



SOCIAL SECURITY  
GETTING THE MOST OUT OF YOUR BENEFITS

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Alexander Bianco, MBA  
AXA Advisors  
716-626-2565  
[Alexander.Bianco@axa-advisors.com](mailto:Alexander.Bianco@axa-advisors.com)

GE-109274 (1/16) (Exp. 1/18)  
AXA Equitable Life Insurance Company (NY, NY)

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## Social Security

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- Understanding the Value
- Solvency
- When to Begin Talking Benefits
- Working and Receiving Benefits
- Maximizing Benefits

## What is Social Security?

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**A Government-Sponsored**

**Lifetime Retirement Income**

**Inflation-Adjusted**

## Social Security: Understanding the Value

### ➔ Social Security Value:

- Provides income you can't outlive
- Provides income that is inflation adjusted
- Provides survivorship benefits
- Provides more income than you may think:

2018 Max Monthly Benefit:	\$2,788
10 Years:	\$386,298*
20 Years:	\$864,999*
30 Years:	\$1,508,377*

\*Assumes an average 3% increase each year for inflation.

## Social Security: How it Works

- Formula based on highest 35 years
- Earnings indexed to inflation
- Average Indexed Monthly Earnings (AIME)

Example:

$$\text{AIME} = \$6,420$$

$$90\% (\$856) = \$770.40$$

$$\left. \begin{array}{l} \$5,157 \\ 32\% (\$4,301) \end{array} \right\} = \$1,376.32$$

$$15\% (\$1,263) = \underline{\$189.45}$$

**\$2,336.17 Primary Insurance Amount (PIA)**

Source: Social Security Administration

# Social Security: Estimating Benefits

## Estimate Social Security Benefits

with:

- Annual Social Security Statement
- [www.socialsecurity.gov](http://www.socialsecurity.gov)
- [www.ssa.gov](http://www.ssa.gov)
- Click on Estimate Your Retirement Benefits for online calculators

**Your Social Security Statement**

Prepared especially for Wanda Worker


WANDA WORKER  
456 ANYWHERE AVENUE  
MAINTOWN, USA 11111-1111

January 2, 2009

See inside for your personal information

[www.socialsecurity.gov](http://www.socialsecurity.gov)

What's Inside...  
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**What Social Security Means To You**

This *Social Security Statement* can help you plan for your financial future. It provides estimates of your Social Security benefits under current law and updates your latest reported earnings. If you see a mistake, please let us know. That's important because your benefits will be based on our record of your lifetime earnings. We recommend you keep a copy of your *Statement* with your financial records.

**Social Security is for people of all ages...**  
 We're more than a retirement program. Social Security also can provide benefits if you become disabled and help support your family after you die.

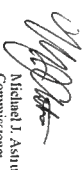
**Work to build a secure future...**  
 Social Security is the largest source of income for most elderly Americans today, but Social Security was never intended to be your only source of income when you retire. You also will need other savings, investments, pensions, or retirement accounts to make sure you have enough money to live comfortably when you retire.

Saving and investing wisely are important not only for you and your family, but for the entire country. If you want to learn more about how and why to save, you should visit [www.irs.gov](http://www.irs.gov), a federal government website dedicated to teaching all Americans the basics of financial management.

**About Social Security's future...**  
 Social Security is a compact between generations. For decades, America has kept the promise of security for its workers and their families. Now, however, the Social Security system is facing serious financial problems, and action is needed soon to make sure the system will be sound when today's younger workers are ready for retirement.

In 2017, we will begin paying more in benefits than we collect in taxes. Without changes, by 2041 the Social Security Trust Fund will be exhausted\* and there will be enough money to pay only about 78 cents for each dollar of scheduled benefits. We need to resolve these issues soon to make sure Social Security continues to provide a foundation of protection for future generations.

