Social Security Explorer

Case Study - Finding the Life Sale

BACKGROUND: Roy and Connie Smith, Married

ROY	AGE: 63 (1951)
	BENEFIT AT 66: $2,455
	PROJECTED RETIREMENT: 67

CONNIE	AGE: 62 (1952)
	BENEFIT AT 66: $1,350
	PROJECTED RETIREMENT: 66

Concerns

Roy and Connie are concerned about how to file for Social Security benefits. Roy expects to retire in three years from a small law practice and Connie wants to keep working at her bank job until she is 66. They live a conservative life style and plan to down size their home following retirement. Both have 401(k) accounts and owe very little on their home mortgage. Based on projections, if they combine both of their Social Security benefit payments, small defined benefit pensions and 4% systematic withdrawals from their retirement plans they will be ok to support their projected lifestyle.

Goals

Roy and Connie want to maximize their Social Security benefits. However, they are concerned that waiting until age 70 will cause them to draw down their retirement savings too early. They would like to see some alternatives. They are inclined to take their benefits as soon as possible because they believe less money now is better than more money later.

Considerations

Both Roy and Connie have been healthy their entire life. However, recently Roy's older brother died of cancer and his sister is dealing with heart trouble. Connie has two sisters who are both very healthy and enjoying their retirement. Both of Roy's parents lived into their late 70's. Connie's parents are both still fine and enjoying life in a senior center not far from their house.

Roy and Connie have term life insurance through their job. Connie and Roy see life insurance as a necessary evil! They cannot imagine why anyone would keep more than a final expense policy in force during retirement; life insurance is for early in life to replace lost income or human capital.

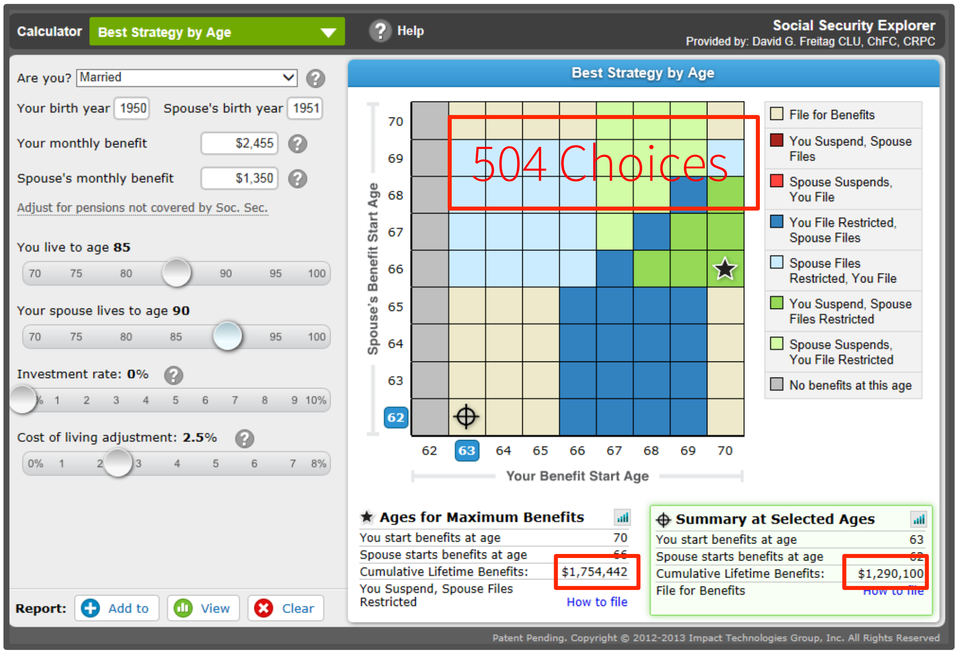
Assignment

Help Roy and Connie find the best strategy for taking their Social Security benefits. Keep in mind that Connie has a strong chance to outlive Roy.

QUESTIONS:

- What is the maximum that Roy and Connie can collect over their lifetime?
- What is the amount they could collect if they make the "wrong" decisions and start as soon as possible?
- Demonstrate how permanent life insurance can add security to their benefit payments in retirement.

Preparing a Social Security Explorer Presentation



OPENING SCREEN

STEP 1:

Enter the marital status, year of birth, and monthly benefits at Full Retirement Age (66) for Roy and Connie.

STEP 2:

Life expectancy. The system default is 85 years.

STEP 3:

Leave the Investment rate set at 0% and the Cost of Living adjustment at 2.5%. Both are system defaults.

