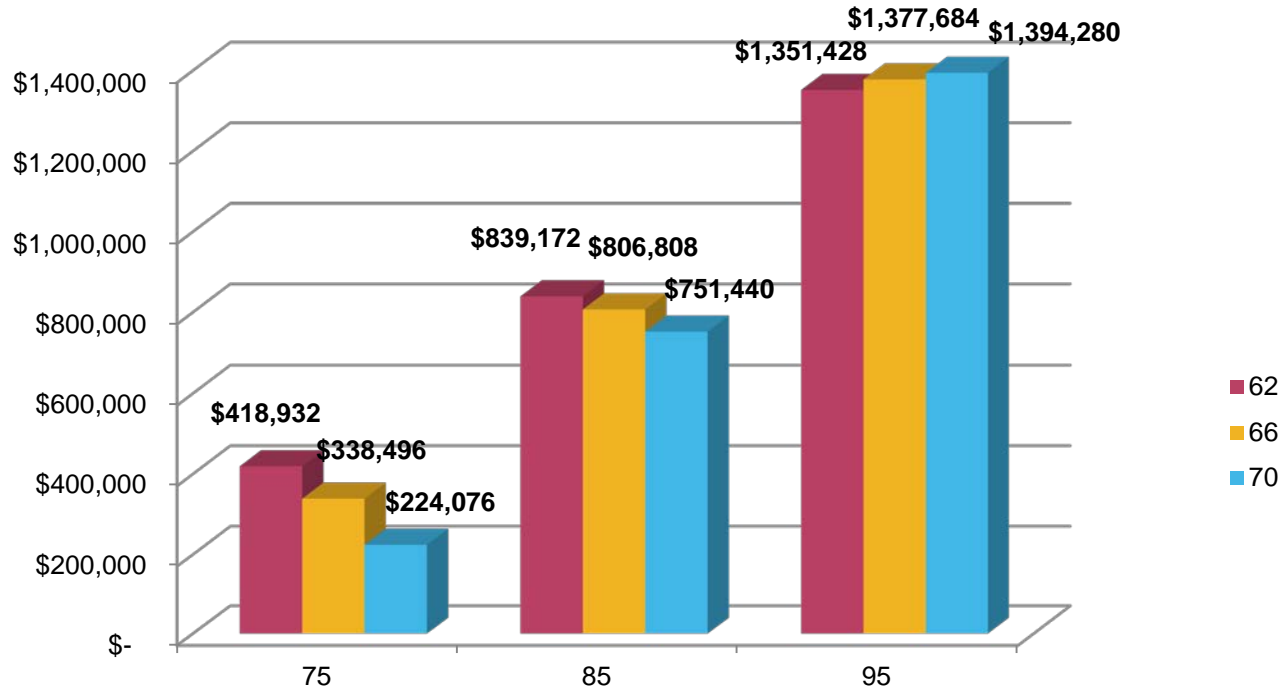
# Low or No Wage Earner married to worker with FRA benefit of \$2,000, both the same age, one dies at age 85



# Low or No Wage Earner married to worker with FRA benefit of \$2,000, Low or No Wage Earner 4 years younger



# Low or No Wage Earner married to worker with FRA benefit of \$2,000, Low or No Wage Earner 4 years older



# Other Topics

# Divorce

- Married for at least 10 years
- Been divorced for at least 2 years
- Ex-spouse signing up for benefits is not a requirement
- Not re-married before age 60, UNLESS
  - Subsequent marriage ended in divorce
  - Subsequent marriage ended in death (not caused by survivor)





## Other Issues: Death (Survivor) Benefits

- Family benefits with a family maximum limit
- The maximum family benefit is computed using a 4-tier formula instead of the usual 3-tier formula. When hitting the maximum family benefit, each beneficiary is reduced proportionately.
  - 2016 bend points:
    - 150% of the first \$1,093 of the worker's PIA
    - 272% of the worker's PIA over \$1,093 up to \$1,578
    - 134% of the worker's PIA over \$1,578 up to \$2,058
    - 175% of the worker's PIA over \$2,058



## Other Issues: Death (Survivor) Benefits



- Lump sum death benefit - \$255
- Benefit based on the insured worker's PIA at date of death
- Eligible people include:
  - Widow or widower – Age 60 (100%) OR any age (75%) if caring for the deceased's child under age 16 or disabled
  - Surviving divorced spouse – (happiest person) (100%)
  - Unmarried children – under age 18 or up to 19 if still in high school (75%)
  - Dependent parents – 62 or older who were dependent on the deceased for more than ½ of their support (2 – 75% each; 1-82.5%)

## Repay and Reapply

- Withdraw your Social Security application and repay all of the benefits received in one lump sum, no interest! (Including spousal and/or children's benefits)
- As of December 8, 2010, only allowed within 1 year of beginning benefits and only once per lifetime.
- You will likely advise this for a new client who made a decision before meeting with you to discuss the options for Social Security. Not unlike hearing they made a taxable transaction that they tell you about after-the-fact during tax time; except this is reversible!



## Windfall Eliminations Provision

- Affects any worker who earned a pension in a job in which they did not pay Social Security taxes and also worked in a job that qualifies them for Social Security benefits.
- The percentage of the first bend point of the AIME calculation is reduced from 90% to 40% but the Social Security benefit cannot be reduced by more than  $\frac{1}{2}$  of such pension received.



## Government Pension Offset

- Affects federal employees hired before 1984 who continued to opt out of the Social Security system.
  - Spousal or widow/widower Social Security benefit is reduced by  $\frac{2}{3}$  of the government pension being received by the individual.
  - Only the government employee is affected, not the non-government employee spouse.
-

# *my* Social Security

# How to set up a my Social Security account

- Go to: <https://www.ssa.gov/myaccount/>
- Then click on: Sign In or Create an Account
  
- You will be at: <https://secure.ssa.gov/RIL/SiView.do>
  
- Just follow the simple steps!

Questions?



# AICPA PFP Section Member Resources

PFP Section members, inclusive of CPA/PFS credential holders, have access to resources on the latest planning strategies and trends in personal financial planning services so that they can practice competently and profitably. Visit [aicpa.org/pfp/resources](https://aicpa.org/pfp/resources).



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# Upcoming PFP Section Events

Webcasts (4 free events per year with CPE for PFP/PFS members)

August 7 1-2:15pm ET	Tax reform readiness: Effectively hold a client tax planning meeting
August 13 1-2:15pm ET	Tax planning developments & opportunities under the new tax act
August 29 1-2:15pm ET	An In-Depth Look at Optimal Rebalancing Strategies

## Conferences

January 2019	AICPA Personal Financial Planning Leadership Summit
June 10-13, 2019	ENGAGE AICPA Advanced PFP Conference Advanced Estate Planning Conference Tax Strategies for the High Net Worth Individual

- For the full calendar of upcoming PFP Section events, visit [aicpa.org/pfp/events](https://aicpa.org/pfp/events).
- PFP/PFS Members can access the archives (no CPE) for free at [aicpa.org/pfp/library](https://aicpa.org/pfp/library).

# CPA/PFS News and Events

- PFS Referral Program
  - Receive 100% credit to apply toward future CPA/PFS dues by referring a CPA to become a PFS or sit for the PFS exam
- PFS Exam
  - Register now for upcoming exam windows
  - Discounts, sponsorships and volume pricing available
- Education Opportunities
  - PFP certificate program: in-depth courses in estate, retirement, tax, investments, insurance, and PFP process
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- Learn more at [aicpa.org/pfs](https://aicpa.org/pfs)