**Social Security on the Net...**  
 Visit [www.socialsecurity.gov](http://www.socialsecurity.gov) on the Internet to learn more about Social Security. You can read our publications, use the *Social Security Benefit Calculators* to calculate future benefits, or use our easy online forms to apply for benefits.

  
 Michael J. Ashme  
 Commissioner

\* These estimates are based on the intermediate assumptions of the Social Security Trustees' Annual Report to the Congress.

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# Social Security: Estimating Benefits

## Your Estimated Benefits

<b>*Retirement</b>	You have earned enough credits to qualify for benefits. At your current earnings rate, if you stop working and start receiving benefits... At age 62, your payment would be about..... If you continue working until... your full retirement age (67 years), your payment would be about..... age 70, your payment would be about .....	\$ 1,064 a month \$ 1,543 a month \$ 1,924 a month
<b>*Disability</b>	You have earned enough credits to qualify for benefits. If you became disabled right now, your payment would be about .....	\$ 1,411 a month
<b>*Family Survivors</b>	If you get retirement or disability benefits, your spouse and children also may qualify for benefits. If you have earned enough credits for your family to receive survivors benefits. If you die this year, certain members of your family may qualify for the following benefits: Your child .....	\$ 1,101 a month \$ 1,101 a month
<b>Medicare</b>	Your spouse, if benefits start at full retirement age .....	\$ 1,468 a month
	Total family benefits cannot be more than .....	\$ 2,702 a month
	Your spouse or minor child may be eligible for a special one-time death benefit of \$255. You have enough credits to qualify for Medicare at age 65. Even if you do not retire at age 65, be sure to contact Social Security three months before your 65th birthday to enroll in Medicare.	

\* Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2041, the payroll taxes collected will be enough to pay only about 78 percent of scheduled benefits.

We based your benefit estimates on these facts:

Your date of birth (please verify your name on page 1 and this date of birth)..... April 5, 1968  
 Your estimated taxable earnings per year after 2008 ..... \$42,181  
 Your Social Security number (only the last four digits are shown to help prevent identity theft) ..... XXXX-XX-1234



# Social Security: Estimating Benefits

## Your Earnings Record

Years You Worked	Your Taxed Social Security Earnings	
	Your Taxed Social Security Earnings	Your Taxed Medicare Earnings
1984	574	574
1985	1,377	1,377
1986	2,343	2,343
1987	3,957	3,957
1988	5,436	5,436
1989	6,724	6,724
1990	8,407	8,407
1991	10,738	10,738
1992	13,223	13,223
1993	14,928	14,928
1994	16,766	16,766
1995	18,786	18,786
1996	20,904	20,904
1997	23,230	23,230
1998	25,439	25,439
1999	27,724	27,724
2000	30,020	30,020
2001	31,400	31,400
2002	32,346	32,346
2003	33,703	33,703
2004	35,777	35,777
2005	37,656	37,656
2006	39,845	39,845
2007	42,181	42,181
2008	Not yet recorded	Not yet recorded

You and your family may be eligible for valuable benefits:

When you die, your family may be eligible to receive survivors benefits.

Social Security may help you if you become disabled—even at a young age.

A young person who has worked and paid Social Security taxes in as few as two years can be eligible for disability benefits.

Social Security credits you earn move with you from job to job throughout your career.

Total Social Security and Medicare taxes paid over your working career through the last year reported on the chart above:  
 Estimated taxes paid for Social Security: \$29,916  
 You paid: \$29,916  
 Your employers paid: \$7,008

Note: You currently pay 6.2 percent of your salary, up to \$106,800 in Social Security taxes and 1.45 percent in Medicare taxes on your entire salary. Your employer also pays 6.2 percent in Social Security taxes and 1.45 percent in Medicare taxes for you. If you are self-employed, you pay the combined employer and employer amount of 12.4 percent in Social Security taxes and 2.9 percent in Medicare taxes on your net earnings.





