THEOREM
WEALTH MANAGEMENT

Social Security

Maximize your Social Security for retirement

MAXIMIZE YOUR SOCIAL SECURITY FOR RETIREMENT

One of the biggest questions people face when thinking about retirement is about Social Security benefits. Social Security can provide an important source of cash flow to help fund a successful retirement. This guide covers some of your potential options and is designed to explain how Social Security benefits work, how they are calculated and how Social Security may factor into your retirement strategy.

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WHAT IS SOCIAL SECURITY?

Social Security works by pooling mandatory contributions from workers into a large pot and then paying out benefits to those who are eligible. Managed by the Social Security Administration, Social Security is a collection of programs that includes Old-Age, Survivors, and Disability Insurance (OASDI), Medicare and Medicaid.

WHO PAYS and HOW MUCH?

When you work, you and your employer likely pay taxes that are specifically earmarked for Social Security and Medicare Part A (hospital insurance).

For 2020, Social Security tax is a total flat rate of 12.4%. The employee and the employer each pay half up to the maximum taxable amount.* Medicare taxes are an additional 1.45%, plus an additional 0.9% for high-income employees.

WHO CAN COLLECT SOCIAL SECURITY?

You can collect Social Security once you reach a certain age or become disabled. In order to be eligible for Social Security, you must earn enough "credits" during your working years. Most workers need 40 credits, or 10 years of work, to qualify for retirement benefits.

WHY IS SOCIAL SECURITY IMPORTANT?

Social Security is a source of cash-flow during retirement and can help supplement your income needs. It is important to recognize it as just one piece of your overall retirement plan as many people are concerned with the Social Security shortfall.

*Source: Social Security Administration updated January 2020 https://www.ssa.gov/pubs/EN-05-10003.pdf

HOW DOES IT WORK?

HOW IS IT CALCULATED?

Your Social Security retirement benefits will depend on how much money you earned during your working years and your age at the time you start collecting benefits. You are eligible for full benefits at your Full Retirement Age (FRA).*

YEAR BORN	FULL RETIREMENT AGE
1937 or earlier	65
1938-1942	65 + 2 months for every year after 1937
1943-1954	66
1955-1959	66 + 2 months for every year after 1954
1960+	67

You can start collecting Social Security as early as age 62 – but there's a catch. If you collect before you reach your full retirement age (FRA), you'll receive a lower monthly payment – permanently. For example, if your FRA is 67, but you begin to claim benefits at 62, you're signing up to get 30% less. However, this reduction will decrease for each month you wait after age 62, up until your FRA. Think of your FRA as your break-even point.

To estimate your benefits, the Social Security Administration website has convenient calculators you can access.

Calculators available through the Social Security Administration at:

https://www.ssa.gov/OACT/anypia/

*Source: SSA, Benefits Planner: Retirement, Full Retirement Age

WHO IS COVERED?

WHO RECEIVES BENEFITS?**

Your Social Security benefits can go to you, your spouse or your children, depending on the situation. These benefits can start when you retire, become disabled or pass away, if eligibility requirements are met.

Benefits May Be Paid To:			
WHEN	YOU	YOUR SPOUSE	YOUR UNMARIED CHILDREN
You Retire	Age 62 or over	Age 62 or over Any age, if caring for your child who is under 16 or disabled	Under 18, or up to 19 if in high school: or any age if disabled before 22
You Become Disabled	Any age before full retirement age	Age 62 or over Any age, if caring for your child who is under 16 or disabled	Under 18, or up to 19 if in high school: or any age if disabled before 22
You Pass Away	—	Age 60 or over or age 50-59 if disabled Any age, if caring for your child who is under 16 or disabled	Under 18, or up to 19 if in high school: or any age if disabled before 22

SURVIVOR BENEFITS?**

Survivor benefits provide certain surviving members of your family benefits based on your work record

Relationship to you	Survivor Benefit (% of your primary insurance amount)
Your widow(er), who has reached FRA	100%
Your widow(er), who is at least 60 years old, but hasn't reached FRA	71.5%-99%
Your widow(er), who is aged 50-59 and disabled	71.5%
Your widow(er), who is caring for your child under age 16 or disabled	75%
Your qualifying child	75%
One of your parents	82.5%
Both of your parents	75% each

**Source: SSA, Benefits Planner: Survivors

WHEN SHOULD YOU START YOUR BENEFITS?

