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Social Security Analysis

Allen & Betty Abbett

Sample Financial Plan - TOTAL Goal-Based Planning



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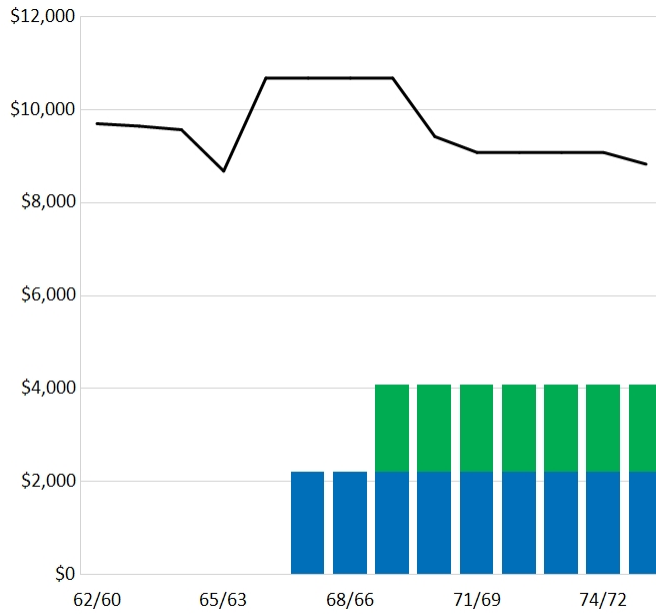
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Social Security Comparison

