

Wealth Builder

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Objective Advice On The Road Of Life

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“This law represents a cornerstone in a structure which is being built but is by no means completed -- a structure intended to lessen the force of possible future depressions, to act as a protection to future administrations of the Government against the necessity of going deeply into debt to furnish relief to the needy -- a law to flatten out the peaks and valleys of deflation and of inflation -- in other words, a law that will take care of human needs and at the same time provide for the United States an economic structure of vastly greater soundness.”

FDR's speech at the ceremony of the signing of the Social Security Act in August 1935



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A word of thanks...

We want to take this opportunity to thank our clients who have made recent referrals to us.



Nearly 100% of our new business comes to us by referral. We often are asked whether we are taking on new business and our answer is a qualified **yes!** We say “qualified” because although we are poised for growth, we are interested in growing at a reasonable pace without compromising the trust and confidence you have placed in us. We will value others like you, who seek to maximize their net worth (and that of their business) and provide financial security for themselves and their families. A referral from you and your continued business with us are the highest compliments we could ever receive. Thank you! •

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Given the recent downturn in the stock market many people are rethinking their **retirement plans**. For some, the reality is they will be **working longer**. For others, it may mean **a more modest lifestyle** in retirement than they had hoped for. And for many, it may mean more reliance on government programs like **Social Security**. Let's face it, Social Security is a retirement plan that most of us have been paying into over our entire working careers. It would be nice to see some return on that investment, wouldn't it?



facts about
**Social
Security**



This article highlights some of the lesser known facts about Social Security and offers some planning suggestions about how you can maximize your Social Security benefits.

There has been much written about the current state of the Social Security trust fund, with some predicting it will be exhausted by the year 2040. Social Security is a \$2 trillion trust fund – meaning that the US Government is on the hook for repaying this money to its rightful owners. And as we all know, the US Government is the only entity in the country that can print money. So chances are pretty good that your benefits will be there. Certainly some reforms are likely that may delay the timing for receiving your benefits, or perhaps tax more of your benefits, but the benefits should be there. If you are already receiving benefits, you can rest assured that you will not see any interruption in your stream of benefits.

Here are some facts you may not be aware of about Social Security:

- **Social Security benefits are one of the few retirement benefits that are adjusted annually for inflation.**
- **Your benefits don't terminate once a certain dollar amount has been paid out, rather the benefits continue as long as you live.**
- **Your benefits don't always stop upon your death – your spouse and dependents may receive some of your benefits even after your demise.**



- **You become eligible for Social Security benefits once you have worked and paid into the system for at least 10 years; or more precisely, “40 credits.”** One credit is earned when you earn a certain minimum dollar amount. In 2009 the minimum dollar amount to earn one credit is \$1,090 while the maximum numbers of credits you can earn per year is 4. So if you earn at least \$4,360 in 2009, you will earn 4 credits. Earning four credits per year every year for 10 years results in 40 credits and satisfying the minimum credit requirements to achieve basic eligibility.

- **Every person’s Social Security account consists of their rightful benefits.** This is the amount that the actuaries have determined you will receive during your lifetime. If you elect to start tapping into your benefits at the earliest age possible – typically age 62 – your benefits will be less per year than if you wait to say age 70, when your monthly benefits will reach their peak. It’s in essence a pie that you can cut into 20 pieces or 12 pieces. At the end of the day, in theory at least, your benefits should aggregate to the same amount if you live to your full life expectancy.

- **You can begin taking benefits prior to reaching “full retirement age” at a reduced amount.** (Full retirement age for people born before 1943 is age 65; for those born between 1943 and 1954, it’s age 66; after 1954 it gradually increases to age 67). Be careful if you continue to work after you begin collecting your benefits but before attaining full retirement age. Doing so can cost you future benefits. The maximum you can earn before benefits are withheld is referred to as the “earnings test.” It is adjusted annually for inflation. In 2009, the earnings test amount is \$14,160 per year, or \$1,180 per month. The per-month number is the critical one since a loss of benefits will occur for any month that earnings exceed this amount. For every \$2 you earn in excess of the earnings test amount, \$1 in future benefits will be withheld.

- **After reaching full retirement age you can earn an unlimited amount of income without negatively affecting your future benefits –** though there is an exception for the year you reach full retirement age.