Notice that Roy and Connie have 72 age combinations to choose from in this example. Roy has 8 age choices available and Connie has 9 age choices available. When you combine the 7 filing strategies with the 72 age combinations, Roy and Connie actually have 504 possible ways to take their Social Security benefits. (By not considering their options until Roy's age 63, the 567 choices were reduced to 504. More choices are available if Social Security is considered before either spouse is age 62.)

STEP 4

To calculate the earliest payout possible, place the "Target" symbol on the graph at age 63/62 (shown in the above screen capture).

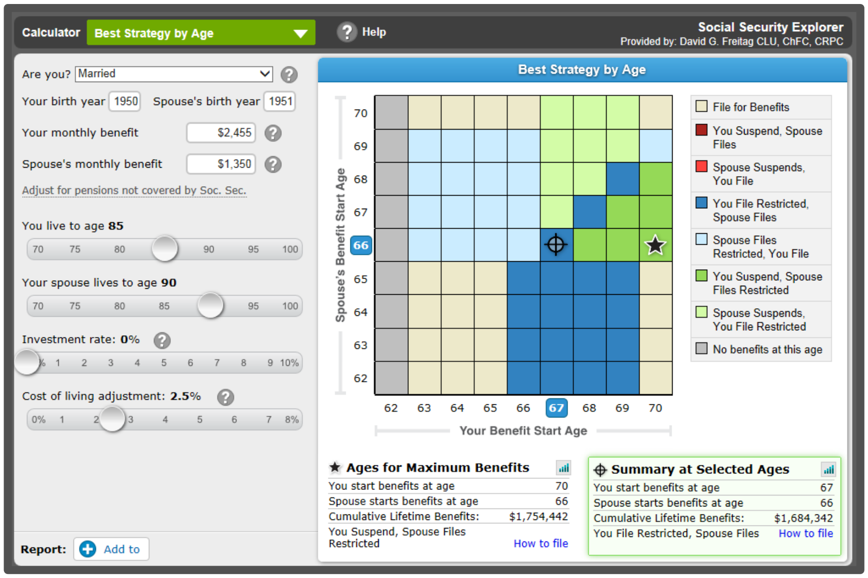
IMPORTANT SOCIAL SECURITY RULE TO REMEMBER

Roy and Connie both plan on working until age 67 and age 66. Their income will place them well beyond the earnings income test of $15,120 (2013) that would trigger a benefit offset if they started collecting payments at 63/62. The benefit offset is $1 of benefits withheld for every $2 in earnings above the limit. Remember that this earning test for the benefit offset goes away at full retirement age.

Notice that the cumulative lifetime benefit for the “Star”strategy (70/66) is $1,754,442. The cumulative lifetime benefit for the “Target” strategy (63/62) is $1,290,100. This difference of $464,342 is real and shows the reality of taking benefits early based on life expectancy of 85 for Roy and 90 for Connie. In addition, this difference does not reflect the offset of benefits because they are still working between 62 and 66.

IF ROY AND CONNIE LIVE TO LIFE EXPECTANCY, TAKING BENEFITS AS SOON AS THEY CAN IS A DECISION THAT SHOULD BE RECONSIDERED.

Looking for an Alternative – Select a New “Target”



STEP 1

Click to move the “Target” to 67/66. This is the retirement age that Roy and Connie suggested they would like to retire.

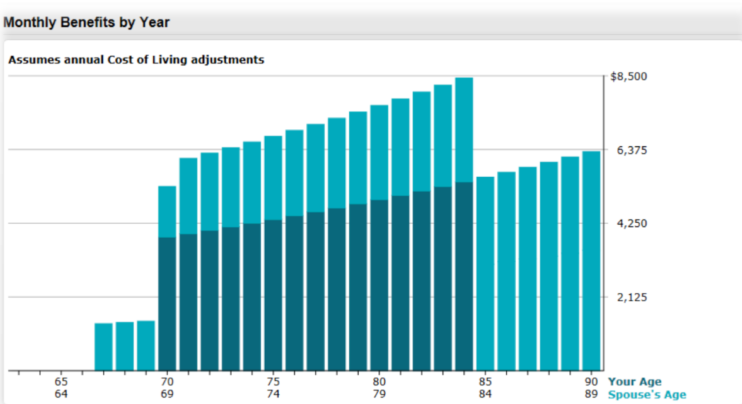
STEP 2

Compare the Cumulative Lifetime Benefits of the “Star” strategy to the Cumulative Lifetime Benefits of the new “Target” Strategy. This difference is now a reasonable $70,100. Therefore, the “sweet spot” from a lifestyle perspective might be 67/66 using the “You File Restricted, Spouse Files” strategy. (Dark Blue)