Sample Financial Plan - TOTAL Goal-Based Planning

G12



Current Claiming Strategy

Allen's benefit at age 67

■ \$2,198 per month

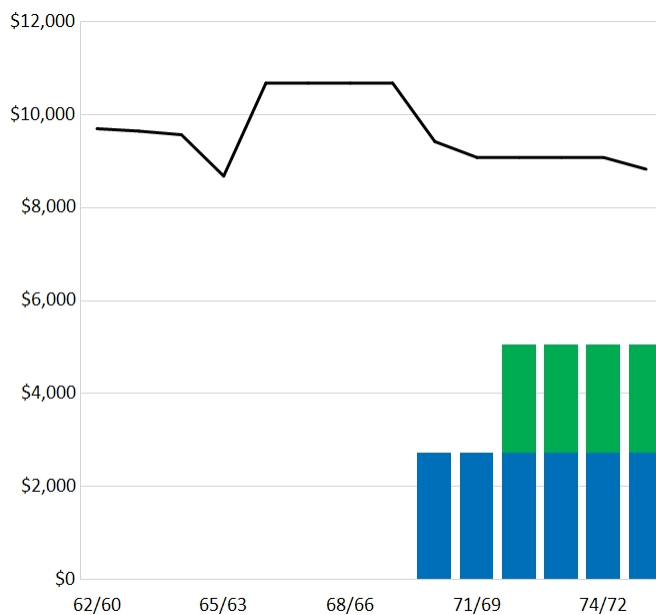
Betty's benefit at age 67

■ \$1,872 per month

Betty claims survivor benefits at 89

■ \$2,198 per month

— Monthly Expenses



Optimal Claiming Strategy

Allen files for delayed retirement benefits at 70

■ \$2,726 per month

Betty files for delayed retirement benefits at 70

■ \$2,321 per month

Betty claims survivor benefits at 89

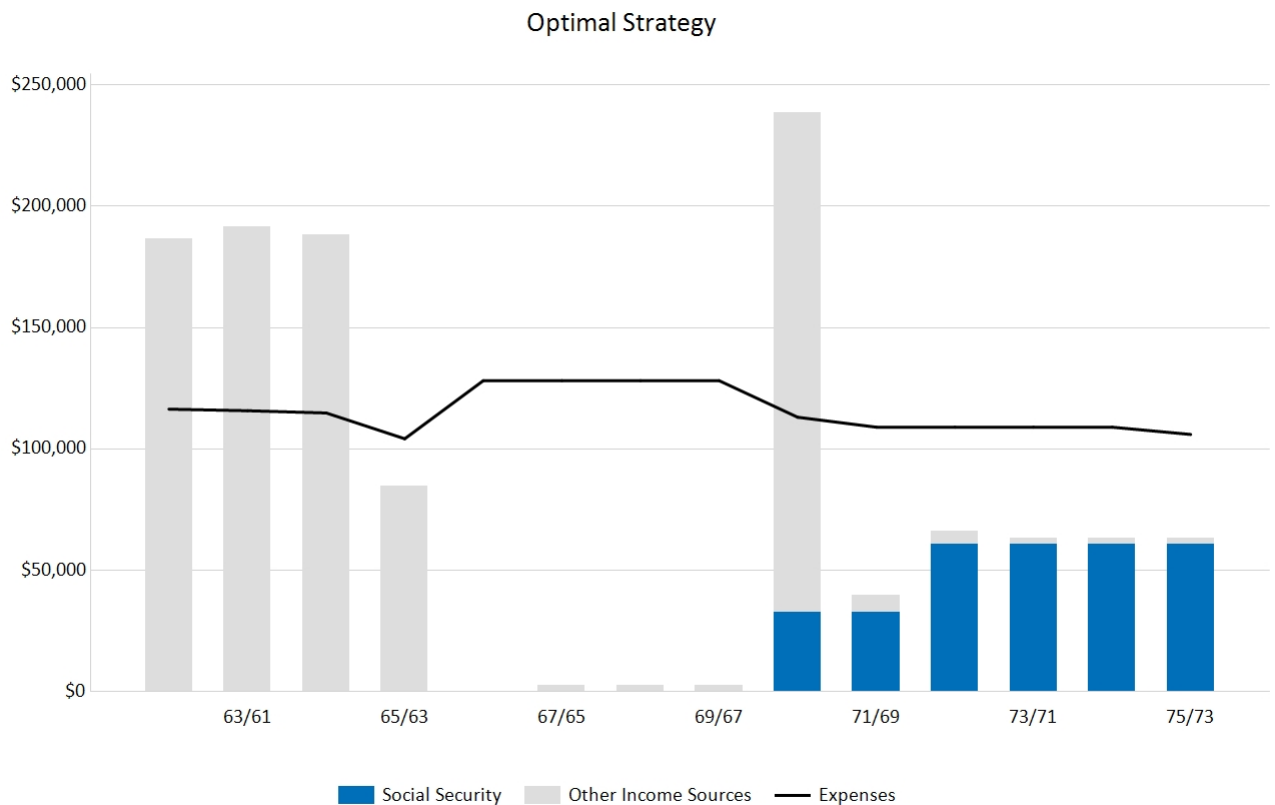
■ \$2,726 per month

— Monthly Expenses

*All amounts on this page are in today's dollars and show gross monthly benefits.

Social Security Income Comparison

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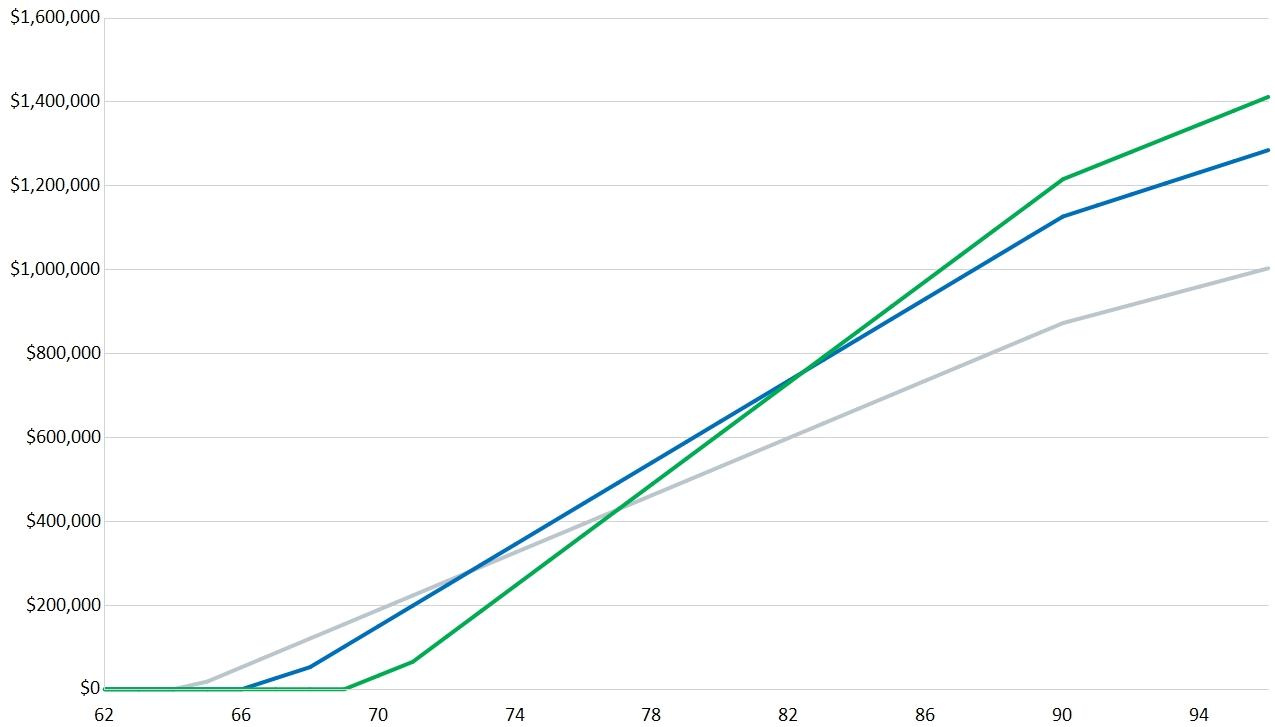


*All amounts on this page are in today's dollars and show gross monthly benefits.