There are three potential times you can begin receiving Social Security benefits, assuming you are eligible. The main factors are your employment status and whether you have reached FRA. The longer you wait to receive benefits, the higher your benefit payments could be. For each year you wait up to age 70, your benefits should increase.

UNDER FULL RETIREMENT AGE AND WORKING?

If you are earning enough income to support yourself, you may put yourself at a disadvantage to start collecting benefits at this point. If you take your benefits now, they will be permanently reduced, subject to the earnings limit and more likely to be taxed.

UNDER FULL RETIREMENT AGE AND RETIRED?

If you retire before you reach the full retirement age, ideally it is because you are financially secure and are not relying on your Social Security benefits. If you take your benefits now, they will be permanently reduced. In some cases, this may make sense, for example, if you need cash flow while you let your tax-advantaged retirement accounts grow. It is important to understand your entire retirement picture prior to making any decisions.

AT FULL RETIREMENT AGE OR LATER?

If you are able to delay taking payments until you reach FRA, you will receive greater benefit payments in the future. Cost of living increases over time will start from a higher base, and there is no earnings limit for beneficiaries who continue to work, but still collect their eligible benefits based on your Social Security earnings. For every year you delay benefits after FRA, your benefits increase by 8% per year until the max out at age 70.

IS A LUMP-SUM SOCIAL SECURITY PAYMENT RIGHT FOR YOU?

As an individual nearing 70, you've intended to delay your Social Security benefits until the decade comes. But in some cases, there are times when you may need the money sooner than expected. Seemingly in the knick of time, there is an option to receive up to six months of benefits in a lump-sum by initiating your Social Security retirement benefits early. While this is an important option to have, what are the consequences of applying early?

Many people are surprised by this opportunity when Social Security representatives provide it to those who may need it most. But unless you truly understand the trade-offs, you might not receive the benefits package that's most beneficial to you.

WHAT IS A LUMP-SUM SOCIAL SECURITY PAYMENT?

A lump-sum payment is a one-time Social Security payment received in the current year for prior-year benefits. For instance, if an individual is granted disability benefits, they will receive a lump-sum to cover the entirety since they initially applied for disability, which may be months or years.

For every month that an individual postpones claiming Social Security benefits beyond full retirement (up to age 70), they earn an additional 0.66 percent per month or eight percent per year in delayed retirement credits.

For example, if a person turning 62 this year was earning an annual income of $60,000, here's how their Social Security benefits would differ depending on what age they decided to begin claiming them:

- Age 62: $22,019, or $1,834 per month
- Age 66: $29,359, or $2,446 per month
- Age 70: $38,930, or $3,244 per month

It's important to acknowledge that retirement credits end at age 70, so delaying claiming your Social Security benefits beyond that age is unnecessary. Annual cost-of-living adjustments would also be applied to the larger base amount moving forward.

IS A LUMP-SUM SOCIAL SECURITY PAYMENT RIGHT FOR YOU? CONT.

INDIVIDUALS VS. SPOUSES

Just like taxes, there are differences in benefits based on whether you're single or married. If you're a single individual who has been diagnosed with a terminal illness, for example, some advisors may recommend that you take the lump-sum amount and the smaller benefit. In this instance, this amount could be passed on to a successor, while your monthly benefit will end at the time of your death.

Alternatively, if you're a higher-earning spouse that is facing a suddenly shortened life expectancy, you may want to reject the offered lump-sum payment. In this case, the survivor benefit will equal the same amount of your benefit, as the higher-earning partner, upon your death.5 If your surviving spouse has a long life expectancy, the boosted benefit can make up for the forgone lump-sum.

