SOCIAL SECURITY GUIDE

HOW TO GET THE MOST OUT OF ONE OF YOUR BIGGEST RETIREMENT ASSETS

www.FoxRiverCapital.com | Contact@FoxRiverCapital.com | (920) 659-1202

Table of Contents

Social Security's Status

When we talk with our clients and centers of influence, if Social Security comes up, it's almost guaranteed we'll hear something like: "Social Security is bankrupt!" or "Why plan for Social Security, it's going to be gone before I get there!" Exactly how much trouble is Social Security in?

According to the Social Security Trustees, with no changes, the Social Security retirement insurance fund will not experience cash flow deficits (paying more benefits than payroll taxes coming in) until 2034. After that, (again, with no changes,) the actuarial estimate is that payroll taxes would be able to cover 79% of all retirement benefits after 2034.[1]

Put simply, even with no changes, Social Security benefits are 80% funded. Will there be changes? We don't need to speculate about future government action…It's already happened.

In the Fall of 2015, Congress took away a lot of valuable strategies (like File-and-Suspend, Filing Restricted, and others) that allowed people to get more benefits. That single change already was an effective benefit reduction for anyone that could've benefited from using it. We believe that's likely to be the last major change for those close to retirement, for a few reasons.

Even with no changes, Social Security benefits are 80% funded.

[1] https://www.ssa.gov/OACT/TRSUM/index.html

Think about the Baby Boomers right now. Over 70 million people all approaching or in retirement. That's a huge, huge block of voters heavily dependent on the status quo. A change for them just before retirement would be a massive shock to the system. Don't bet on it.

That said, the federal government still needs to close the benefits gap from 78% to 100% somehow, here's a few methods they could utilize to do so:

Raise Full Retirement Age

We believe it's highly likely they back the full retirement age up again, especially for those furthest from retirement (youngest.) The closer you are to retirement, the less likely your Full Retirement Age will be delayed.

Raise Payroll Taxes

FICA taxes supporting Social Security are currently 12.4%, employee and employer each pay 6.2%, on the first $118,500 of annual earnings.[2] We believe raising the payroll tax rate significantly is not likely, mainly due to political repercussions of a tax increase that effects all workers. In fact, we see the next option as far more likely.

[2] https://www.ssa.gov/policy/docs/quickfacts/prog_highlights/RatesLimits2016.html

Lift the FICA Earnings Cap

As stated above, FICA is only paid on the first $118,500 of annual earnings. Raising this cap would have a dramatic effect on the funding status of Social Security. Also, we believe it would be much easier, politically, to raise the taxes on earners making over $118,500 than raising the payroll tax rate equally for everyone. We see this as one of the most likely scenarios.

Reduce Benefits

Will the government reduce benefits on those near retirement? Highly unlikely. Might they reduce benefits for those further away? It is possible. We believe any reduction of benefits is more likely to come in a "stealth" way like by eliminating or severely restricting the Cost of Living Adjustment (COLA) or by using the next tool in their toolbox…

Inflation

Are they literally printing more cash? No. (Well, maybe a little bit.) When we talk about printing money we mean in the electronic sense. Buying bonds from the private market in exchange for electronic dollars that go into bank accounts and out into the economy. Inflation is a manmade phenomenon, and one of the federal government's favorite ways to get out of paying full price. Debt and credit is what creates inflation.

In summary, there's too many voters that have too much stake in the system for huge negative changes. Will younger people see delayed retirement ages and increased payroll taxes (and most likely raised payroll tax ceilings)?
Almost certainly.

That still doesn't mean Social Security is worthless. It's still a gigantic retirement asset for the average household and will continue to be for the foreseeable future.

Adjusting Social Security

For our estimates, we typically reduce estimated benefits by about the following percentages and delay for the following timeframe:

	% Reduction	Time Delay
Over 50	**None**	**None**
Age 40-49	**10%**	**1 year**
39 and Under	**20%**	**2 years**

For example, if a 45 year old had a full retirement benefit of $1,500 per month at age 67, we would build his retirement plan with a monthly benefit of $1,350 beginning at age 68. (Assuming no delayed claiming strategies we discuss later on.)

While we think most changes are going to be smaller than expected, it's better to plan on the conservative side. If they don't happen you'll either be able to retire earlier than you thought or have more income, or maybe even both. We believe that's more than enough of an adjustment for a conservative estimate.

Social Security Returns

Have you ever wondered, "I'm putting in 6.2% of my income, I could be investing that money, am I getting any 'growth' on it?" The Social Security Administration released an actuarial note in 2005[3] that computed Real Internal Rates of Return on Social Security dollars. Here's one key finding:

A "High" earning worker (SSA Definition: Career average earnings of $52,624 in 2003 dollars) born in 1964 and living to life expectancy will see a Real Internal Rate of Return (i.e. adjusted for inflation)of 1.24% if he is single, 3.53% if he's the earner in a one-earner couple and 1.62% in a two-earner couple…and these numbers assume no changes or reductions.

