I. **Background:** Most workers understand the kind of Social Security benefits to which they may become entitled. Surprisingly, many do not understand all of the requirements and or situations available to them and or their dependents. During this presentation we will be careful to point out the major misunderstands that exist among the public and hopefully prevent your clients from leaving money on the table.

Throughout this presentation I will refer to “KIM” an acronym meaning, “Keep in Mind”.

There are several other acronyms that you need to know as I will be using them throughout:

- **SSA** Social Security Administration
- **FRA** Full Retirement Age
- **PIA** Primary Insurance Amount
- **MBA** Monthly Benefit Amount
- **DRC’s** Delayed Retirement Credits
II. Examples of Cases Where in the Client Left Money on the Table

A. To begin this presentation, I want to give you a couple of examples wherein clients lost large sums of money because they either took some action in their personal lives OR failed to take some actions with Social Security.

1. Example One

I was conducting a seminar in North Carolina a couple of years back. During the break, I was talking to a retired minister and his new bride. He had lost his wife in death and had just wed the widow of another pastor. During the conversation I learned that he was 70 and receiving his Social Security retirement benefits; however, his new bride was 59 and nine months old. “Wow”, I said, “Mrs. SoinSo, did you not understand that had you put this marriage off for three months, you would have been 60 and could have filed for widow’s benefit from the work record of your first husband?” She gave up $1007 per month because she married 3 months too early. **To be entitled as a widow(er) you must be unmarried at age 60.** Also note that I did not say the person could not have remarried as long as at age 60 he/she was “unmarried” She cannot qualify as a living spouse of the new husband until she is age 62. She lost $24,168 by re-marring 3 months too early. It did not seem to matter to her. She was in the glows of matrimony. But her husband was very interested. “Jim, can we do anything about this?” he asked. “Well, you could get a divorce” I said. Here I am telling the clergy that he could get a divorce. Note that I did not tell him to actually get the divorce, but if they did, she would become, “un-married”. She could then file as the widow of the first pastor, pick up the $1007 per month, then re-marry the current pastor. The benefits would not be stopped since the re-marriage occurred after age 60. I do not know if that happened or not, but I’d be willing to bet he talked to her all the way home, “Honey, we could go over to another city or somewhere to get divorced and no one would ever have to know.” This is a good example of someone who took an action in their personal life without knowing the impact it had on social security entitlement.

2. Example Two

I was in southern California in February 2004 making presentations at financial workshops. Almost without exception I will cover potential entitlement for divorced people from the work records of their former divorced spouses. After my first
session, a gentleman approached me and said, “Jim, we need to check on my mother. My dad died when I was small and mom lives on a small Social Security check that she receives from my late father’s record. But, mom did remarry and was married for fifteen years to another man and then divorced. We heard that the man died awhile back.” “Did you check with Social Security when you learned that the second husband had died?” I asked. The answer was no so I handed him a copy of my general consent form for him to take to his mom. If she would sign the consent, I could find out while I was in California and see if she could be entitled to higher benefits from the second husband. “She sure could use it.” he replied. I did not hear any more from the gentleman. In February 2005, I returned to southern California and the same gentleman was in my first seminar. Afterward he came up to me and said, “Oh Jim, I meant to have you check on my mom”. “You didn’t check on my mom?” I replied, “Here take this consent and let’s check.” He did. I faxed the consent to a technician in the Columbia, South Carolina Social Security office. She called me back almost immediately very excited. “Jim, get this lady to the Social Security office right away.” “Is it a higher check” I asked. “Yes, about $840 more per month than the lady was currently receiving.” “Wow! Can you tell me when that second husband died?” “January 1997” the technician replied. This little widow who is now 80 has lost $840 per month since January 1997. Not even counting cost of living increases from 1997 through 2004 her total loss was over $80,000 at that point. Social Security could pay her six months retroactive benefit, but she lost the rest.

**KIM: Always check on former spouses, especially if you learn they have died.**

3. About three years ago I conducted an employee pre-retirement seminar for a large utility company. The next day I got a phone call from a man who had attended requesting an appointment to come by and discuss a situation. I gave him an appointment the following week and I already had a sinking feeling that I was about to hear another “money loss” situation. Sure enough as soon as he sat down he said, “Jim, yesterday at the seminar you mentioned that if a person was receiving retirement or disability benefit and had a minor child, the child would also get a check. Is that right?” “Yes, unless the beneficiary is already being paid the maximum from the work record, the child would be entitled” I answered. “Jim, my wife has been receiving disability benefits from Social Security for the past 15 years. Fourteen years ago, we had a son”.

