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SSPMPS 022016

Introduction to Social Security

Learn about your Social Security benefits

Vanguard

Taking the mystery out of Social Security

KEY TERMS

Children's (or family) benefits
Benefits received by dependents, including children, that supplement family income.

Cumulative benefits
The lifetime payout of your Social Security benefits.

Delayed retirement credits
Increases in monthly Social Security benefits if you delay taking benefits beyond your full retirement age (FRA).

Divorced spousal benefits
Benefits paid to the divorced spouse of an eligible worker to whom the spouse was married for at least ten years.

Earnings record
The history of your earnings for the years you worked.

Earnings test
The reduction in benefits if you continue to work while receiving benefits before you reach full retirement age (FRA). In the month in which you reach FRA and thereafter, the earnings test doesn't apply to your income, and there's no limit on your earnings.

File and suspend*
A Social Security provision allowing an unmarried claimant who reached full retirement age (FRA) before the effective date of the Bipartisan Budget Act of 2015 to file an application for retirement benefits but immediately suspend payments. For married couples, this application makes the worker's spouse eligible to file for and receive spousal benefits and allows the worker's benefits to accrue delayed retirement credits. For single workers, this provision may provide the ability to request a lump-sum payment before beginning to collect benefits if needed.

Full retirement age (FRA)
The age at which you're eligible for your full monthly benefit, which is also known as the primary insurance amount (PIA).

Government pension offset (GPO)
A provision that reduces and may eliminate the amount of spousal and survivors benefits paid to someone who is eligible for a pension from work not covered by Social Security taxes.

Inflation
The increase in the prices of goods and services over time. Inflation poses the risk that increases in the cost of living will reduce or eliminate the returns on a particular investment.

Longevity risk
The risk of an individual running out of retirement resources during his or her lifetime. Increased life expectancies increase longevity risk.

Noncovered pension
Government and state employees (including employees of some school districts) are eligible for a noncovered pension for which Social Security taxes weren't withheld or paid on earnings.

Primary insurance amount (PIA)
Also known as the full monthly benefit amount, the benefit based on earnings if taken at full retirement age (FRA).

Provisional income
The level of income measured to determine whether an individual is liable for income tax on his or her Social Security benefits and how much is subject to tax.

Restricted application*
When a worker is eligible for both his or her own benefits and spousal benefits at full retirement age (FRA), the worker can file a restricted application for spousal benefits only, meaning the worker's own benefits will accrue delayed retirement credits.

Spousal benefits
Benefits paid to the spouse of an eligible worker. You generally must be at least age 62 to claim spousal benefits.

Survivors benefits
Benefits paid to the surviving spouse or potentially other family members of a deceased eligible worker.

Windfall Elimination Provision (WEP)
A provision that may reduce Social Security benefits based on your earning history if you're eligible to receive a pension based on pay from work not covered by Social Security.

Windfall Elimination Provision-primary insurance amount (WEP-PIA)
The adjustment made to the primary insurance amount (PIA) because of the Windfall Elimination Provision (WEP).

*The "file and suspend" and "restricted application" strategies aren't widely known, but you can find more information about them in the Social Security Program Operations Manual System (POMS) Sections GN 02409.100 and GN 02409.110 at secure.ssa.gov/apps10/. Information on how to file a restricted application for spousal benefits appears in POMS Section RS 00202.020. The Bipartisan Budget Act of 2015 prevents most claimants from using a combination of the "file and suspend" and "restricted application" strategies. Grandfathering rules allow some claimants, however, to continue to use this combination strategy if they submitted their requests by April 29, 2016. Ask your advisor whether you qualify.

Overview

For most Americans, Social Security represents a significant source of retirement income, so it's important to understand how much you'll receive from Social Security when you begin taking your benefits. You might not know, for example, that the amount of your Social Security benefits varies depending on the year you were born, your lifetime earnings, and the age at which you begin receiving payments.

You can start to receive Social Security benefits as early as age 62, but we'll explain why waiting to receive benefits might be beneficial. To make the best decision for your situation, you'll need to know your full retirement age (FRA), which is the age at which you'll be eligible to receive your primary insurance amount (PIA).

Special rules apply to current, former, and widowed spouses claiming Social Security benefits, and strategies offer married couples; divorced, widowed, or surviving spouses; and single workers the opportunity to maximize benefits throughout retirement and decrease longevity risk. We'll illustrate how those rules work and provide examples of how the claiming strategies can increase the amount of Social Security benefits for some recipients.

Finally, since up to 85% of your Social Security benefits are included in the calculation of your federal adjusted gross income (and may be subject to state income tax),* your retirement plan should account for taxes, especially if you'll be taking required minimum distributions (RMDs) from IRAs or if you'll withdraw from an employer-sponsored plan during your retirement.