## Social Security: Spousal Benefits

- ➔ A spouse can get 50% of primary worker's benefits
  - ➔ A spouse will get the higher of their own benefit or the spousal benefit
  - ➔ Former spouses may be entitled to spousal benefits, but they must have been married for at least 10 years
- ➔ **Example: Bob and Sally**
    - Bob's Benefit: \$2,200
    - Sally's Benefit: \$700
    - Sally's Spousal Benefit: \$1,100
    - Sally will get \$1,100





## Social Security: Survivor Benefits

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- ➔ **A surviving spouse will receive the higher of either their own benefit or their deceased spouse's benefit**
  - Example: Bob and Sally
    - ☐ Bob's Benefit: \$2,200
    - ☐ Sally's Benefit: \$1,400
    - ☐ Bob passes away.
    - ☐ Sally's benefit will increase to \$2,200
  
- ➔ **Requirements:**
  - The surviving spouse must be at least 60 years old.
    - ☐ The surviving spouse must be at least 50 years old if disabled.
  - You must be married for at least 9 months prior to your spouse's death.
    - ☐ There are exceptions for accidents.

## Social Security: Solvency

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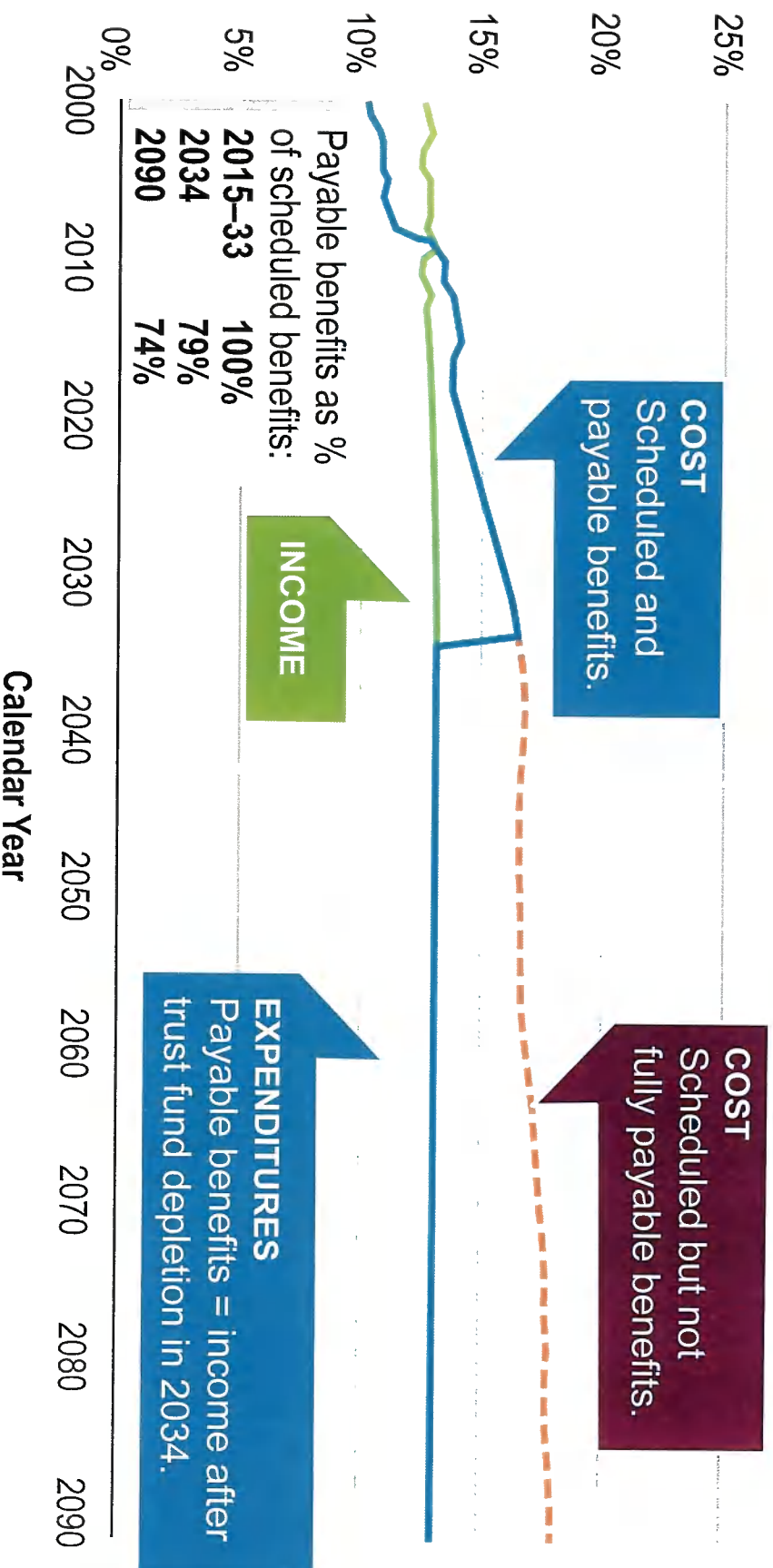
- 2011: SSA pays more than it collects
- 2020: SSA taps principal
- 2033: Trust fund exhausted  
Collections continue
- Projected 25% decrease in benefits after 2033