SECURING A LARGER CASH RESERVE

Occasionally, a lump-sum can exceed six months in past benefits. If you've met your full retirement age and you decide to delay your benefits, you can file for them and immediately suspend the action, allowing your benefit to grow until you reach 70-years-old.6

In the case of an ill individual who has filed for and suspended their benefits, they may choose to file for a lump-sum to pay their medical bills. If they are 69-years-old and their full retirement age benefit was $2,000, the associated lump-sum is then worth $72,000. If they hadn't filed and suspended, the lump sum would then be limited to six months of benefits, or $14,400, with a monthly lifetime benefit of $2,400.

Keep in mind that if the beneficiary takes the larger lump-sum worth $72,000, his lifetime monthly benefit will return to the smaller amount of $2,000, along with the survivor benefit, if they're married.

CAN YOU COUNT ON SOCIAL SECURITY?

Many investors fear Social Security will be bankrupt before they start receiving benefits. To be perfectly clear, there's no way of predicting with 100% accuracy what Social Security will look like in the future. There are simply too many ways the program could be modified by Congress over the years. Having said that, here's what we know as of now.

CURRENT STATE OF SOCIAL SECURITY?

According to the 2019 annual report of the Social Security Board of Trustees, the trust funds that disburse retirement, disability and other Social Security benefits will be depleted by 2035. That does not mean Social Security will no longer be around; it means the system will exhaust its cash reserves and will be able to pay out only what it takes in year-to-year in Social Security taxes. If this comes to pass, Social Security would be able to pay about 80 percent of the benefits to which retired and disabled workers are entitled.

However, history tells us that something will be done before then. And virtually nobody on either end of the political spectrum is talking about cutting or drastically modifying Social Security for anyone who's close to retirement age now. So, despite the headlines you may have read about Social Security "going broke," Social Security will still be around when you are decades into retirement

SOME RECENT CHANGES?

The Bipartisan Budget Act of 2015 closed two potential Social Security Strategies – “File and Suspend” and Filing For a Restricted Claim of Spousal Benefits”

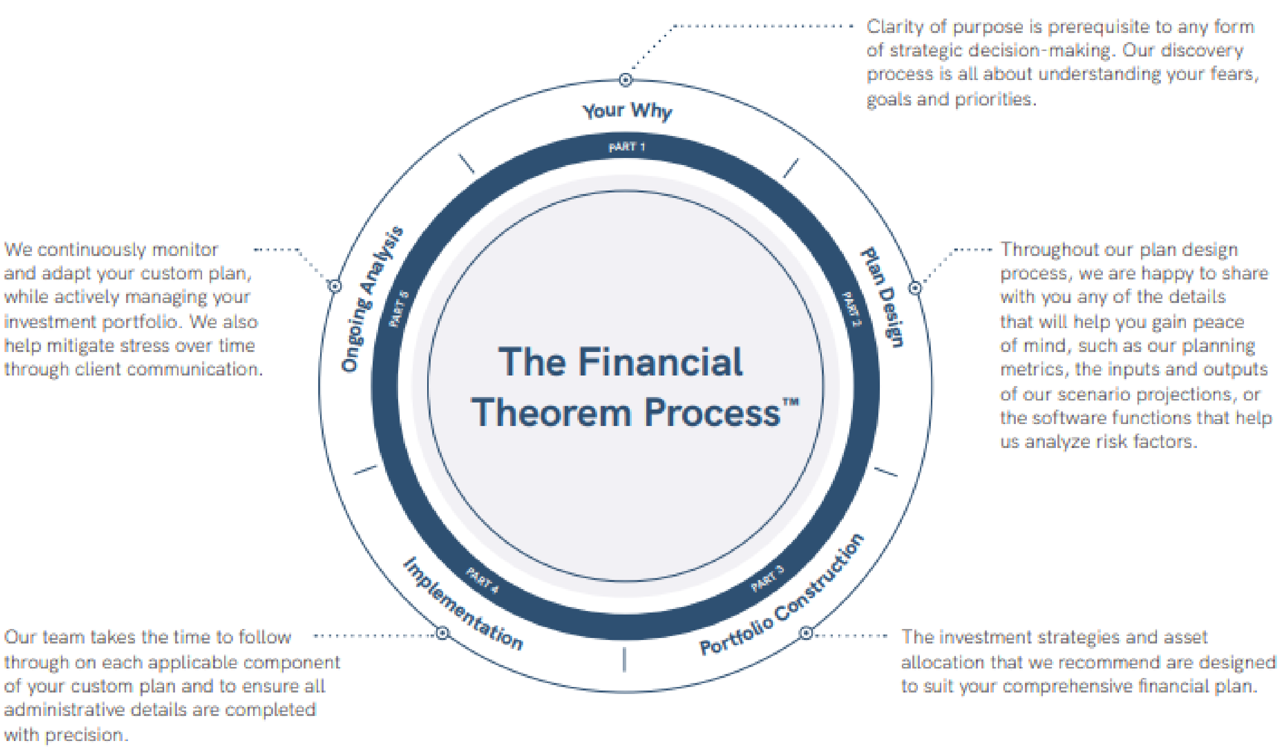
The Cost of Living Adjustment (COLA): Based on the increase in the Consumer Price Index (CPI-W) from the third quarter of 2018 through the third quarter of 2019, Social Security and Supplemental Security Income (SSI) beneficiaries will receive a 1.6 percent COLA for 2020.