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Right away, I began sinking in my chair. “Please don’t tell me that you did not file an application with Social Security when the child was born.” I said.

“No, we thought that since our son was not born before my wife became disabled, he was not qualified,” the fellow replied.

The son lost fourteen years of monthly benefits from his mother’s work record. His total loss at that time was about $75,000, more than enough to send him to college. I immediately helped the man file an application for the son. Social Security could pay six months retroactive benefits and continue to pay until the boy is age 18. The boy lost all the rest.

These are sad examples of people who failed to take action and that failure costs them lots of Social Security benefits.

KIM: *The law will protect children if at all possible.*

As we continue with this presentation, I will likely add other real client situations as examples. Any that I add on the spur of the moment will need to be annotated in your outline as we go. I say this, because many times the example will hit me during the presentation.

III. Even Prior to Establishing Entitlement
A. Up until March of 2011, the Social Security Administration mailed an annual report to all workers a couple of months prior to their birthdays. Such reports provided a yearly listing of the earnings credited to the workers earnings record. In addition, the statements provided an estimate of future retirement benefits as early as age 62 and also at full retirement age, and at age 70. In March 2011, the administration stopped sending the annual reports; however, they re-started the mailings for people who are at least age 60. The good news is that a retirement estimate can be secured on-line from the SSA web site. In addition, as of May 2012, you can set up an account through SSA’s web site and once set up; you can download a statement immediately. The statements online are like the statements everyone use to get. Workers need to be sure the work they have and are performing is correctly credited to their SSA work record. This is especially true for self-employed individuals.

If your client discovers an error on the print out, it is important to have the record corrected as soon as possible. Once again, I have had clients tell me that they were told by an SSA employee that missing earnings cannot be added to a record. Not true. If you client is missing wages or self-employment, secure form, SSA 7009 from SSA and complete it. Attach evidence of the missing earnings and mail back to the address shown on the form.
KIM: Many people file their self-employment returns years after the due date of the return. IRS is always happy to take the taxes due but SSA may not give the worker credit for those earnings. The statue of limitations for crediting earnings is three years, three months, and fifteen days after the due date of the return. As of April 15, 2012, all taxable years prior to 2009 are barred to correction unless a timely return was filed. Although the FICA taxes may be collected by IRS, SSA will not credit the earnings to the worker’s record.

A couple of things can happen in our lives prior to retirement whereby social security can come into play namely disability or death. We will talk a little bit about both of these categories.

IV. Disability Benefits

Clients who become totally disabled prior to full retirement age may qualify for monthly payments from SSA. As you would expect the worker must have worked long enough under social security to be insured. The number of credits that are needed varies depending on the age at which the disability began.

A. Very Young Workers

Very young workers who become disabled prior to age 24 only need six work credits out of the 13 calendar quarters prior to disability. I have had many clients who were disabled at a very young, usually due to some trauma. Many qualified for disability based on summer jobs and after school jobs they had held. While the amount of the monthly benefit was usually very small, two years after becoming entitled to disability the client became eligible for Medicare. In most cases, the Medicare was much more important than the benefits.

B. Disability After age 24 and Prior to Age 31

Clients who become disable after age 24 but prior to age 31 must meet a different insured status rule. Beginning with the calendar quarter after age 21 and ending with the calendar quarter that the disability began, the client requires ½ of those elapsed calendar quarters to be social security credits.

As an example, assume the worker became disabled at age 28 on June 15, 2010 (her birth day). Twenty-eight calendar quarters have elapsed after the June 2003 quarter and ending with the
June 2010 calendar quarter. During that same period of time, the worker would need 14 Social Security credits

C. Disability After age 31
Clients who become disabled after age 31 must be both “fully insured” and have 20 credits out of the 40 calendar quarter prior to becoming disabled. Forty credits will satisfy the fully insured requirement.

*KIM: When the client leaves the work force, the credits earned up through that time will probably carry him/her for five years following the year last worked. Beginning with the sixth year of no additional work, the client is no longer insured for disability benefits.*

D. Disability after Social Security Retirement
I get questions from people who are receiving their Social Security retirement benefits as to their rights to filing for disability.