Source: Social Security Report to Congress, 2013

# Help, It's Fallen and It Won't Go Up!

- ➔ OASDI (Old Age, Survivors, and Disability Insurance) Income, Cost, and Expenditure as Percentages of Taxable Payroll



Source: Social Security Administration, The 2016 Annual Report of the Board of Trustees ("2016 Social Security Trustees Report") of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, Figure II.D2 (page 13), June 22, 2016, <https://www.ssa.gov/OACT/TR/2016/tr2016.pdf>

## Social Security...Then & Now

	1940	Today
Payroll Tax Rate	2% <sup>1</sup>	12.4% <sup>4</sup>
Earnings Cap	\$3,000 <sup>1</sup>	\$127,200 <sup>4</sup>
Total Beneficiaries	222,000 <sup>2</sup>	61,468,438 <sup>5</sup>
Worker: Beneficiary Ratio <sup>2</sup>	159:1	Less than 3:1
Average Retiree Benefit	\$22.60/month <sup>3</sup>	\$1,370/month <sup>4</sup>

Source: Social Security Administration

1. Annual Statistical Supplement, 2015 Table 2.A3, Annual maximum taxable earnings and contribution rates, 1937-2010. <https://www.ssa.gov/policy/docs/statcomps/supplement/2015/2a1-2a7.htm#table2.a3>

2. Ratio of Covered Workers to Beneficiaries. <https://www.ssa.gov/history/ratios.html>

3. Annual Statistical Supplement, 2015, Table 5.C2, Average Monthly Benefit, by type of benefit and sex, December 1940-2014, selected years (in dollars). <https://www.ssa.gov/policy/docs/statcomps/supplement/2015/5c.html#table5.c2>

4. <https://www.ssa.gov/oact/cola/cbb.html>

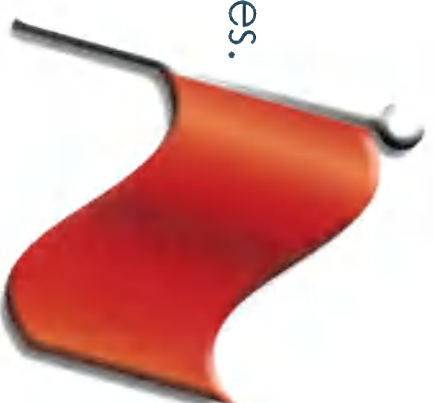
5- Benefits Paid By Type of Beneficiary, as of April 2016. <http://www.ssa.gov/cgi-bin/currentpay.cgi>

## Social Security: Solvency

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### ➔ Fixing Social Security

- Raise the retirement age.
- Increase the cap on taxable earnings.
- Lower benefit payments for future retirees.
- Reduce Cost of Living Adjustments (COLAs) for all retirees.