In short, is it a strong-performing investment? No. A financially sound institution? No. But is it a major asset for the average retiree and an often underestimated one? Absolutely.

Read on to find out how to look up your benefit, how to value it, how to decide which option is best for claiming and how to select an advisor that has the expertise in Social Security you need to thrive in retirement.

[3] https://www.ssa.gov/oact/NOTES/ran5/an2004-5.html

How your benefit is calculated

To receive any retirement benefits, if you were born in 1929 or later, you need 40 quarterly credits (10 years of work).[4] Your benefits will be based on the highest 35 years of inflation-adjusted income that you paid Social Security taxes on.[5]

What is my Full Retirement Age?

If you were born 1937 or earlier, your Full Retirement Age (FRA) was 65. Beginning in 1938, every year backs up your retirement age 2 months, until 1943.[6]

From 1943 to 1954, Full Retirement Age was 66, until it was raised again, and you can see in the chart below, the 2 months for each year was enacted again. Those born in 1960 or later have a Full Retirement Age of 67.

The following page has a chart that lays out all the various full retirement ages, but if you'd rather use an online calculator, Social Security has a Full Retirement Age solver on their website, here:

https://www.ssa.gov/planners/retire/ageincrease.html

[4] https://www.ssa.gov/planners/credits.html#&a0=1
[5] https://www.ssa.gov/pubs/EN-05-10070.pdf
[6] Chart Avaiable at: https://www.ssa.gov/planners/retire/retirechart.html

Year of Birth *	Full Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
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

**If you were born on January 1st of any year you should refer to the previous year. (If you were born on the 1st of the month, we figure your benefit (and your full retirement age) as if your birthday was in the previous month.)*

Spousal Benefits

Even if you have never worked, you may be able to access your spouse's Social Security retirement benefits.

- You must be at least 62 years old
- Your spouse must be receiving benefits
- Or if you are caring for their child receiving benefits

Ex-Spousal (Divorced) Benefits

You may be able to receive benefits on your ex-spouse's earnings record (even if they are remarried) if:

- You are unmarried;
- Your marriage lasted 10 years or more
- You are age 62 or older;
- Your ex-spouse is entitled to Social Security retirement or disability benefits and
- The benefit you are entitled to receive based on your own work is less than the benefit you would receive based on your ex-spouse's work.[7]

Survivor Benefits

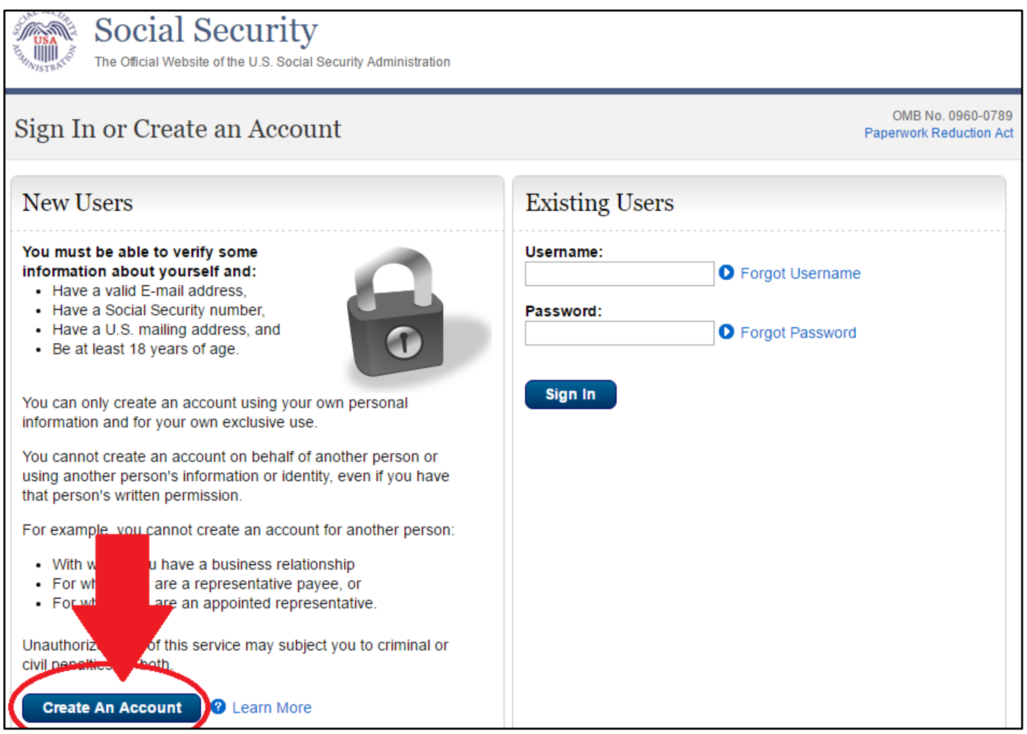
In the case of 2 married spouses who are both receiving benefits, many people have a false impression that when one spouse dies the surviving spouse still receives both Social Security amounts. Not true, the surviving spouse only receives the larger of the two Social Security benefits.[8]