If a person can establish that he/she meets the Social Security definition of disability at least six full months prior to full retirement age, they could have their Social Security retirement benefits re-calculated and would receive a higher benefit. In such cases, their retirement benefits would be permanently reduced only by the number of months for which they had received reduced retirement benefit.

E. Disability after Death.
A period of disability can be established even after the death of the worker. I recently had a client who passed away due to cancer. She was diagnosed in October 2009 and fought so very hard from that date up until her death on Valentine’s Day, February 14, 2011. Fortunately, she had a long work history with a wonderful employer and had saved her sick and personal leave and was able to carry the unused leave from year to year. She had almost one full year of leave so that she continued to receive her full salary until her death. I advised her widower to be sure and file a “disability after death” application with Social Security when he filed the survivor application for their minor daughter. I advised him to carry a list of the treating physicians and the times and places of her periods of hospitalization. After his visit to his local SSA office in an office in the northeast, he called to tell me that he had been told that he “did not have a case because his late wife had her same salary”. I immediately helped the client file a disability after death claim, established the fact that his wife had never returned to work at the gainful level.
The medical decision was issued very quickly and the underpayment was issued to the widower and to the minor child. There were 10 months of past due benefits for the deceased worker and 10 months of past due benefits for the minor child.

*KIM: Keep in mind that the definition of disability is that the worker must not be working at the substantial gainful level. Leave payments do not represent current work. Also, remember applications for disability after death must be filed within 60 days of the worker’s death.*

**F. Other Disability Reminders:**

The definition for disability is the same nationwide.

Workers have to be insured as of the date they became disabled. Many workers age 31 and older are informally denied in an SSA office or via phone because they have not worked in five of the last 10 years. The technicians failed to ask, “When did you become disabled?” The five out of the last 10 years work requirement must be met at the time the person became disabled, not as of the current date. A period of disability can be established retroactively to the time the worker was insured and disabled. Payments can only be made 12 months retroactive from the month the disability application was filed.

All disability denials should be appealed to the administrative law judge level because the first person that ever sees the client face to face and has the power to award benefits is the administration law judge.

Blind clients only have to be fully insured to qualify. There is no “recent work” requirement.

When both members of a couple work in family business, be sure that earnings are reported to both records so that each individual will be insured for disability benefits.

**V. Survivor Benefits for Widows and Widowers**

Most female workers are aware of their potential rights to benefits as a widow of a deceased husband.
Unfortunately, I have counseled many male workers who lost their wives, yet failed to file for widower’s benefit when they were eligible. Many times I will get a client who wants my help in filing for his Social Security retirement benefits and during the process, I discover that the client is widower who could have been receiving monthly widower’s benefits from his late spouse’s work record. A widow(er) can be eligible as early as age 60 and must have been married at least one year.

*KIM: Widow(er) must keep their earnings from wages and their profit from self-employment under $15,120 per year to receive all monthly widow(er) checks prior to the year they attain full retirement age. Many people think that widows are not subject to the earnings test. Not true.*

**VI. Survivor Benefits for Former Divorced Widow(er)**

In addition to meeting the requirements above, if the client is divorced from the deceased worker he/she must have been married to the deceased for 10 full years prior to the final divorce. In addition, the client must be “un-married” at age 60 OR become “unmarried” at a later date. It does not matter how many marriages the client may have had in the past as long as they are “unmarried” at age 60 or become unmarried later. It also does not matter how many prior spouses the deceased worker may have had or even if the deceased was currently married.

**VII. Independently Entitled Divorced Spouses**

This is a very unusual category of benefits. If the client was married for the 10 years prior to the divorce AND the divorce from the worker has been in effect for at least two years, the client can receive spousal benefits as early as age 62 EVEN IF the worker has not retired or established his/her entitlement to SSA thus, “independently entitled”. The worker must be at least age 62 and insured. Once again, the entitled spouse under full retirement age (FRA) must keep his/her earnings under the $15,120 per year to receive all monthly checks for the 2013. If the worker has a *current legal spouse* who is also at least age 62, that spouse cannot receive a check as a spouse unless the worker does establish his/her entitlement to SSA benefits.

It is interesting to see the dynamics where in the former divorced spouse is receiving benefits from the worker but the worker’s current spouse cannot because the worker has not established his/her social security entitlement.
VIII. Retirement Benefits

I have never had a client who was not aware that Social Security retirement benefit could be paid as early as 62. I do continue to have clients who are confused as to when “un-reduced” benefits are payable. Social Security refers to “normal retirement age” as the age at which the worker can receive full un-reduced benefits. Most financial planners use the term, “full retirement age” to describe the age at which a client can receive un-reduced benefits. I like and use that same term and will commonly refer to it as FRA.

