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JIM: Do you know what the right choices regarding your social security? Whether you’re already on social security or are yet to file for social security, do you know all your options? If you’ve already filed, did you know that you might be able to change your elections? Joining us today is Robin Miller. He has taught insurance agents around the country pre-licensing as well as continuing education and has spoken to audiences both of financial advisors as well as general audiences on the subject of social security. He is one of the nation’s leading experts when it comes to what options to pick and how social security works and, today, he’s going to cram that all in to a short period of time. It’s with great pleasure that I welcome, not only social security expert, but my personal friend Robin Miller. Welcome, Robin.

0:47

ROBIN MILLER: Thank you, Jim.

0:48

JIM: Hey, it’s great to have you here. I know we’re going to be talking about social security and I think for anybody that’s in social security that it’s not too late to learn because there may be some things you can do but, especially for those planning for retirement, social security makes up a big part of their overall retirement so why don’t you share with us a little bit about why are you talking about social security. Give us a little bit of your background.

1:09

ROBIN MILLER: Well, yeah, you bet. I’ve been studying social security for the last 16 years. It was hot back then, it’s hotter even now. Social security has a number of strategies that very few people know about and, in fact, most of the representatives at social security cannot advise. They’re not really allowed to advise. Therefore, if the individual going into the office doesn’t ask about these strategies, chances are they’re not going to know about them.

1:33

JIM: Now, I know I’ve got a lot of clients that have been asking me should I start collecting social security benefits right away, should I wait, and, I’ll be honest with you, early in my career, I said take the money and run. Now, because of the environment we’re in, I’m finding myself advising clients more and more often to maybe wait. Can you comment on that?

1:51

ROBIN MILLER: I sure can. It’s very individual, Jim. As you know, early retirement from social security is age 62. For the last five years, this year, and the next six years, it’s age 66, and there’s something out there called delayed retirement, which is, under current law, to age 70. For those individuals choosing to take their benefit early now, assuming their full retirement age is 66 and they choose to take it at 62, they’re going to go with a 25% reduction, 6.25% per year. That nets down, believe it or not, to 0.0005210 per month for those of you that want to figure that out so what happens is, they have to figure out what I call a breakeven age. Traditionally, it seems to be about between 10 and 14 years, assuming they take their benefit early. It’s about 10 to 14 years to break even. If they live beyond that 10 to 14 years, they would have been better off waiting at least to their full retirement age. Now, there’s a lot of other considerations that go into that, Jim, and if you’re interested, I can share those but there’s about half a dozen of those considerations. Conversely, we’re having people now that are deciding to delay their benefit past full retirement age and what happens here is, if you were born in 1943 or later, which are most people now that would even be collecting social security and thinking about collecting it, it’s an 8% increase per year. It doesn’t compound under current law so, if your full retirement age is 66, you choose to delay to age 70, instead of getting a dollar, you’d get $1.32, so now you can see the range. Someone early retirement 62, taking a 25% reduction or 75 cents on a dollar versus the individual who chooses to delay four years beyond their full retirement, so a total now of eight years, getting $1.32.

3:22

JIM: Now, if someone does choose to take benefits at age 62, I know there’s some other considerations. I know a lot of clients go to me, well, I’ve got to wait until full retirement age and, really, the only thing significant about full retirement age, and it’s almost like oxymoron is once you reach full retirement age, you can work fulltime without a reduction in benefits so you’ve got to wait until you’re fully retired before you can work fulltime. It just doesn’t make sense to me but, again, it’s a government program so can you comment on that.