[7] https://www.ssa.gov/planners/retire/divspouse.html
[8] https://www.ssa.gov/planners/survivors/#&sb=0

How to Look Up Your Benefits

Have you ever looked up your estimated Social Security benefits before? It's easy to do. Just visit www.SSA.gov and create a login. (In the current version of the SSA.gov website, you can create a login by clicking "Sign In" in the upper right corner and then "Create an Account" on the bottom left of the next screen. See pictures below.)

The next screen:



Once you are logged in, you'll want to click on a tab that says "My Estimated Benefits." They will give you your benefits 2 ways, one if you "turn them on" at age 62, and another at Full Retirement Age. With your Full Retirement Age benefit value, experienced planners can calculate the benefit amounts at any different point, as it's just a simple equation once they know your benefit values.

These estimated benefits assume that you work until the date you claim benefits. For example, if you are going to retire at 60, your benefit at 62 will actually be lower than what Social Security is estimating. There are other ways your benefits could be negatively impacted, too.

Benefit Reductions

The Earnings Test

In 2016, if you earn more than $15,720 per year and are collecting Social Security before full retirement age, your benefits are reduced by $1 for every $2 you earn over that limit.[9]

There's some good news. In 2016, if you are within 12 months of full retirement age, you have a much higher earnings limit, $3,490 per month ($41,880 per year) without having your benefits reduced. (The reduction is $1 for every $3 over the limit.) There are also other benefit reductions to be aware of.

[9] http://www.nolo.com/legal-encyclopedia/will-i-get-penalized-working-while-collecting-social-security-retirement.html

Benefit Reductions for Early Retirement

Social Security reduces your benefits if you take them before your full retirement age. The reduction is 5/9 of 1% for each month early for the first 36 months, and 5/12 of 1% for each additional month early. You may wonder why such strange fractions? If we multiply 5/9 by 36, taking benefits 36 months early is a 20% reduction. If we multiply 5/12 by 24 months, we get 10%. Basically, if your full retirement age is 67 and you take it at 62 (5 years early) that is a 30% reduction in benefits.[10]

Windfall Elimination Provision

This essentially eliminates the possibility of someone getting both Social Security (that they didn't have to pay for) and a pension. If you worked for an employer with a pension, and they didn't withhold Social Security taxes from your salary (these are generally government entities) your Social Security benefits may be reduced by the Windfall Elimination Provision (WEP.) If you had 30 years of "substantial earnings" that were taxed by Social Security, you can avoid a WEP reduction.

If you have at least 20 years of "substantial earnings" that were taxed by Social Security, your WEP reduction will decrease (i.e. you'll get closer to full benefits) for each year you get closer to 30 years.

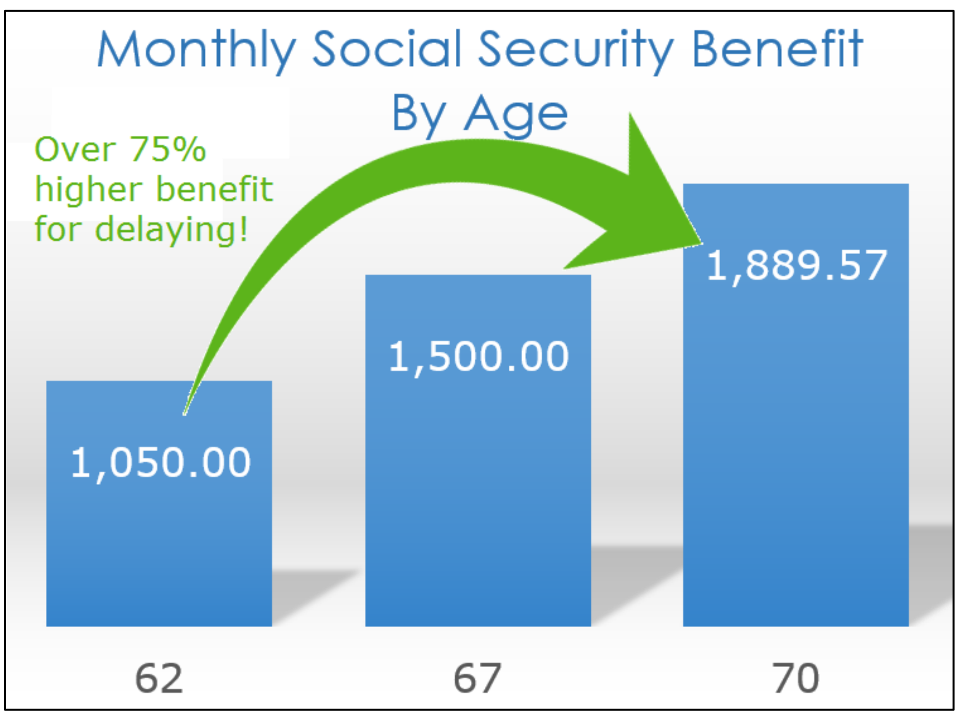
[10] https://www.ssa.gov/oact/quickcalc/earlyretire.html