## Social Security: When to Start

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- Rethink conventional wisdom: Age 62
- Permanent reduction of 25-30%
- Increased longevity
- Normal retirement age = 100% of benefit
- Age 70: nearly 130%
- Determine the break even age



## Social Security: Working While Receiving Benefits

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### ➔ Before Normal Retirement Age

- 2018 Limit: \$17,040
- Loss of \$1 in benefit for every \$2 over the limit
- Triggered only by earned income

62



Normal  
Retirement  
Age



## Social Security: Working While Receiving Benefits

### ➔ Before Normal Retirement Age

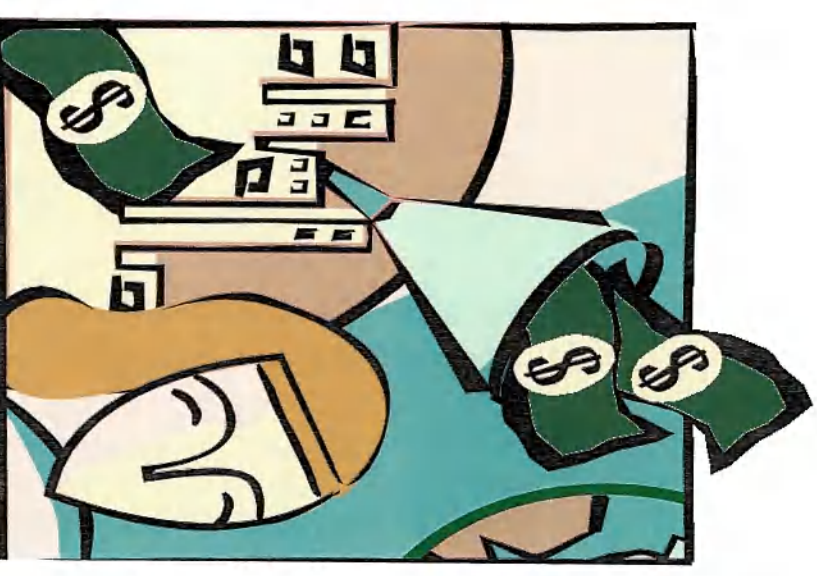
- Bob is 63 and will semi-retire in 2016
- His **normal retirement age** (NRA) is 66.
- He elects to receive benefits immediately.
- His monthly benefit is **\$1,600** or **\$19,200** annually.
- He will earn **\$25,000** in wages during 2015 and will have **\$10,000** in investment income.



## Social Security: Working While Receiving Benefits

### ➔ Before Normal Retirement Age

\$25,000	Earned Income
<u>-\$17,040</u>	Earnings Limit
\$7,960	Amount Over Limit
\$7,960	Amount Over Limit
<u>÷2</u>	\$1 Benefit Reduction for Each \$2 Over Limit
\$3,980	Reduction in annual benefit



## Social Security: Working While Receiving Benefits

### ➔ Before Normal Retirement Age

- The Good News!
  - Benefits are not lost, only deferred. At normal retirement age, Bob's benefits will be recalculated to recoup lost benefits prior to age 66.
- The Bottom Line.
  - If you want or need income, early benefits = OK!





## Social Security Claiming Strategies: What Has Changed

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### The Bipartisan Budget Act of 2015

- ➔ **Eliminated the File and Suspend Strategy**
  - In order for a spouse to collect a spousal benefit the other spouse must also be collecting a social security retirement benefit.
  - Effective Date – 6 months after bill goes into effect. (May 2016)
  - Anyone currently using this strategy will be grandfathered in.
- ➔ **Eliminated the Restricted Application Strategy**
  - If an individual reaches Full Retirement Age they can no longer collect a spousal benefit instead of their own and allow their own benefit to receive Delayed Retirement Credits.
  - Will affect anyone turning 62 after 2015.