3:50

ROBIN MILLER: I can, Jim, and what you’re speaking to is the 2014 earnings limitation, if you are under full retirement age, is $15,480. Well, let’s be clear. I want to emphasize the word earnings. This is not passive income, it’s not portfolio income. It’s what a person actually goes out and earns. The way the rule reads is for every $2 you earn over $15,480, your social security retirement benefit is reduced by $1. Quick example, one earns $55,480, they’re collecting their benefit early from social security, their retirement benefit early. They’re $40,000 over the earnings limitation this year in 2014, 2:1 ratio. Again, for every $2 you’re over, the social security benefit is reduced by $1, so they’re $40,000 over. That means you divide that by two, they’re $20,000 of social security benefit will be taken away from them. Now, this is interesting. That would be about $16.67 a month. The average retirement benefit across the board, early, full, and delayed, the average retirement benefit in America is about $1250. In my example, and, Jim, you can see that it’s $16.67 a month, it will negate a lot of people’s full retirement benefit. Now, that being said, there’s a provision in the law, which is fascinating, I’ve heard it three times in the last 15 years, which social security actually says that for every dollar they take away from you because of the earnings limitation, they will pay back to you over a period of time at full retirement age. It’s very vague. They don’t say they’re going to pay that out and amortize it to age 100 or to your life expectancy how much it’s going to be but there is that provision in the law. Nonetheless, for a lot of people, when you’re considering taking your benefit early from social security, you need to really consider are you going to continue to earn at a level that’s going to negate that full benefit.

5:34

JIM: Now, if you’re doing that, your benefits aren’t increasing as if you delayed so aren’t you shooting yourself in the foot?

5:41

ROBIN MILLER: Jim, what I’m hearing you say is, if you choose to take your benefit early, are you locking in? Is that what you’re asking me?

5:47

JIM: Yeah.

5:48

ROBIN MILLER: Yes. For the most part, you are locking into that reduced amount. The example I shared earlier was 75 cents on a dollar. Know this, potentially, there would be four cost of living increases now assuming your full retirement age is 66 so cost of living in 1975 was voted into law and but for a handful of years ago when there was very minimal inflation, therefore, no cost of living for two years. The government has increased or given a cost of living every year from 1975 moving forward but for those two years I just referenced. Therefore, if that continues, a person taking their benefit early at 62, their benefit would increase by that cost of living adjustment every year for the four years. The other thought is, and this is real important, hey, I get the money early, I can invest it, what I call time value money. My experience around America in working with the public and advisors is most people, most, who take their retirement benefit from social security early don’t invest it, they’re living off of it.

6:45

JIM: Boy, those are great points and, obviously, this is something you don’t want to go alone. You definitely want to be talking to your advisor about this and making sure you’re making the right decisions and you understand all the options. Well, let’s talk a little bit more about, if someone does take it early, another factor about taking it early, especially if you’re still working, is not only the reduction in benefits but chances are pretty good you’re going to be paying taxes on those benefits because, if you make too much income, maybe talk a little bit about how they calculate that and what those tax rates might me.

7:16

ROBIN MILLER: I’d be more than happy to, Jim. As a matter of fact, it doesn’t matter if you’re taking your benefit early or if you’re taking at full retirement age or if you choose to delay it regarding the taxation of social security benefits. It’s something out there called adjusted gross income. Pertaining to social security, it’s really called modified adjusted gross income and normally how the government will look at us is in one of four categories, two are individual and two are married filing joint. Quickly, the breakpoints, the first individual would be $25,000 to $34,000 of adjusted gross income. Now, remember, we’re not talking about just earnings. The prior conversation we talked earnings limitation, earnings, not passive or portfolio income. Now, we’re talking adjusted gross income, earnings, passive income, portfolio income, qualified money, all of this stuff is coming back into play at this point. Again, the first breakpoint as an individual is $25,000 to $34,000 of adjusted gross. The second breakpoint is an individual that’s over $34,000 of adjusted gross income. The two married filing joints are $32,000 to $44,000 and over $44,000. Now, if you have this picture in your mind, the percentage you social security benefit is subject to tax is either at 50% or 85%. In other words, what I’m saying is an individual with adjusted gross income of $25,000 to $34,000 would have 50% of their social security reported as taxable and taxed at the tax bracket they’re in. A good accountant would know exactly how to do this.

8:42

JIM: And I will tell you from experience, it really pays to do some planning with this because an extra dollar coming out is taxed at $1.85. A lot of times, people look at, well, I’m only in a 15% bracket. They go out and earn that extra dollar and all of a sudden that dollar is really being taxed at almost 30%. When you add the dollar to social security that maybe shouldn’t have been taxed that now is and a lot of times I find clients are waiting until they’re ready to retire to figure this out but, boy, when you’re retirement planning, you can’t start too soon. When you’re deciding whether or not to do Roth or Traditional, whether it’s 401(k) or IRA, or whether or not to use other vehicles that might have tax advantages, the time to be thinking about that is when you put the money away because, by the time you retire, it’s really hard to adjust. You’re pretty much locked in. We need to take a short break. When we come back, we’re going to continue meeting with Robin Miller who has spoken around the country about this very subject, social security, and has advised thousands of agents as well as average American tax payers on what to be aware of when planning their social security so please stay tuned.