Government Pension Offset

A related concept to Windfall Elimination, the Government Pension Offset (GPO) effects spousal, ex-spousal and widow(er) benefits for someone that is a beneficiary of someone that did not have Social Security taxes withheld from their salary. The GPO reduces spousal, ex-spousal, and widow(er) benefits by $2 for every $3 of non-Social Security pension benefits. Let's get into some positive changes to the basic benefits.

Credit for Delaying

What about for taking benefits after full retirement age? For those born after 1943, benefits increase 8% for each year you delay taking benefits. Did you know you can delay Social Security benefits to age 70? (On your 70th birthday and beyond, no credit is given for delaying.)



If you do the math, delaying Social Security from age 62 to 70 results in a benefits increase of over 75%! This is a monthly benefit that can also grow for inflation through a Cost of Living Adjustment (COLA).

Social Security's Cost of Living Adjustment

Social Security provides inflation adjustment automatically through a Cost of Living Adjustment (COLA). The COLA is calculated by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

The largest ever COLA was 14.3% in 1980…but it's been a long time since retirees have seen COLA's like that. In fact, in 2016, there was no COLA at all, and 2010 and 2011 were back to back years that saw no COLA. The long term average COLA is 2.39% annually.

Some good news is that when you delay benefits, if there's a COLA, your delayed benefit grows by the 8% delay credit plus the COLA! These can add up in a big way, but have you ever wondered about the total value of your Social Security benefits?

The Present Value of Social Security

Imagine if someone could "acquire" your lifetime Social Security benefits today. What dollar amount would get you to give up your benefits? $10,000? $50,000? $100,000? This was an interesting question posed by a client several years ago, making up the hypothetical situation just for fun…then it got stuck in our head and we had to know just how much Social Security is "worth" for an average family.

For the purpose of this argument, let's say our hypothetical clients are named Mike & Linda. They are both eligible for Social Security retirement benefits today, and they each have a monthly benefit (at age 62) of $1,000. (According to SSA.gov the average monthly Social Security retirement benefit is $1,285, but this includes people who deferred the benefit and received a much larger amount, so we'll be conservative and use $1,000 for this example.)

If we assume they both turn their benefits on immediately, and we assume 2% annual Cost of Living Adjustment going forward, and both have a life expectancy of 85 (a rough approximation, but close to what Social Security's tables say, and we'll cover longevity in much more detail in a few pages) we get a cumulative lifetime value of $730,124!

	Mike	Linda	Total
62	12,000.00	12,000.00	24,000.00
63	12,240.00	12,240.00	24,480.00
64	12,484.80	12,484.80	24,969.60
65	12,734.50	12,734.50	25,468.99
66	12,989.19	12,989.19	25,978.37
67	13,248.97	13,248.97	26,497.94
68	13,513.95	13,513.95	27,027.90
69	13,784.23	13,784.23	27,568.46
70	14,059.91	14,059.91	28,119.83
71	14,341.11	14,341.11	28,682.22
72	14,627.93	14,627.93	29,255.87
73	14,920.49	14,920.49	29,840.98
74	15,218.90	15,218.90	30,437.80
75	15,523.28	15,523.28	31,046.56
76	15,833.75	15,833.75	31,667.49
77	16,150.42	16,150.42	32,300.84
78	16,473.43	16,473.43	32,946.86
79	16,802.90	16,802.90	33,605.79
80	17,138.95	17,138.95	34,277.91
81	17,481.73	17,481.73	34,963.47
82	17,831.37	17,831.37	35,662.74
83	18,188.00	18,188.00	36,375.99
84	18,551.76	18,551.76	37,103.51
85	18,922.79	18,922.79	37,845.58
Cumulative Benefits			$730,124.70

Is $1 at age 85 worth the same as $1 today? Of course not. All else being equal, you'd much rather have the dollar today, not just because of inflation but because of what that dollar could grow to and what opportunities you have today. Let's take into account basic Time Value of Money, (using a 5% discount rate, and we understand we could write another 30 page report on the proper discount rate, but we feel clients would rather have a fast approximation than a theoretically perfect value.) **we arrive at a Present Value of over $400,000.**