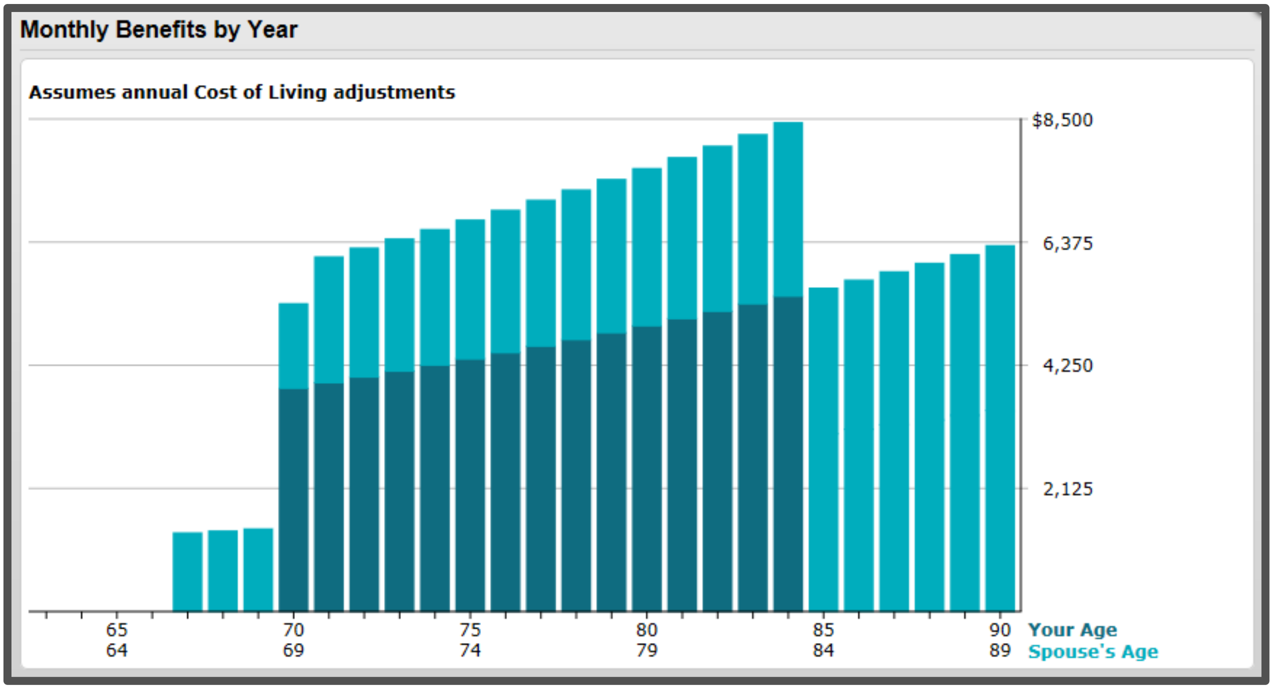
POWER TIP

It is always a good idea to show three alternatives – the high point, a low point and a reasonable midpoint. Conservative people in general will gravitate to the midpoint and feel comfortable about their decision.

However, in this case Roy and Connie want to maximize their benefits and do not want to leave the $70,100 on the table. They like this idea because some income benefits actually start when Connie is 66. This cash flow takes pressure off of their qualified plan withdrawals. It can also represent potential premium dollars for other needed products.



Spousal Benefits for Connie start at her age 66 and continue to her age 70. These spousal benefits start at $1,355 per month.



Visualize the Need for Life Insurance

POWER TIP: "YOU HAVE TO BE PRESENT TO WIN"

Social Security benefits are only paid to people who are alive. If Roy does not live past age 85, Connie will receive either her benefit or the equivalent of Roy's benefit. She will receive the higher benefit, which in this case is Roy's. She stops receiving both benefits when Roy dies.

POWER TIP: GOOD NEWS, DELAYED RETIREMENT CREDITS HELP IN TWO WAYS!

When clients understand this graphic, they understand the power of delayed retirement credits and suspending benefits to a start age of 70. Not only are the benefits higher when Roy is alive, these higher benefits pass along to Connie after Roy's death and will continue to pay her as long as she lives.

POWER TIP: BAD NEWS

Because Roy died, Connie's Social Security check is now reduced by $2,999 per month forever!

The Power of the Ledger: Replace the "Zero's"

Often analytical clients want to see the year by year numbers to better understand the flow of the Social Security benefits.The ledgers are designed to provide that support.

Notice that Connie will receive $50,007 in benefits between her age 66 and 69.