9:47

BREAK

10:43

JIM: Welcome back as we continue to visit with Robin Miller about social security and the questions that you should be asking yourself and your advisors when determining not only when to take benefits but how to take benefits. Let’s talk about something we haven’t even touched upon. How do people become eligible for social security? How do they qualify?

11:01

ROBIN MILLER: That’s a great question, Jim, and if I can just backtrack to your last comment regarding the taxation of social security, getting with your advisor that knows this information is huge. I have found with most Americans that two things come into play here when they find out about this. Most people don’t know about it because social security can’t advise. Therefore, social security is not telling them about it. Now, they start collecting social security. They wait until they do their first year tax return after they’ve been collecting social security and now they find out about this and it doesn’t make them happy. My point being is no one is telling them about it. Therefore, a good advisor would clearly be able to let you know it’s coming and the planning you do far in advance of this can help you reposition some of that money that would fall into your adjusted gross income and get it out of there and, hopefully, keeping you at the 50% level rather than 85%. The second issue here real quick, remember now, number one, they didn’t know it was coming. Number two, most people, most, aren’t happy that they have to pay more in taxes. Now, Jim, to your point on how an individual qualifies, while our country has made some exceptions, I’m not going to get into that today, I will give you the four areas that one has to consider to qualify for their social security benefits. Number one, you want to collect social security, you have to pay in. I’m aware of the exceptions, I’m not going to cover that. For most people listening, you want to collect social security benefits, you have to pay in. Number two, you have to earn something called credits. Now, those used to be called quarters. Social Security Administration wants to begin to move that over to the word credits. In 2014, you get a credit, one credit for every $1200 of earnings, not passive, not portfolio income, but earnings, what you go out and earn. For every $1200 of earnings, you get a credit. You can only earn four per year. Where would that put us? Just under $5000 of earnings. Very important that you know 40 credits today gets you fully insured status. A quick definition of fully insured means you’re entitled to the maximum benefit that social security pays on your earnings record. Some confusion here where some individuals this is great. I’ve got my 40 credits, I’m fully insured. Therefore, I’m entitled to social security’s maximum benefit. No you’re not. You’re entitled to social security’s maximum benefit based on your retirement earnings, your earnings, not your neighbor’s, not your spouses, your earnings. Very key. The four steps, then, to qualifying for social security benefits are, number one, you pay in, number two, you earn credits. We’re talking specifically retirement benefits. There are exceptions with disability and survivor’s benefits, fewer credits to qualify, but for retirement benefits, 40 credits. Remember now, a credit, $1200 of earnings. You can only earn four per year. The third component to qualifying for social security benefits is something has to happen, what I call a parameter or a trigger. Let me quickly go through those with you. Retirement are the most fun, early age 62, full retirement under current law age 66, or certainly delayed. That’s a trigger. Another trigger, disability. You meet their definition of disability, that’s a trigger, and now you begin to qualify for disability benefits. Another trigger, if you will, survivor’s benefits. You die and your surviving spouse and children potentially would qualify for a benefit and, finally, the fourth trigger is Medicare. This is key. There are four ways, not three, four ways now to qualify for Medicare. Age 65 is first. The second one is collecting social security disability for two years. The third is ESRD, End Stage Renal Disease, kidneys, fi you will, and the fourth now written into the law about a handful of years ago, Lou Gehrig’s and ALS, so now you have three of the four. You pay in, you earn credits, a trigger, a parameter has to happen, and, finally, number four, you have to file a claim. Social security does not have a crystal ball so you have to file a claim.

14:48

JIM: So, Robin, another thing that’s kind of interesting is I talk to a lot of clients and one of my processes, I always want them to get me their latest social security statement and what’s interesting, I think it was five years ago, maybe four years ago where the only way to get that information is online. They don’t mail them out anymore. It is amazing how many clients think they’re still getting them in the mail. They don’t even realize that they switched. Talk about where do people go for information on their benefits.