## Social Security Taxation

- ➔ **Will my Social Security benefit be taxable?**
  - If Provisional Income is over base amount, a portion of your benefit will be taxable
  - You have the ability to reposition assets to reduce tax liability





## Social Security Taxation

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### ➔ Provisional Income Calculation

**MAGI**

+ **Tax-Exempt Income**

+ **1/2 Social Security Benefits**

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**Provisional Income**



## Social Security Taxation

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<b>Filing Status</b>	<b>Base Amount</b>	<b>Additional Amount</b>
<b>Single</b>	\$25,000	\$34,000
<b>Qualifying Widower</b>	\$25,000	\$34,000
<b>Married/Jointly</b>	\$32,000	\$44,000



## Social Security Taxation

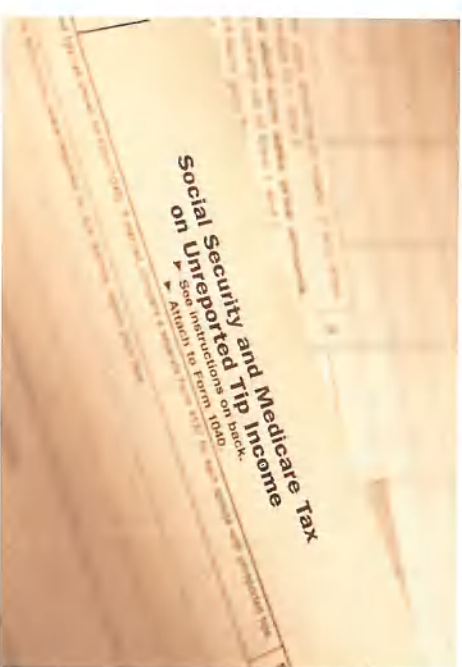
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- Opportunity to reposition assets
- Can reposition unproductive taxable assets
- Tax-deferred investments not part of provisional income calculation



## Important Point About Medicare

- If clients elect to delay Social Security benefits you still need to file for Medicare at 65
- Medicare is a federal health insurance program
- There is no early option for Medicare





## Social Security: Leveraging Benefits

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- You can't look at Social Security in a vacuum
- You need a comprehensive retirement income plan
- You need to coordinate and integrate:
  - Social Security
  - Pensions
  - Personal Savings
  - Investments
  - Taxes
  - Succession and Estate Planning



## Social Security: Summary

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- **Understanding Value**
- **Solvency**
- **When to Begin Taking Benefits**
- **Working and Receiving Benefits**
- **Maximizing Benefits**

## What Do You Say?

- 1 Your Social Security benefit is based upon \_\_\_\_\_ years of earnings. **35**
- 2 You must file for Medicare at 65—even if you are still working—or your premiums will go up. **FALSE**
- 3 If you owe the IRS money, they can confiscate your entire Social Security check. **FALSE**
- 4 If your FRA is 66 and you delay claiming Social Security until age 70, your benefit will be about \_\_\_\_\_% higher compared to starting at 62. **76%**
- 5 A divorced spouse can get a benefit based upon the earnings record of her/his “ex” even if their “ex” has not filed yet. **TRUE**
- 6 If you wish you had filed sooner, you can apply today and request a lump sum payment for the amount you would have received up to that point. (max is 6 months.) **FALSE**
- 7 If you start Disability benefits before you are FRA, your benefit will be reduced. **FALSE**
- 8 To receive a widow(er)’s benefit, you have to be married to your spouse for at least 9 months. **(provided you were married at the time of his/her death)**

**Thank you**



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## Important Information

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Please be advised that this presentation is not intended as legal or tax advice.

Accordingly, any tax information provided in this document is not intended or written to be used, and cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. The tax information was written to support the promotion or marketing of the transaction(s) or matter(s) addressed, and clients should seek advice based on their particular circumstances from an independent tax advisor.

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