

Social Security Benefits

SUMMARY

Knowing when and how to begin collecting Social Security benefits is an important step in your retirement process. Established in 1935, Social Security provides a safety net for eligible Americans, offering a guaranteed source of income for life. While not designed to be the sole source of income during retirement, Social Security benefits provide a cushion that can supplement a pension, personal investments and savings.

Morgan Stanley takes a holistic view of planning for retirement. In considering how your Social Security benefits will affect your retirement plan, here are some questions that ought to first be answered:

How are Social Security retirement benefits calculated?

How do I determine when to receive benefits?

Are Social Security benefits subject to taxation?

What are the benefits to a spouse and survivor?

How are Social Security retirement benefits calculated?

When you work and pay Social Security taxes, you earn a maximum of four credits, or building blocks, per year towards your benefits. To qualify for Social Security retirement benefits, you must accumulate a minimum of 40 credits, or 10 years of work.

While credits determine eligibility, your retirement benefits under Social Security are based on lifetime earnings, which are indexed to account for changes in average wages. The program, however, limits the maximum amount of earnings used in computing the benefit (\$118,500 for 2015 and 2016). The

Social Security Administration estimates that on average, benefits replace about 40% of pre-retirement earnings. For higher-wage earners, the benefits represent a much smaller percentage of retirement income.

BOOST YOUR SOCIAL SECURITY BY WORKING LONGER. Your earnings record for Social Security continues to be updated as long as you work and pay into Social Security. If you keep working at a relatively high salary, it can cause one of your lower-earning years to drop off the 35-year earnings record and serve to boost your primary insurance amount (PIA).

Important Changes to Social Security Planning Strategies

The Bipartisan Budget Act of 2015, eliminated the popular "File and Suspend" strategy for taxes filed after April 30, 2016. The act also eliminated the Restricted Application Strategy for individuals not reaching age 62 by December 31, 2015. This enabled a spouse to claim a spousal benefit at the full retirement age and then switch to their own retirement worker benefit at a later date.

Things to Keep in Mind

Who do these changes affect?

- If you are already implementing either of these strategies, there is no change; you are grandfathered in.
- People born on or before May 1, 1950, must request benefit suspension by April 29, 2016, if they wish to use file-and-suspend so a spouse can claim spousal benefits.
- People born between May 2, 1950, and Jan. 1, 1954, will remain eligible for restricted application, but not file-and-suspend.
- People born on or after Jan. 2, 1954, will be unable to use either strategy.

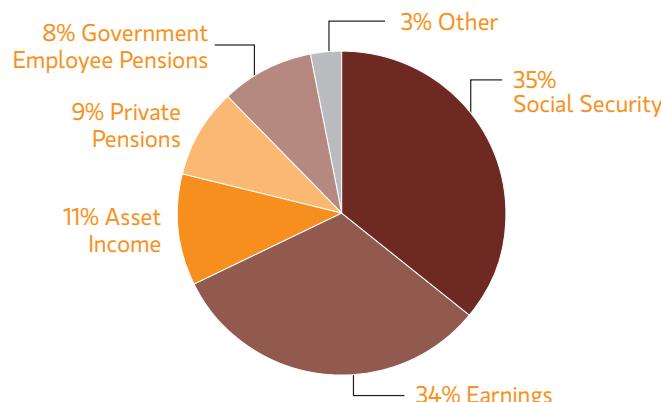
Claiming Spousal Benefits of Ex-spouse:

If you divorce following a minimum of 10 years of marriage, you're entitled to collect spousal retirement benefits as long as you are 62 or older. If you remarry, you generally cannot collect on your former spouse's record unless your subsequent marriage ends. If your divorced spouse dies, you can receive benefits as a surviving divorced spouse as long as your marriage lasted 10 years or more and you don't remarry before age 60.

Talk To Us

Your Social Security benefits are a key piece in your retirement plan. Before making any decision, talk to us about when to take Social Security. We can run a customized Retirement Analysis that incorporates your potential benefits into a comprehensive plan for the retirement you envision.

Sources of Retirement Income



Source: Social Security Administration, Fast Facts & Figures about Social Security 2014.

How do I determine when to receive benefits?

You don't automatically begin to receive benefits once you become eligible for Social Security. You must apply online or by calling 1-800-772-1213 or by visiting a Social Security office. You may choose to retire at the full retirement age (FRA), retire early or delay your retirement. Your choice has an impact on your benefits.

FULL RETIREMENT AGE. The Social Security Administration determines the full retirement age, i.e., the age you're entitled to full retirement benefits. Those born between 1943 and 1954 are eligible for full benefits at age 66. For those born in 1955 and thereafter, the FRA gradually rises (table).