	Mike	Linda	Total	Present Value
62	12,000.00	12,000.00	24,000.00	22,857.14
63	12,240.00	12,240.00	24,480.00	22,204.08
64	12,484.80	12,484.80	24,969.60	21,569.68
65	12,734.50	12,734.50	25,468.99	20,953.40
66	12,989.19	12,989.19	25,978.37	20,354.73
67	13,248.97	13,248.97	26,497.94	19,773.17
68	13,513.95	13,513.95	27,027.90	19,208.22
69	13,784.23	13,784.23	27,568.46	18,659.42
70	14,059.91	14,059.91	28,119.83	18,126.29
71	14,341.11	14,341.11	28,682.22	17,608.40
72	14,627.93	14,627.93	29,255.87	17,105.30
73	14,920.49	14,920.49	29,840.98	16,616.58
74	15,218.90	15,218.90	30,437.80	16,141.82
75	15,523.28	15,523.28	31,046.56	15,680.62
76	15,833.75	15,833.75	31,667.49	15,232.60
77	16,150.42	16,150.42	32,300.84	14,797.39
78	16,473.43	16,473.43	32,946.86	14,374.60
79	16,802.90	16,802.90	33,605.79	13,963.90
80	17,138.95	17,138.95	34,277.91	13,564.93
81	17,481.73	17,481.73	34,963.47	13,177.36
82	17,831.37	17,831.37	35,662.74	12,800.87
83	18,188.00	18,188.00	36,375.99	12,435.13
84	18,551.76	18,551.76	37,103.51	12,079.84
85	18,922.79	18,922.79	37,845.58	11,734.70
Present Value				**$ 401,020.18**

And we haven't even begun discussing the value if they maximize their benefits by delaying claiming or using an advanced claiming strategy. We'll dive into some advanced strategies later on, first, let's discuss the elephant in the room…Longevity.

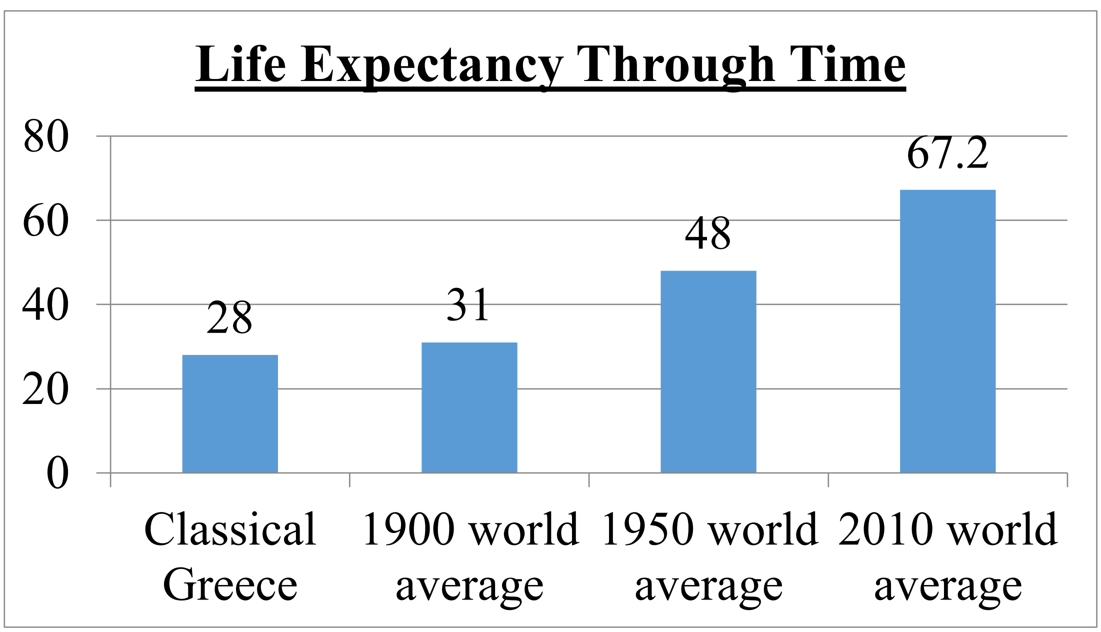
Longevity

Life expectancy is a statistical measure of the average time someone is expected to live, based on the year of their birth, their current age and other factors.

Guess your life expectancy right now, just a pure guess, before reading forward. Go ahead…Got it? Write it down somewhere in the margin. We bet you'll be surprised by the end of this section.

Life Expectancy Through History

Thousands of years ago, in classical Greece, average life expectancy was around 28. Centuries later, in 1900, the average life expectancy was still only 31 years! Think about that. All the growth, all the technology and progress…and only 3 years added to average life expectancy. In the 20th century, a much more exciting thing happened.