15:14

ROBIN MILLER: Well, that’s great. Jim, a couple of things. Let me just give you a little history about this. Back around 2000, it was passed into law that if you were over age 25, working, not receiving a social security benefit, that 60 to 90 days prior to your birthday, you would receive this statement that you’re referencing. In April of 2011, they decided to discontinue it. They believed they could save about $30 million that year by not sending them out and then $60 million a year moving forward not sending out the statement and, of course, you can get it online. Now, I want to be clear. If you are over age 60, working, and not collecting a benefit, you should receive an annual statement. I’m going to repeat. If you are over age 60, working, and not receiving a benefit, you should be receiving a statement. If you’re receiving a benefit, they figure you already know what the benefit is so there’s no reason to send you a statement. If you’re not working, obviously, you’re not paying in to social security. If you’re under age 60 and, in the last three or four years, you have received an annual statement, that was an error. The statement may be correct but it was an error that they sent it to you so, that being said, you can set up your own statement online. It’s www.socialsecurity.gov/myaccount or mystatement and then you can follow the prompts.

16:33

JIM: Robin, we’ve been talking a lot about how social security works, how it’s taxed, whether to take benefits now or later, but let’s talk about some planning strategies, and I think one of the more popular strategies, if it’s known, is the file and suspend. Comment on that.

16:48

ROBIN MILLER: I will, Jim, and it is a great strategy. Stay tuned because these things can change at any time. As you know, this very subject is very fluid. It is called file and suspend and I’m going to try and give the audience where it works best. Full retirement age, not early, full retirement age. Normally, here’s what happens. The higher income person, they’re going to file and suspend. Now, they wait until their full retirement age, they file and suspend. Now, we know the advantage for them to delay. Remember now, they’re the higher income earner so they’re getting 8% on a higher amount of income and the thought is they’re going to probably suspend for up to four years, up to delayed retirement, which is age 70. The lesser income person, and this works best when spouses are different ages, two years, three years, four years, even five years, six could work. When you have a spouse that’s 10, 12, 15 years difference in age, this isn’t going to work at all for you but when they’re two to five, two to six years, you’ve got to play with the numbers where this can work, so you have the higher income person where they file and they suspend. We know the advantage there. They get 8% a year on that greater amount of income. The lesser income person, that spouse files on their own record. Now, they’re going to grab a reduced amount because they’re on their record and they’re younger so they’re taking it at a younger age, say it’s age 62. Well, four years later, at age 66, they have the opportunity now to take a look at their spousal benefit and, if their spousal benefit, which would now be 50%, if the spousal benefit is greater than their reduced amount, they have the option to hop on over. Thereby, think in these terms. They’ve collected 48 months of a reduced amount all because they went at a younger age and now they have the option to either remain there if it’s greater than half of their spouse’s, their spouse made them eligible to do that because they filed and then suspended, and their spouse, now 70 years old, will get $1.32 or 32% more each month for the rest of their life. That’s the file and suspend strategy. There’s also a claim now, claim more later strategy. It’s called a lot of different names. I call it claim now, claim more later. Very quickly, also done at full retirement age. Here, the lesser income spouses files, the lesser income spouse files. Both spouses, they’re the same age now, and that’s where this works best. Notice with the file and suspend, different ages. For claim now, claim more later, the same age, and what happens here, again, the lesser income spouse files, the greater income spouse collects half of the spouse’s income but, in so doing, is delaying theirs. Remember, they’re the higher income so they’re getting 8% on a higher amount for four more years, so here’s the advantage. They’re getting 48 months of half of their spouse’s benefit and, by delaying theirs, switching over to theirs at age 70 and getting 32% per month for the rest of their life. Absolutely fascinating but you got to get with a good advisor who can crunch the numbers with you and what works best. This is an individual as you are listening to this.

19:40

JIM: Robin, I think what a lot of people may not have gathered or caught from all the things that you’re talking about, I always tell clients it’s the bigger check that’s kept so, in other words, when one spouse dies, you get to keep the larger check, so these planning strategies are absolutely critical. I’ve seen different statistics floating around. It always seem us guys check out first and we’d like to believe our wives would die of heartache but I think the stats show they may live another 10 years beyond us. If you’ve got all that time, think about this. A surviving spouse, their tax brackets are cut in half, the deductions are cut in half, and a lot of times a surviving spouse is finding out that they’re paying more in taxes than they did as a couple plus they’re losing some income so even more important to try to provide as much income to a surviving spouse as possible and those techniques work very well toward that end.