*Source: IRS publication 915 (2015), available at https://www.irs.gov/pub/irs-pdf/p915.pdf.

When can I start taking benefits?

To qualify for Social Security benefits, you must be "fully insured," which means you've accumulated at least 40 Social Security credits, or the equivalent of ten years of earnings. If you stop working before you've earned enough credits to qualify for benefits, the credits remain on your Social Security record, and you can add to them if you return to work later. You won't receive any Social Security retirement benefits if you haven't earned the required number of credits.

The amount of your benefits will depend on when you were born, and your age when you start taking them. You may claim Social Security as early as age 62 or as late as age 70. But to be eligible for your full benefits, you must be at full retirement age (FRA). For claimants born in or after 1943, FRA ranges from age 66 to 67, depending on your birth year. As the chart shows, if you wait to start collecting Social Security benefits, you'll receive a higher percentage of your full monthly benefit—and depending on your age, you may even qualify to collect more than 100% of your full monthly benefit.

The percentages displayed in the chart apply for as long as you receive Social Security benefits. So if you were born in 1960 or later and you decide to claim Social Security benefits at age 62, your monthly benefit throughout your retirement would be 30% less than your full retirement benefits.

There are two potential advantages to choosing to delay your retirement. First, if you delay claiming Social Security up to age 70, your monthly benefit throughout retirement can increase as much as 32% from your benefits at FRA. Second, if you continue to work throughout this period, you can add to your earnings record and grow your benefits that way.

The percentage of your full benefits that you'll receive by age

Birth year	1943–54	1955	1956	1957	1958	1959	1960 and after
Full retirement age	66	66 and 2 months	66 and 4 months	66 and 6 months	66 and 8 months	66 and 10 months	67
62	75.0%	74.2%	73.3%	72.5%	71.7%	70.8%	70.0%
63	80.0%	79.2%	78.3%	77.5%	76.7%	75.8%	75.0%
64	86.7%	85.6%	84.4%	83.3%	82.2%	81.1%	80.0%
65	93.3%	92.2%	91.1%	90.0%	88.9%	87.8%	86.7%
66	100.0%	98.9%	97.8%	96.7%	95.6%	94.4%	93.3%
67	108.0%	106.7%	105.3%	104.0%	102.7%	101.3%	100.0%
68	116.0%	114.7%	113.3%	112.0%	110.7%	109.3%	108.0%
69	124.0%	122.7%	121.3%	120.0%	118.7%	117.3%	116.0%
70	132.0%	130.7%	129.3%	128.0%	126.7%	125.3%	124.0%

Source: American Academy of Actuaries.

How should I decide when to start taking benefits?

Some people may be inclined to begin receiving their Social Security benefits as soon as possible, even if it means reduced payouts. Whether this is the best financial decision depends on several factors, including your health, your life expectancy, your current wealth, your tax profile, and your employment status. For most people, delaying Social Security to a later age is a prudent choice. If you retire at age 62, for example, you may be better off withdrawing money from an IRA or 401(k) and waiting until age 70 to start collecting Social Security benefits.

In general, the longer your life expectancy, the more it pays to put off taking Social Security benefits. Even those with average life expectancies will generally benefit from delaying Social Security. For planning purposes, consider factors such as your health and your family's health and longevity history as well as current life expectancy measures to make an educated guess about your life expectancy.

Another factor in determining when to start your benefits is whether you intend to continue working early in retirement. If you have earned income, you may want to delay taking Social Security and receive higher benefits later.

For those younger than FRA, any earned income that exceeds a set annual threshold may reduce Social Security benefits, but benefits increase after they reach FRA.* Here's how it works:

- If you're not at your FRA, $1 in benefits will be deducted for each $2 in earnings above the annual limit ($15,720 in 2016).
- In the year in which you reach your FRA, up until the exact month, your benefits will be reduced by $1 for every $3 earned over the annual limit ($41,880 in 2016).**
- Once you reach FRA, your earned income no longer affects your benefits.

How much will I receive?

For a summary of your lifetime earnings record and potential Social Security benefits, go to ssa.gov and click my Social Security to log on or create an account.

The primary insurance amount (PIA) displayed is the monthly benefit that you would receive if you claimed Social Security at your FRA. This amount is based on your highest 35 years of income, with earnings through age 60 indexed to reflect increases in U.S. workers' average wage levels. A more detailed look at the PIA formula appears on the Social Security Administration website.