There are many charts, booklets, etc. available on Social Security’s web site containing the age at which a person attains full retirement age. Right now, the clients I am seeing were born between 1943 and 1954. They attain FRA at age 66. For the balance of this presentation, I will be using those birth years.

Magic happens at FRA! Beginning with the month of FRA attainment a worker is allowed to earn all the wages and or have all the self-employment profit and still receive all monthly Social Security benefits if they so desire. In other words, there is not earnings limit beginning with the month of attainment of FRA. In addition the calculation of the benefit amount is the full “primary insurance amount” commonly referred to as PIA.

If a client elects to receive his/her retirement benefit prior to FRA, the PIA is reduced. I will not go into the exact reduction factors unless specifically requested to do so.

KIP: Retirement estimates can be obtained from Social Security’s web site:
www.socialsecurity.gov.

IX. The Best Retirement Deal

I constantly get the question, “What’s the best deal?”

The best return on your client’s FICA contributions (not the highest check) would be to work for 35 years under Social Security, leave the labor market, at age 59 and stop contributing to FICA. File for benefits at age 62 and be happy. Why is this so?

To understand you need to understand how benefits are calculated.

For all workers born in 1929 and later, thirty-five years of earnings will be averaged together to arrive at the PIA. BUT before the computers select the 35 highest years, all historical years of raw earnings between 1951 and year the client attains age 59 are “indexed”. Basically, those historically raw earnings are brought up to the current value of those earnings in today’s market. Beginning with the year of attainment and all years thereafter only reported earnings are
considered. Once indexed, the computer will select the highest 35 years of earnings beginning with 1951 and ending with the year before the year that the Social Security retirement application is filed. Those years will be totaled and then divided by 420 (35 years X 12 months). The result will equal the client’s average indexed monthly earnings (AIME). The client receives 90% of some of that average, 35% of some of the rest and 15% of the balance. These three percentages are added together to arrive at the PIA. We are not getting into more detail that this. To make my point as to the best deal, I must give you a case example:

We have twins both born 2/1/1945. Both of the twins worked and earned the maximum under FICA allowed yearly amounts beginning with 1966. Twin A retired December 31, 2004 and filed for his retirement benefit with Social Security at age 62 (February 2007). Twin A’s PIA was $2088. His monthly benefit amount was $1575. In December 2007, his benefits were increased by a cost of living up to $1611. In December 2008, his rate again increased to $1704. Between 2/2007 and December 2010, he received $77,682 in total SS benefits. He has paid a total of $81,071 in OASI taxes. In total FICA taxes he has paid $116,909.96.

Twin B continued to work and earned the SS maximum through 2010. He filed for un-reduced SS retirement benefits effective January 2011. His is entitled to full PIA of $2366 per month. In addition, he has continued to pay FICA taxes. During his working career, he has paid a total of $112,727 in OASI taxes. In total FICA taxes, he has paid $164,335.

At the time twin B establishes his Social Security retirement benefits he is already $77,682 behind in retirement benefits and has paid $31,656 more in OASI taxes. Lost benefits plus additional OASI taxes total $109,338 ($77,682 plus $31,656 taxes).

Who has the best return on their FICA investment? It will take Twin B 162 months (13.7 years) of receiving the higher monthly retirement checks to catch up with twin A.

At age 79 and seven months twin B has caught up and for every month thereafter, he is $662 ahead.

KIM: If the client has 35 years of work under Social Security, additional work after age 59 may increase the PIA, but it will usually take 14 years (to age 80) or more of receiving the higher check to recover the additional FICA taxes paid.

X. Delayed Retirement Credits

Clients who delay receipt of their Social Security retirement benefits beyond FRA (full retirement age) receive higher monthly benefits. For those who delay until age 70 get an
increase of 32%. Over the last two years I have had many client who wanted to postpone their entitlement to Social Security benefits even knowing that they could continue working and earning all they wanted to without losing any SS checks. As long as they understand their choices, I have no problem with whatever they decide to do, HOWEVER, If you hear of anyone who is deciding to delay beyond full retirement age, please share the following with them.