Data from Britannica and CIA World Factbook via Wikipedia

Average life expectancy increased from 31 in 1900 to 48 in 1950 to 67.2 in 2010. From adding just a few years to life expectancy over millennia to more than doubling it in a century…what a world changing acceleration!

People Don't Know Their Life Expectancy

*Average life expectancy increased from **31** in 1900 to **48** in 1950 to **67** in 2010.*

In a 2011 report[11], "Key Findings and Issues: Longevity," the Society of Actuaries interviewed 1,600 adults (800 retired and 800 working) ages 45 to 60. They were asked to guess the age to which the average person of their age and gender could expect to live, and **40% were 5 years or more below their actual life expectancy.**

Your Life Expectancy Goes Up Each Year

Did you know that your life expectancy actually goes up as you get older? Take a look at Social Security's life expectancy calculator and tables on the next page. According to Social Security, a man born in 1965 has a life expectancy of 82.4 years on average. (We'll get into more detailed ways to calculate life expectancy soon.) When he reaches age 70, his life expectancy will be 86.7 years.

[11] Key Findings and Issues: Longevity, http://www.soa.org/files/research/projects/research-key-finding-longevity.pdf

Life Expectancy Calculator

The following table lists the **average number** of additional years a male born on January 1, 1966, can expect to live when he reaches a specific age.

At Age	Additional Life Expectancy (in years)	Estimated Total Years
50 and 4 months[a]	32.0	82.4
62	22.7	84.7
67[b]	18.9	85.9
70	16.7	86.7

[a] Your current age.
[b] Your normal (or full) retirement age.

The numbers are even longer for a female the same age:

Life Expectancy Calculator

The following table lists the **average number** of additional years a female born on January 1, 1966, can expect to live when she reaches a specific age.

At Age	Additional Life Expectancy (in years)	Estimated Total Years
50 and 4 months[a]	35.2	85.6
62	25.1	87.1
67[b]	20.9	87.9
70	18.5	88.5

[a] Your current age.
[b] Your normal (or full) retirement age.

Yes, when she reaches 70, her life expectancy will be 88.5 years! The fact is, for each year older you get, that's more risk/uncertainty (tragedy) that didn't happen to you, illnesses and accidents avoided, and your implied life expectancy goes up and up and up. (And up.)

A More Detailed Look at Life Expectancy

For one recent client, Social Security gave them a life expectancy of 82.4 years.

Using a more detailed calculator, that same client got an estimated life expectancy of 94!

All of the calculators thus far have been very "cookie cutter." Social Security for example, only asks for your gender and date of birth. For one recent client, Social Security gave them a life expectancy of 82.4 years. How does this compare to other calculators/sources?

Using a more detailed calculator[12], that same client got an estimated life expectancy of 94! Almost 12 years longer!

This particular calculator is fun because you can change variables like how often you workout each week and see the positive effects it has on life expectancy. Here's the more important point about life expectancy that commonly gets overlooked…

Those are Just the Averages

For the average 65 year old married couple, there's an 18% chance one spouse will be alive at age 95!

Think about this. If the average 70 year old female will make it to 88, that means many will live even *longer.* Also, in a situation with a married couple, joint life expectancy (i.e. the life expectancy for the longer living spouse) is far more important and can become *remarkably* longer.

In fact, as Michael Kitces showed in his post on life expectancy[13], for the average 65 year old married couple, there's an 18% that one spouse will be alive at age 95! Think about that, just shy of a 1 in 5 chance that you will still be

[12] https://www.myabaris.com/tools/life-expectancy-calculator-how-long-will-i-live/

[13] https://www.kitces.com/blog/life-expectancy-assumptions-in-retirement-plans-singles-couples-and-survivors/

pulling money from your retirement savings **30 years** after age 65.

Let's be blunt. (And mathematically crude.) If 40% of Americans are guessing age 75 or earlier for a life expectancy and 1 in 5 married couples will have a spouse live to 95…what do you think retirement readiness looks like?

That's a 20 year spread in "expectations" and what those expectations should be for thousands if not millions of Americans. How do these new longer life expectancy assumptions impact your Social Security planning?

Present Value Impact of Longevity

What happens if Mike lives to 85 and Linda makes it to 95?