Social Security Breakeven Point

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Total Income Received



Age	Year	File at 62/62	Current Strategy	Optimal Strategy
62	60	2027		
63	61	2028		
64	62	2029		
65	63	2030		
66	64	2031		
67	65	2032		
68	66	2033		
69	67	2034		
70	68	2035		
71	69	2036		
72	70	2037		
73	71	2038		
74	72	2039		
75	73	2040		
76	74	2041		
77	75	2042		
78	76	2043		
79	77	2044		
80	78	2045		
81	79	2046		
82	80	2047		
83	81	2048		
84	82	2049		
85	83	2050		
86	84	2051		
87	85	2052		
88	86	2053		
89	87	2054		
90	88	2055		

Age	Year	File at 62/62	Current Strategy	Optimal Strategy
62	60			
63	61			
64	62			
65	63	18,463		
66	64	52,651		
67	65	86,839	26,376	
68	66	121,027	52,752	
69	67	155,215	101,592	
70	68	189,403	150,432	32,706
71	69	223,591	199,272	65,412
72	70	257,779	248,112	125,974
73	71	291,967	296,952	186,536
74	72	326,155	345,792	247,097
75	73	360,343	394,632	307,659
76	74	394,531	443,472	368,220
77	75	428,719	492,312	428,782
78	76	462,907	541,152	489,344
79	77	497,095	589,992	549,905
80	78	531,283	638,832	610,467
81	79	565,471	687,672	671,028
82	80	599,659	736,512	731,590
83	81	633,847	785,352	792,152
84	82	668,035	834,192	852,713
85	83	702,223	883,032	913,275
86	84	736,411	931,872	973,836
87	85	770,599	980,712	1,034,398
88	86	804,787	1,029,552	1,094,960
89	87	838,975	1,078,392	1,155,521
90	88	873,163	1,127,232	1,216,083

*All amounts on this page are in today's dollars and show gross monthly benefits.

Social Security Income (Today's Dollars)

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Ages	Expenses	Retirement Income			Remaining Expenses Before SS	Social Security Income		
		Earned Income	Pension	Other Income		62/62	Current Strategy	Optimal Strategy
53 51	\$123,910	\$166,000		\$7,296				
54 52	123,910	166,000		7,947				
55 53	124,450	175,000		8,528				
56 54	124,450	175,000		8,668				
57 55	123,250	175,000		8,022				
58 56	117,250	175,000		7,770				
59 57	116,050	175,000		9,829				
60 58	116,350	180,000		6,483				
61 59	116,350	180,000		6,094				
62 60	116,350	180,000		6,741				
63 61	115,707	180,000		11,524				
64 62	114,775	180,000		8,246				
65 63	104,125	80,000		4,673	\$19,452	\$18,463		
66 64	128,103				128,103	34,188		
67 65	128,103		\$2,400		125,703	34,188	\$26,376	
68 66	128,103		2,400		125,703	34,188	26,376	
69 67	128,103		2,400		125,703	34,188	48,840	
70 68	113,004		2,400	203,471		34,188	48,840	\$32,706
71 69	108,903		2,400	4,591	101,912	34,188	48,840	32,706
72 70	108,903		2,400	3,007	103,496	34,188	48,840	60,562
73 71	108,903		2,400		106,503	34,188	48,840	60,562
74 72	108,903		2,400		106,503	34,188	48,840	60,562
75 73	105,903		2,400		103,503	34,188	48,840	60,562
76 74	105,903		2,400		103,503	34,188	48,840	60,562
77 75	105,903		2,400		103,503	34,188	48,840	60,562
78 76	105,903		2,400		103,503	34,188	48,840	60,562
79 77	105,903		2,400		103,503	34,188	48,840	60,562
80 78	105,903		2,400		103,503	34,188	48,840	60,562
81 79	72,205		2,400		69,805	34,188	48,840	60,562
82 80	72,205		2,400		69,805	34,188	48,840	60,562
83 81	72,205		2,400		69,805	34,188	48,840	60,562
84 82	72,205		2,400		69,805	34,188	48,840	60,562
85 83	72,205		2,400		69,805	34,188	48,840	60,562
86 84	72,205		2,400		69,805	34,188	48,840	60,562
87 85	72,205		2,400		69,805	34,188	48,840	60,562
88 86	72,205		2,400		69,805	34,188	48,840	60,562
89 87	72,205		2,400		69,805	34,188	48,840	60,562
90 88	72,205		2,400		69,805	34,188	48,840	60,562
91 89	61,969		2,400		59,569	21,760	26,376	32,706
92 90	61,969		2,400		59,569	21,760	26,376	32,706
93 91	61,969		2,400		59,569	21,760	26,376	32,706
94 92	61,969		2,400		59,569	21,760	26,376	32,706
95 93	61,969		2,400		59,569	21,760	26,376	32,706
96 94	61,969		2,400		59,569	21,760	26,376	32,706
97 95	61,969		2,400		59,569	21,760	26,376	32,706