XI. File and Restrict or File and Suspend

At full retirement age you are allowed the file an application for benefits from the spouse’s work record, and restrict your application to benefits on that record only. You would continue to earn “delayed credits” until you decide to file for your benefits or when you attain age 70. Your spouse must be entitled to their Social Security benefits. This is commonly referred to as, “file and restrict”.

Another quick story, I made several presentations in Wisconsin in the fall of 2010. After one of my evening sessions, I was approached by a couple both age 69 as of October. In fact, they had the same birth month. “Mr. Caulder, we knew we had enough money to die on, but we weren’t sure we had enough money to live on. We have both worked and we plan to take out Social Security at age 70 next year.” Mr. Badger explained. “Did you both take Medicare at age 65? I inquired. “Oh yes” Mrs. Badger replied. I reviewed their Social Security printouts that they had brought. Mr. Badger’s PIA was $2300. Mrs. Badger’s was $2000.

“Is one of you currently receiving Social Security from the other one’s work record?” I asked. Both looked at each other with a puzzled face then back at me. “What do you mean, Mr. Caulder?”

“Mr. Badger, since your primary amount is the highest, I think you should contact your local Social Security office and file an application for retirement on your work record. Since you do not want to actually receive the benefits until you are age 70, immediately tell the technician at Social Security that you want to suspend your benefits.” At the same time, Mrs. Badger you go with your husband and file an application for wife’s benefits only. Since you are also full retirement age, you can restrict the application to only wife’s benefits from Mr. Badger’s record and then at age 70, file for your own retirement. You would then be switched from wife’s benefits, to full retirement benefits with all delayed retirement credits.”

“Mr. Badger, when you attain age 70, you will be automatically taken out of suspense and begin receiving you full Social Security retirement benefits with all of your delayed retirement credits.”
They were completely shocked. Mrs. Badger had at that point already lost Social Security wife’s benefits from October 2007 through September 2010 (36 months). Her wife’s rate was $1150 per month. As you can see she had lost $41,400; however, Social Security could pay her six months retroactive benefits reducing her loss to $35,500.

Many of my clients in the last 3 years have taken advantage of the “file and restrict” or “file and suspend” provisions in the regulations.

**KIM: In life case, an application for reduced benefits with Social Security, is an application on any other record to which the client might be entitled. An application for un-reduced benefits can be restricted to someone else’s record. The other worker must be entitled, but does not have to be receiving benefits.**

**XII. Dependent Grandchildren**

In my state, South Carolina, as well as other states across the US, I find many grandparents raising grandchildren. In many cases, the grandparent took the child home from the hospital at birth and the child has never lived with the natural parents. Clients who are raising grandchildren should be aware that if both of the natural parents are either deceased or disabled, the grandchild might be able to receive a Social Security check when the grandparent has established his/her entitlement to Social Security.

In most cases, the natural parents are not disabled and or deceased. As a client of mine raising his two grandsons expressed, “They are my son’s children and his ex-wife. They are not dead or disabled, they are just sorry”.

My recommendation to the client was to get his sorry son and his sorry ex-wife together and tell them that he wanted to adopt the two boys.

“Oh, no, they want me to support the boys, but they will never let me adopt them.”

“Explain it this way,” I said. “You know, I am about to begin receiving my Social Security retirement benefits. If I adopt the two boys, each one will get a monthly check based on my work record. Something could happen down the road, and you might get the boys back. They would come with a check.”
You guessed it, the son and ex-wife agreed and the two boys receive a monthly check and will do so until age 18, or graduates from high school or age 19 whichever is first.

**XIII. Annual Earnings Test**

All beneficiaries receiving Social Security benefits (except those on disability) are subject to an annual earnings test up until the attain FRA.

Beneficiaries less that FRA in this calendar year must limit their earnings to $15,120. If they earn over that amount, they would lose $1 for every $2 over the limit.

Beginning in the year the beneficiary attains FRA, the earnings limit jumps to $40,080 UP UNTIL THE MONTH the person attains full retirement age. Beginning with that month, there is not earnings limit. For every $3 above the limit, the beneficiary looses $1 in benefits.

I always recommend that workers attaining FRA in the calendar year, contact SSA in January of that year. Give SSA an estimate of your expected wages/sei for the months up to FRA. You might be surprised to learn that it could be a better deal to elect to begin your SSA retirement benefits for January, rather than the month of attainment of FRA.

*KIM: Only wages and or profit from self-employment are considered earnings for the test. Self-employed loses can be deducted from wages earned before applying the test. The earnings count toward the test when they are earned, not when paid.*