IN SUMMARY

As mentioned, some of the factors that should influence how and when you take Social Security include your investment time horizon, your cash-flow needs, your tax situation, inflation expectations, when you and your spouse stop working, when you and your spouse reach full retirement age and more. It is important to consider your other income sources and investments when making a decision on Social Security.

THE THEOREM PROCESS

At Theorem Wealth Management, our process is designed to understand your goals, both short term and long term. We take your entire financial picture into consideration. Decisions like Social Security are planned using a multi-scenario analysis, to ensure we are analyzing the long term impacts of every financial decision.



THEOREM WEALTH MANAGEMENT CAN HELP

When to take Social Security benefits is only one part of your retirement strategy. Theorem Wealth Management can create a strategy that is based on your unique needs and goals. Your retirement strategy is what should drive your investment decisions.

FIDUCIARY STANDARD OF CARE

At Theorem Wealth Management, we are an independent firm committed to helping you reach your goals through conflict free advice. We are a fiduciary, bound by law to put our clients' best interests above all else.

A TAILORED APPROACH

We do not believe in a one size fits all approach. We create a personalized portfolio tailored to your unique financial goals.

BEST IN CLASS

Our CEO, Johnathan Rankin was named a Forbes Best-in-State Next Generation Wealth Advisor*, an accolade that represents both quantitative and qualitative achievements in his work within the wealth services field. The ranking is designed to help families identify local professionals who deliver an exceptional level of comprehensive service and expertise.

We believe Theorem Wealth Management can help you reduce the stress of financial management and the major decisions that need to be made when considering retirement.

A second set of eyes on your financial future is always a good idea. If you want an experienced financial professional to review your portfolio and financial goals, we urge you to call us at 214-838-1040 for a complimentary evaluation.

We look forward to hearing from you.

*Source: Forbes "Best-in-State Next-Generation Wealth Advisors" list, September 4, 2019. Forbes "Best-in-State Next-Generation Wealth Advisors" list was developed by SHOOK Research. Advisors considered for this ranking were born in 1980 or later with a minimum 4 years relevant experience; advisors have: built their own practices and lead their teams; joined teams and are viewed as future leadership; or a combination of both. Ranking algorithm is based on qualitative measures: telephone and in-person interviews, client retention, industry experience, credentials, review of compliance records, firm nominations; and quantitative criteria, such as: assets under management and revenue generated for their firms. Investment performance is not a criteria because client objectives and risk tolerances vary, and advisors rarely have audited performance reports. Rankings are based on the opinions of SHOOK Research, LLC and not representative nor indicative of any one client's experience, future performance, or investment outcome. Neither Forbes nor SHOOK Research receives compensation in exchange for placement on the ranking. Forbes is a trademark of Forbes Media LLC. All rights reserved. Rankings and recognition from Forbes are no guarantee of future investment success and do not ensure that a current or prospective client will experience a higher level of performance results and such rankings should not be construed as an endorsement of the advisor.