Social Security Terminology

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Primary Insurance Amount (PIA):

This is the amount that all benefits are based on. A worker's PIA is determined by a formula that looks at the top 35 years of earning history, adjusted into today's dollars.

Full Retirement Age:

If a claimant files at Full Retirement Age, they receive a benefit equal to their full PIA every month. Full Retirement Age is determined by year of birth according to the table on the right. Note that individuals born on January 1 are deemed to have been born in the previous year for determin

Filing Early:

It is possible to claim Social Security retirement benefits as early as 62, however doing so permanently reduces the amount of benefit. The amount of reduction depends on the claimant's Full Retirement Age and whether they are claiming their own retirement benefit or spousal retirem

Year of Birth	Full Retirement Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Filing Late:

It is also possible to claim Social Security retirement benefits after Full Retirement Age. There is no benefit to claiming spousal retirement benefits after Full Retirement Age. However, when claiming one's own retirement benefit there are Delayed Retirement Credits applied for each month delayed past Full Retirement Age that equal 8% annually. This increase stops at age 70, so that while it is possible to claim benefits after age 70, there are no further

Breakeven Point:

When comparing Social Security claiming strategies, one important detail to be aware of is that the optimal strategy depends, in part, on the life expectancy of the claimant(s). Delaying claiming past 62 increases monthly income but also means giving up income for a certain number of months. The breakeven point is when a certain strategy with higher income has "caught up" to, or provided the same or more lifetime income than, an earlier claiming strategy. The age that this occurs depends on the situation, as well as future Cost of Living Adjustments made by the Social Security Administration, and the opportunity cost of spending money from other sources in order to delay claiming benefits.

Spousal Benefits:

Spouses, and in certain cases ex-spouses, are entitled to a portion of a worker's retirement benefit after the worker has filed for retirement benefits. If taken at Full Retirement Age this equals 50% of the worker's PIA. This benefit is reduced when taken early, but can be claimed as early as 62. Spousal benefits are not eligible for Delayed Retirement Credits so while they can be claimed after Full Retirement Age there is no advantage to doing so.

Restricted Filing: NOTE: ONLY AVAILABLE FOR THOSE BORN ON OR BEFORE JANUARY 1, 1954.

When a worker is eligible for both spousal retirement benefits and their own retirement benefits, and has reached at least Full Retirement Age, they are able to restrict their filing application to one or the other. This is typically done to claim spousal benefits without also claiming their own retirement benefits since their own benefit will then continue to grow while spousal benefits do not increase after Full Retirement Age. Restricting the filing is necessary because the Social Security Administration deems filing for one benefit as filing for all eligible benefits without this election.

Social Security Optimization

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When attempting to optimize Social Security, one needs to define which part of Social Security they are attempting to optimize as well as certain assumptions about life expectancy, Cost of Living Adjustments, and the opportunity cost of taking Social Security later rather than earlier.

First, many think of Social Security as longevity insurance. This means that in case someone and/or their spouse lives longer than expected, there is some guaranteed income available. To optimize longevity insurance the goal should be to achieve the largest annual income stream.

Another way to think of Social Security is a source of income to help pay medical bills for someone with major medical needs in their 60s and 70s. If the need begins in their early 60s likely optimization means getting income as soon as possible to help cover medical bills. If the need arises after full retirement age, those who have delayed retirement benefits can receive up to six months of retroactive benefits as a lump sum. Accepting retroactive benefits can lower retirement benefits and related survivor benefits.

Perhaps the most popular way to think of Social Security is as one of the core sources of income for retirement spending. What to optimize in this situation is much more personal and depends heavily on each individual situation. First, does the person have enough assets to retire at 62 or earlier without Social Security benefits? If not, are they able to continue working to increase benefits later? In addition, what is the life expectancy of the person, and what is it for their spouse? Shorter life expectancies are usually optimized by having earlier benefits, and longer life expectancies by maximizing annual income.

Since arriving at an optimal Social Security claiming strategy is extremely complex, this model shows multiple strategies and the impacts at different life expectancies. One key thing to keep in mind is that a little planning will go a long way, but the difference between the most optimal approach, and the second most is typically negligible and thus a person's comfort with the strategy should be taken into consideration in addition to the financial benefit of the strategy.