- **A married person who has not satisfied basic Social Security eligibility – ie, does not have 40 credits – is still eligible to receive benefits based on his or her spouse’s calculated benefit.** Such a spouse can receive a “spousal benefit” equal to one-half of the eligible spouse’s potential benefit provided both spouses have attained the age of 62, subject to reduction for benefits paid prior to full retirement age.

- **If your spouse dies you can apply for survivor benefits as early as age 60 (or 50 if you’re disabled).** The survivor benefit equals 100% of your spouse’s benefit and is subject to reduction if you claim before you turn 66. If your own benefit is higher, you will receive that amount, but not both.

- **One spouse can claim their spousal benefit starting at age 62 and the other spouse can delay receiving benefits to either full retirement age or age 70.** Delaying benefits beyond age 62 results in higher annual benefits down the road. Between full retirement age and age 70, your annual benefits increase at a rate of 8% per year. If the higher-earning spouse delays benefits that will equate to a higher survivor benefit.

- **After the death of a spouse, one of the Social Security benefits will stop.** If your spouse dies and you switch over to your survivor benefit because it is higher than your own benefit, your benefit will stop. If your benefit is greater than the survivor benefit, the deceased’s benefit will stop. Either way, you may need to plan for a loss of income since most survivors need at least two-thirds of the income they were receiving as a couple. Life insurance or other liquid assets may be able to fill the gap.

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- **If you are receiving survivor benefits and you remarry, your survivor benefits will stop unless you are age 60 or older when you remarry.**

- **Divorced people are eligible for potentially higher benefits than their earnings alone might afford them.** Your benefits are computed as either the greater of your own benefit based on your earnings, or the spousal benefit associated with your ex's earnings. Your benefits will not have any effect on those of your ex, or your ex's new spouse. You might want to claim your spousal benefit initially and switch to your own benefit upon reaching full retirement age if it would provide a higher benefit for you.

- **If you are the divorced spouse of a worker who dies, you could receive benefits just the same as a widow or widower, provided that your marriage lasted 10 years or more.**

- **Once you reach full retirement age there is no longer any earnings test limitation.** However, there is a special rule for the year you reach full retirement age. In the months leading up to your full retirement age, the earnings test amount increases. In 2009 it is \$37,680 per year, or \$3,140 per month; with \$1 being withheld for every \$3 you earn in excess of these amounts. So if you claim early benefits, you get a one-year opportunity to earn more with less of a penalty. If you do not apply for benefits prior to reaching full retirement age, these earnings test will not apply and you'll be free to earn as much as you want without any loss of benefits.

- **Social Security benefits are taxable (even though contributions you make to the system are not tax deductible).** No one said this was a fair system. Generally, if your income (including one-half of your Social Security benefits plus tax-exempt income) exceeds \$32,000 if you are married or \$25,000 if you are single, up to 50% of your benefits will be taxed. If your income exceeds \$44,000 for married folks or \$34,000 for single folks, up to 85% of your benefits are taxed. Married people who file separately will pay tax on 85% of their benefits regardless of their income level. These income levels were set in 1983 and have never been

adjusted for inflation. This results in more and more people being taxed on their benefits every year. There is no age limit associated with the taxation of Social Security benefits; just these income limitations.

- **Coordinating the timing of Social Security benefits is important and may become even more so due to the recent economic downturn.**

At age 70½, withdrawals from IRAs and the like must commence. Oftentimes, these withdrawals result in subjecting a larger portion of your Social Security benefits to taxation. There may be some tax savings opportunities available to you prior to claiming your benefits such as converting your traditional IRA to a Roth IRA. Under the right circumstances, this can result in substantial tax savings.



This article is intended to give you some highlights of the rules under Social Security and shed some light on potential planning opportunities available. The Social Security Administration has a great web site that will provide answers to many of your questions – www.ssa.gov. They also make a concerted effort to be very helpful to you if you arrange an appointment at one of their local offices. They will help you assess what options are available to you and which would provide you with the biggest benefit. They do not seek you out, however. You have to be proactive in contacting them and seeking out your benefits. The methods of payout will be explained and you will make the final decision as to their timing and what strategy you wish to follow. As always, feel free to contact us as well and we'd be happy to help you assess the best strategy for your unique situation and help minimize the tax consequences of your decisions.

Source: Horseshoorn – The Baby Boomer's Guide to Social Security