	Mike	Linda	Total Value	Present Value
62	12,000	12,000	24,000	22,857
63	12,240	12,240	24,480	22,204
64	12,485	12,485	24,970	21,570
65	12,734	12,734	25,469	20,953
66	12,989	12,989	25,978	20,355
67	13,249	13,249	26,498	19,773
68	13,514	13,514	27,028	19,208
69	13,784	13,784	27,568	18,659
70	14,060	14,060	28,120	18,126
71	14,341	14,341	28,682	17,608
72	14,628	14,628	29,256	17,105
73	14,920	14,920	29,841	16,617
74	15,219	15,219	30,438	16,142
75	15,523	15,523	31,047	15,681
76	15,834	15,834	31,667	15,233
77	16,150	16,150	32,301	14,797
78	16,473	16,473	32,947	14,375
79	16,803	16,803	33,606	13,964
80	17,139	17,139	34,278	13,565
81	17,482	17,482	34,963	13,177
82	17,831	17,831	35,663	12,801
83	18,188	18,188	36,376	12,435
84	18,552	18,552	37,104	12,080
85	18,923	18,923	37,846	11,735
86	19,301	19,301	38,602	11,399
87	19,687	19,687	39,375	11,074
88	20,081	20,081	40,162	10,757
89	20,483	20,483	40,965	10,450
90	20,892	20,892	41,785	10,151
91		21,310	21,310	4,931
92		21,736	21,736	4,790
93		22,171	22,171	4,653
94		22,614	22,614	4,520
95		23,067	23,067	4,391
			$ 725,022	**$ 478,136**

As you can see, the new present value from their increased longevity is pushing half a million dollars…and that assumes they turn it on immediately at age 62.

Say what you will about Social Security, but if you met an annuity sales person, and he or she had a product that was guaranteed by the federal government, paid benefits every month for life, had a cost of living adjustment for inflation, the benefit passed on to the surviving spouse, and the income grew 8% each year you didn't take it, you would think it was impossible. But that's exactly what you get with Social Security. Are you treating it like that kind of powerful retirement asset?

Advanced Considerations

According to a study by Securian[14], only 18% of people have even evaluated ways to claim Social Security benefits besides "as early as possible."

You already saw above that you do not need to file for Social Security as soon as you retire, and the 8% credits you can get for delaying past Full Retirement Age can become quite attractive. Now let's examine some irreversible consequences that can bite you from not optimizing your Social Security the first time. We cannot overemphasize the importance of optimizing the first time.

Social Security Taxation

One of the most frequently overlooked aspects of Social Security is the way it is taxed. 15% of benefits are not taxable under any circumstances…which leaves up to **85% of benefits that may be taxable!** Consider the "Conventional wisdom" (according to Kiplinger) regarding distribution order in retirement:

- Turn on Social Security ASAP (because it's "going broke"/"not going to be there for long.")
- Delay tapping deferred money like a traditional IRA as long as possible

[14] http://www.businesswire.com/news/home/20141201005743/en/567-Ways-Claim-Social-Security-Client#.VSxm21qCOrU

This can have a terrible repercussion commonly known in retirement planning circles as the "tax torpedo," a situation where tapping an IRA moves you into a higher income tax bracket, and could also lead to more Social Security benefits being taxed. It all begins with a number called "Provisional Income."

Provisional Income

Provisional income is a very important number in the discussion of Social Security. This is the number that is used to calculate the taxation of Social Security benefits.

Adjusted Gross Income
+ Tax-Exempt Interest
+ 50% of Social Security
= Provisional Income

According to SSA.gov, Provisional Income between $32,000 and $44,000 for a married couple could make 50% of benefits taxable. Income over $44,000 and up to 85% of your Social Security benefits would be taxable. (Note: This does not mean if your provisional income is over $44,000 you will lose 85% of your Social Security benefits, just that up to 85% of your Social Security benefits could be taxable income for Federal Income Taxes.)

Table 1.
Taxable portions of income for Social Security beneficiaries, by income tax filing status and modified AGI

Line	Modified AGI (nominal $)	Taxable portion of income
		Single
1	Less than 25,000	None
2	25,000–34,000	Lesser of— • 50 percent of benefit income; or • modified AGI in excess of $25,000
3	More than 34,000	Lesser of— • 85 percent of benefit income; or • amount from line 2 *plus* 85 percent of modified AGI in excess of $34,000
		Married, filing jointly
4	Less than 32,000	None
5	32,000–44,000	Lesser of— • 50 percent of benefit income; or • modified AGI in excess of $32,000
6	More than 44,000	Lesser of— • 85 percent of benefit income; or • amount from line 5 *plus* 85 percent of modified AGI in excess of $44,000

SOURCE: IRS (2015b).

NOTE: Modified AGI is AGI plus nontaxable interest income plus income from foreign sources plus one-half of Social Security benefits.