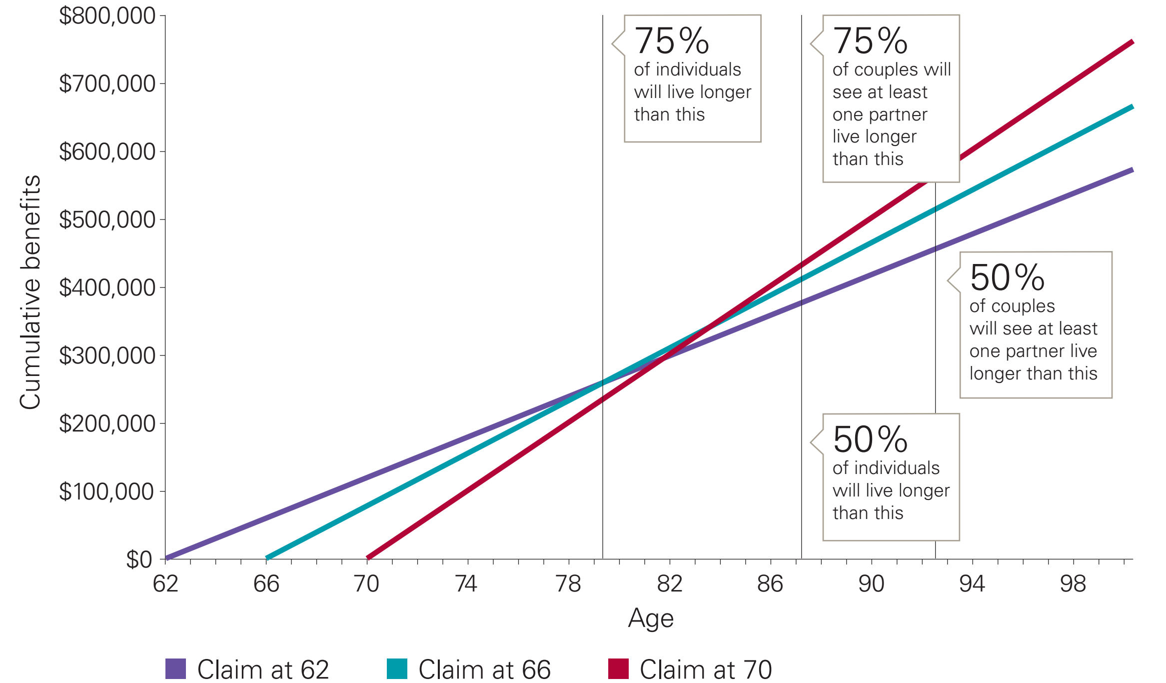
*These withheld benefits aren't lost; they're restored to the worker upon reaching FRA.

**Source: Social Security Administration; available at https://www.ssa.gov/oact/cola/rtea.html.

When evaluating your retirement income plan, remember that you may owe federal income tax—and state income tax in certain states—on up to 85% of your Social Security benefits, as explained later. In fact, according to the Congressional Budget Office, about half of Social Security recipients will owe income taxes on their benefits. You may wish to consult a tax advisor to determine whether you'll owe tax on your benefits.

The power of longevity protection

Longer life expectancies make waiting to claim Social Security benefits an attractive option—especially for married couples.



This hypothetical illustration does not represent the return on any particular investment.

Source: Vanguard calculations with data from the Society of Actuaries. Assumes mortality rates from RPH-2014 projected with scale MP-2014 with a starting age of 65. Lines represent averages across gender or mixed gender couples. Cumulative benefits at each age assume that both members of the couple are still living and an annual benefit discount rate of 1%.

Spousal and survivors benefits

If you're married, some decisions concerning Social Security may affect your spouse. For example, your choice of when to begin taking benefits could affect the level of benefits to which your spouse is entitled.

A spouse is entitled to receive Social Security benefits based on his or her own earnings record, but a spouse may also be entitled to spousal benefits. Social Security will pay the higher of the two benefits if the spouse makes a claim before reaching FRA. In addition, your spouse is entitled to survivors benefits if you die first.

Spousal benefits

Your spouse is entitled to spousal benefits of half of your full benefits once you file for benefits—unless your spouse starts to collect benefits before reaching FRA. In that case, your spouse's benefits are permanently reduced by a percentage based on the number of months until he or she reaches FRA, as shown in the chart on the next page.