EARLY RETIREMENT. You may begin receiving Social Security when you turn 62. But retiring at the age of 62 will result in a permanently reduced benefit, ranging from 25% to 30%, depending on your year of birth.

DELAYING RETIREMENT. Delaying retirement increases benefits. For those born in 1943 and thereafter, an additional 8% is credited to your permanent benefit amount for each year you wait after reaching the FRA, until you reach age 70. Past 70, no additional credit is added.

CONSIDERATIONS. Here are a couple of additional factors to keep in mind in deciding whether to take benefits early,

Age to Receive Full Benefits and Reduction for Early Benefits

YEAR OF BIRTH	NORMAL RETIREMENT AGE	% OF FULL BENEFITS AT AGE 62
1943-1954	66	75.0
1955	66 and 2 months	74.2
1956	66 and 4 months	73.3
1957	66 and 6 months	72.5
1958	66 and 8 months	71.7
1959	66 and 10 months	70.8
1960 or later	67	70.0

Source: <http://www.socialsecurity.gov/retire2/agereduction.htm>

wait until full retirement age or delay your retirement:

Working and receiving Social Security.

You can work while you receive Social Security (or survivor) benefits. If you are below the full retirement age, the annual limit on earnings is \$15,720 in 2015 and 2016. If you attain full retirement age (FRA) in 2015, the earnings limit is \$41,880 for the period before the month you attain FRA (earnings limit is \$41,880 in 2016). *• If you are below full retirement age, \$1 in benefits is deducted for every \$2 earned above the annual limit.*

- In the year you reach full retirement age, \$1 in benefits is deducted for each \$3 earned above the limit.*

- Beginning with the month that you reach your normal age for retirement, you can receive your benefits with no limits on your earnings.*

Health history. Consider your personal and family health history. If you're in good health and longevity runs in your family, postponing retirement and Social Security will result in higher benefits. Conversely, if you're in poor health and foresee a briefer life expectancy, you may want to initiate benefits sooner.

Are Social Security benefits subject to taxation?

You may be subject to income taxes if you have substantial income from other sources such as wages, self-employment, interest, dividends and other reportable taxable income in addition to your benefits. It depends on whether your "combined income" (your adjusted gross income + nontaxable interest + 1/2 of your Social Security benefits) exceeds certain levels.

For those filing a federal tax return as an individual with a combined income:

- *between \$25,000 and \$34,000, you may pay income taxes on up to 50% of the benefits.*
- *exceeding \$34,000, you may pay taxes on up to 85% of the benefits.*

For those filing a joint return with a combined income:

- *between \$32,000 and \$44,000, you and your spouse may pay income taxes on up to 50% of your benefits.*
- *greater than \$44,000, you and your spouse may pay taxes of up to 85% of your benefits.*
- *If you are married and file separately, you will probably pay taxes on benefits.*

SPOUSAL BENEFITS. If you're the working spouse, your nonworking spouse at full retirement age is eligible to receive the higher of 50% of your retirement benefit or 100% of his/her own benefit. Your spouse can begin collecting the benefits as early as age 62. However, if the benefit

begins early, the amount will be permanently reduced by a percentage based on the number of months up to his or her full retirement age. The benefits for your spouse do not include any delayed retirement credits you may receive.

SURVIVOR BENEFITS. For marriages where only one spouse was employed, if the working spouse dies, the surviving spouse will receive 100% of the working spouse's benefit at his/her normal retirement age. The 50% spousal benefit stops at that time. If both you and your spouse take Social Security retirement benefits based on your own earnings records, the surviving spouse will receive whichever is the greater of the two benefits. If those amounts are equal, then upon the death of the first spouse, payments for that spouse will cease.

Rules that apply to the survivor's benefit:

- *If the worker died before receiving Social Security retirement benefits, the surviving spouse at full retirement age will receive 100% of the worker's benefit. Survivor benefits received between age 60 and normal retirement age will be permanently reduced.*
- *If the worker died after receiving Social Security retirement benefits, the amount received by the surviving spouse cannot exceed the amount of the benefit paid to the worker.*
- *If you remarry before age 60 (age 50 if disabled), you cannot receive benefits as a surviving spouse while you are married. If you remarry after you reach age 60 (age 50 if disabled), you will continue to qualify for benefits on your deceased spouses' Social Security Record.*

Impact of Early, Normal and Delayed Retirement on Monthly Social Security Benefits

Assumptions

Date of Birth: 12/01/1953
Current Earnings: \$100,000

MONTHLY BENEFIT IN TODAY'S DOLLARS	
Start at Age 62 and 1 month	\$1,629
Start at Age 66 in 2019	\$2,235
Start at Age 70 in 2023	\$3,040

Source: <http://www.socialsecurity.gov/OACT/quickcalc/index.html>

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