Once you know your provisional income, you need to calculate how much of your benefits are taxable. Taxes are payable on the **lesser** of:

1. 85% of Total Social Security Benefits
2. Lesser of 50% of the Social Security benefits or $6,000 + $85% of the amount over $44,000 (for married couple)

	Couple A	Couple B
IRA Income	$45,000	$30,000
SS Income	$15,000	$30,000
Total Pre-Tax Income	$60,000	$60,000
Provisional Income	**$52,500**	**$45,000**

This slight change in Provisional Income can lead to a significant change in the amount of benefits that get taxed:

	Couple A	Couple B
PI Test #1 (85% of benefits)	$12,750	$25,500
PI Test #2 $6,000 + 85% amt >$44k	$13,225	$6,850
Benefits Taxable	**$12,750**	**$6,850**

Look at the effect this has on Taxable Income:

	Couple A	Couple B
Benefits Taxable	$12,750	$6,850
IRA Income	$45,000	$30,000
Taxable Income	**$57,750**	**$36,850**

And the effect on their final tax bills:

	Couple A	Couple B
Taxable Income	$57,750	$36,850
Tax Paid[15]	$7,735	$4,600
Tax Savings		**$3,135**

Here's the key point…Look at the difference in takehome retirement income…the value of Social Security Optimization:

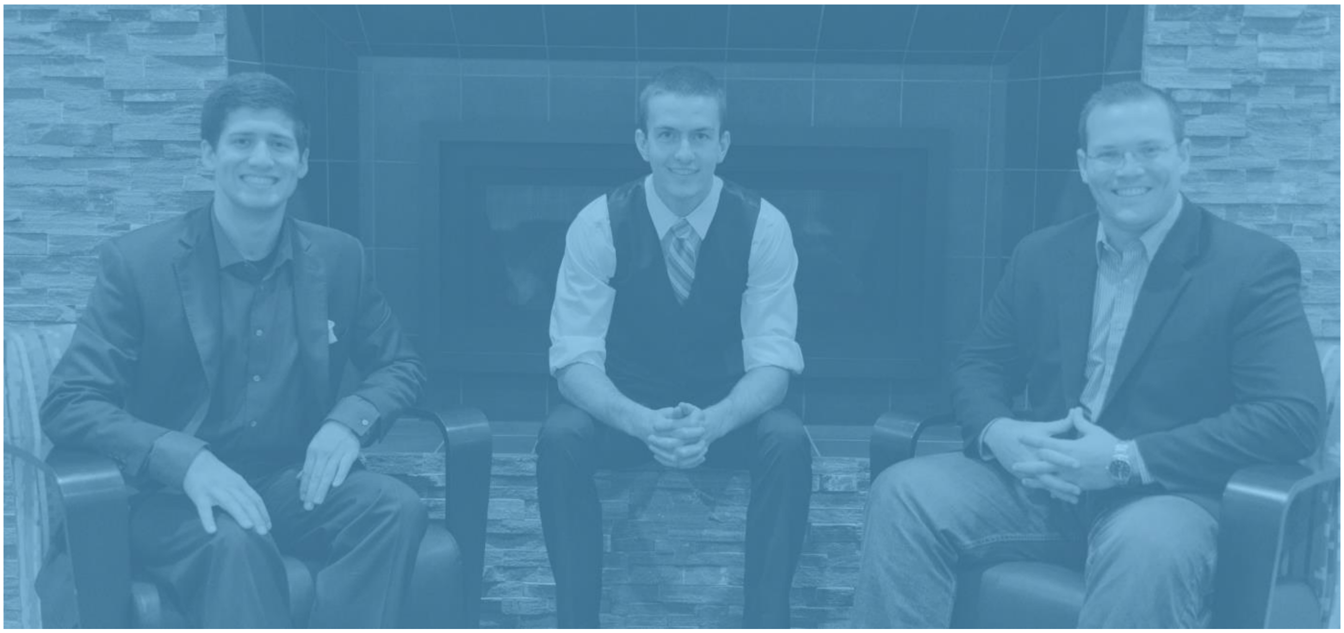
	Couple A	Couple B
Pre-Tax Income	$60,000	$60,000
Tax Paid	$7,735	$4,600
After-Tax Income	$52,265	$55,400
Additional Income from Social Security Optimization		**$261/month**

By now it's probably quite apparent how valuable properly optimizing Social Security can be. If have questions, or would like to see ideas that might increase your retirement income, feel free to contact us anytime to schedule your complimentary consultation. We hope you found this guide valuable and benefit from your Social Security decisions for years to come.

[15] http://www.forbes.com/sites/kellyphillipserb/2015/10/21/irs-announces-2016-tax-rates-standard-deductions-exemption-amounts-and-more/#264aa9c3792e $1,855 + 15% of the amount over $18,550

Want an expert to help?

Fox River Capital's team of experts have led many people through the Rollover process through the years. If you're unsure about how to best proceed, or still have unanswered questions, we're here to help: **Contact@FoxRiverCapital.com**



Parker Lenz, AWMA®
Partner | CEO

Eric Sajdak, ChFC®
Partner | CIO

Tony Hellenbrand, RICP®
Partner | President

As Seen On:

Fox River Capital is a Registered Investment Advisor, state-registered in Wisconsin. Fox River Capital does not provide tax or legal advice. All information, content, and figures presented are provided to the best knowledge and ability of Fox River Capital.