Also notice that when Roy's full benefit combines with Connie's benefit at age 71/70 they receive Social Security benefits of over $73,000! The power of delayed retirement credits and yearly inflation adjustments are easy to see here

You Suspend, Spouse Files Restricted

	You	Spouse
Age	63	62
Social Security start age	70	66
Monthly Benefit at Full Retirement Age	$2,455	$1,350
Assume live to	85	90
Investment rate	0%	
Cost of living adjustment	2.5%	
Marital Status	Married	

Ages	Your Benefit	Spouse's Benefit	Total	Cumulative Value of Benefits
63/62	0	0	0	0
64/63	0	0	0	0
65/64	0	0	0	0
66/65	0	0	0	0
67/66	0	16,259	16,259	16,259
68/67	0	16,666	16,666	32,925
69/68	0	17,082	17,082	50,007
70/69	46,225	17,509	63,734	113,741
71/70	47,380	26,054	73,434	187,175
72/71	48,565	26,706	75,271	262,446
73/72	49,779	27,373	77,152	339,598
74/73	51,023	28,058	79,081	418,679
75/74	52,299	28,759	81,058	499,737
76/75	53,606	29,478	83,084	582,821
77/76	54,947	30,215	85,162	667,983
78/77	56,320	30,970	87,290	755,273
79/78	57,728	31,745	89,473	844,746
80/79	59,171	32,538	91,709	936,455
81/80	60,651	33,352	94,003	1,030,458
82/81	62,167	34,186	96,353	1,126,811
83/82	63,721	35,040	98,761	1,225,572
84/83	65,314	35,916	101,230	1,326,802
85/84	0	66,947	66,947	1,393,749
86/85	0	68,621	68,621	1,462,370
87/86	0	70,336	70,336	1,532,706
88/87	0	72,095	72,095	1,604,801
89/88	0	73,897	73,897	1,678,698
90/89	0	75,744	75,744	1,754,442

NO ONE LIVES FOREVER!

Roy dies at 85. Although Conniesteps into Roy's benefit, her reality is a benefit cut from $101,230 to $66,947. Life insurance to the rescue!

Product Solution #1

(These numbers were derived from a current illustration system. They have also been rounded off to close estimates of policy values and options. They are provided as an example of choices available to Roy and Connie.)

STEP 1

Roy buys a “no- lapse” Universal Life policy. He commits to pay $8,500 per year starting at age 63. Remember that Connie’s Social Security benefits start at her age 66, just four years from now. Roy could take withdrawals from a qualified account or transfer money from a non-qualified account between now and then to cover the new premium. Remember, the RMD requirement on qualified money means that Roy **must** start taking withdrawals from his IRA in the year after he reaches age 70½. Qualified money is going to be taxed one way or another!

This $8,500 premium will purchase +/- $325,000 in death benefits.

STEP 2

When Roy dies, Connie can use the death benefit anyway she wants. However, this policy is designed to create capital, which in turn creates new income. Connie could buy a Single Premium Immediate Annuity. This new annuity would pay Connie $3,000 a month for the rest of her life. It replaces her lost Social Security benefits. In addition, the SPIA has a 6 year certain feature that takes some of the capital risk off the table for her heirs.

Product Solution #2

These numbers were derived from a current illustration system. They have also been rounded off to close estimates of policy values and options. They are provided as an example of choices available to Roy and Connie.

STEP 1

Roy buys a whole life policy with a long term care rider. He commits to a combined payment of $8,500 per year for both the whole life policy and the rider.

This combined premium will purchase an initial face amount of approximately $160,000. Over time, the dividends in this policy could allow the face amount to increase. By age 85, the death benefit, including dividends, could approach $300,000.

STEP 2

If Roy dies, Connie could purchase a SPIA that would guarantee income for the rest of her life. This SPIA will be a little less than $3,000 per month. However, this option also covers Long Term Care expenses.

STEP 3

What if Roy has a medical condition at age 77, which requires long term care assistance. By that time, the rider on the life policy has a benefit pool of +/- $190,000 and could pay-out a monthly maximum of +/- $3,700.

If Roy dies before using up the benefit pool there is still a life benefit payable to Connie to help support her lifestyle.

Case Study Answers

1. What is the cumulative lifetime maximum benefit for Roy and Connie?

    ✓ $1,754,442 (assuming they live to 85 and 90)

2. What is the cumulative lifetime benefit for Roy and Connie if they start as soon as possible?

    ✓ $1,290,100 (assuming they live to 85 and 90)

3. Demonstrate how permanent life insurance can add security to their benefit payments in retirement.

    ✓ Term insurance is not a good answer to this type of need. The premium will eventually cause the policy to lapse.

    ✓ The income loss is real. One of these benefit streams is going to stop. Capital is needed to replace the loss of income.

    ✓ Permanent life insurance purchased as a death benefit is a simple exchange of assets. Moving a small amount of your net worth into life insurance is really just an exchange of money from one pocket into another.

    ✓ Use the Impact Qualified Plan Concepts (QPC) program to illustrate using distributions from an IRA for new life insurance.