20:37

ROBIN MILLER: Jim, this is huge. I have seen it where it could me tens and, in some cases, depending upon the income levels and the ages of the spouses, hundreds of thousands of dollars more over the course of their lifetimes in proper planning. One last thing, when you talk about survivors’ benefits and there’s something that I want to close with, which is what we call the blackout period. There are two components to the social security blackout period. One is for the surviving spouse and the other is for the children. Let me be clear and I’ll start with the surviving spouse first. When the youngest child reaches age 16 and until the surviving spouse reaches age 60, there are no benefits for that surviving spouse. They’re blacked out, hence, the name. Now, I want to be clear with what I said. I had a woman one time come up to me in a session I was doing and said, Robin, I want to make sure I got this right. I was 24 years old I had my last child. When my child is 16, I’m going to be 40. Are you telling me that if my husband were to pass away, I would not be getting any social security survivor’s benefits for 20 years? The answer is correct. What an insurable need and you need to get with your advisor to fill that what I would call the gap, to fill the void. Now, the second component to the blackout period is for the children. Children will receive benefits until age 18, if in high school fulltime to age 19, if disabled to age 22, so you can see how it changes there. Again, for the surviving spouse, youngest child reaches 16 and until the surviving spouse reaches age 60, there are no benefits. The benefits will be paid to the children until age 18, if in high school fulltime to age 19, and if disabled to age 22.

22:09

JIM: And one other point I’d make too, Robin, I’ve had several clients where they elected the wrong benefit. For example, I had a client whose husband had passed away years and years and years ago and actually was brought to me because she was really hurting financially whether or not to sell the house and all that stuff. I looked at what her social security benefits were and she told me her husband who passed away was an attorney. I asked how long he lived and all that and determined that he definitely had the 40 credits in so she certainly was entitled to a survivorship benefit. She never applied for the survivorship benefit. She ended up getting a pretty substantial back check and got her social security going forward bumped up. It made a huge difference. It was a difference between being booted out of her house, basically, because she couldn’t afford it anymore and still being able to stay there so this type of planning is so critical. I’ll just throw one last question at you, Robin. I get so many clients that say what I used to say, take the money and run, because the amount of increase when we had bonds that were paying better than 7% or 8%, why take the risk of losing all these benefits if you could invest the money and get similar returns but today’s interest rate environment, to get the type of return social security is giving you for waiting, it certainly is worth weighing those options but you do run the risk, if you pass away and you don’t have a surviving spouse, those benefits could be lost so what do you say to people that say take the money and run and don’t even look at this because you could lose the money?

23:37

ROBIN MILLER: Again, this is an individual as those of you listening to this session. I must tell you, there are many considerations and we’ve really only talked about one or two. In summary, obviously, we spent a lot of time on that earnings limitation but you absolutely need to consider your life expectancy and that’s well documented that a male reaching 65 or 66 is going to live about 16 years and a female living to 65 or 66 is going to have about 20 years. However, that’s simply life expectancy but needs to be considered. You absolutely want to consider your personal health. How is it? How’s your family health history? Is there longevity or not? Health insurance comes into play as well and quality of life, which is absolutely of huge consideration. A lot more things, Jim, that I believe a good advisor can sit with the individual and talk to them and bring these things up, all good things to consider.

24:28

JIM: Robin, this has just been excellent. I really appreciate you taking the time and I know you speak around the country to groups of individuals, you also train agents on how to be better advisors, because this has really been a focus and a specialty for you for many years. I really thank you for taking this time to share with our audience.

24:45

ROBIN MILLER: You’re welcome.

24:46

JIM: Thanks for joining us this week and tune in again next week as we explore another phase of the Real Wealth process and, remember, if anything you heard in today’s show you’d like to get more information about, contact your Real Wealth advisor. Also, if you feel that any of this information will be helpful to a friend or family member, just click the Forward to a Friend button.