If a spouse is eligible for his or her own retirement benefits and for spousal benefits, Social Security pays the retirement benefits first. Then, if the spousal benefits are higher than the retirement benefits, Social Security pays a combination of benefits equaling the higher spousal benefits. By using advanced strategies (as illustrated later), however, a spouse can claim spousal benefits while delaying his or her own benefits to a later age to maximize the total benefits the couple receives.*

Divorced spousal benefits

If you're divorced but your marriage lasted ten years or longer, you can receive benefits on your former spouse's record (even if he or she has remarried) if all of the following are true:

- You're unmarried.
- You're age 62 or older.
- Your former spouse is entitled to retirement benefits.
- Your own retirement benefits are less than the spousal benefits you may qualify for.**

*As long as the spouse claiming spousal benefits reached age 62 by the end of 2015, as required by the Bipartisan Budget Act of 2015.

**A divorced spouse may file a restricted application at FRA to claim the divorced spousal benefits and to allow his or her own retirement benefits to increase until age 70.

Survivors benefits

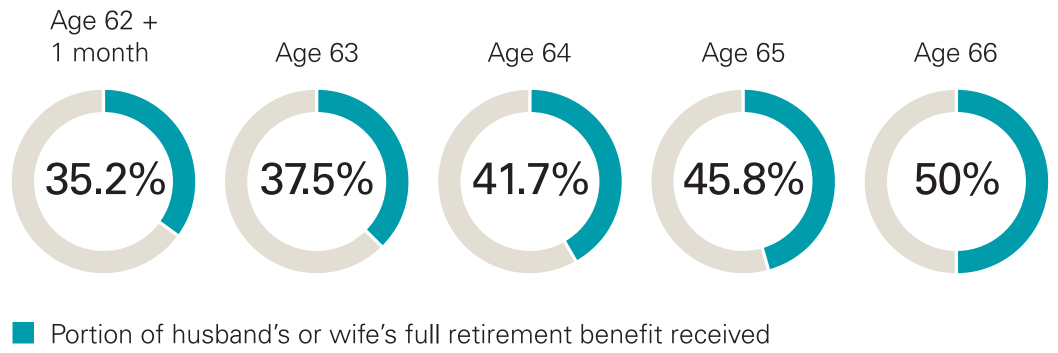
Upon your death, your spouse is entitled to receive the retirement benefit amount you would have been entitled to or were receiving at the time of your death. If you delay taking Social Security until after you reach FRA, you could increase your spouse's potential survivors benefits.

Divorced spouses' survivors benefits

If you're the divorced spouse of a worker who dies, you can receive benefits as a widow or widower if your marriage lasted ten years or longer.

Collecting spousal benefits

Waiting to collect spousal benefits until FRA can increase the amount of the benefits, and no additional benefits can accrue beyond the FRA for the spousal benefit. Spousal benefits can't be claimed before age 62 and one month.



Source: Social Security Administration website.

Social Security claiming strategies

Those who have the resources to meet basic living expenses without receiving benefits upon retirement have a variety of strategies available. Each strategy may offer an opportunity to maximize benefits throughout retirement and to decrease longevity risk, the risk that you'll outlive your retirement resources.

The three main claiming strategies available are "start, stop, start," "restricted application," and "reset." The optimal claiming strategy for any individual claimant depends on factors including life expectancy and, for married couples, the value of delaying the higher earner's Social Security retirement benefits to maximize survivors benefits (if any).

Start, stop, start (voluntary suspension)

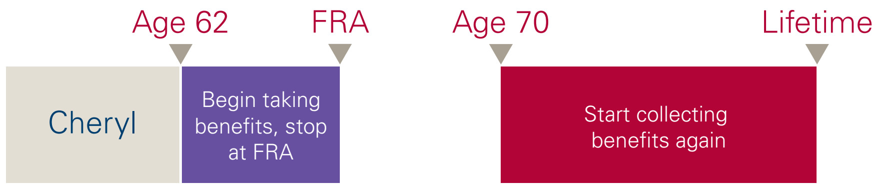
How it works	Trade-offs	You might benefit if
• Before reaching FRA, the primary earner may begin receiving Social Security benefits. • Upon reaching FRA, that spouse may stop receiving his or her Social Security payments and delay resuming benefits until a later date (as late as age 70). • Those benefits will have grown as a result of delayed retirement credits.	Pro: • If you've begun taking your Social Security benefits, you can still earn delayed retirement credits (and possibly maximize your lifetime benefits) and survivors benefits (if any). Cons: • You'll face the early retirement reduction if you claim benefits before FRA. • The delayed retirement credits applied to your Social Security benefits will be based on a reduced payment if you began taking your benefits before your FRA.	• You can meet basic living expenses during the period of deferral. • You're concerned about longevity risk. • You seek delayed retirement credits between your FRA and age 70.

Start, stop, start (voluntary suspension)

Delaying Social Security benefits until age 70 allows them to grow to their highest level, whereas beginning to collect at age 62 would reduce them by 25% from what they'd be if you waited until age 66 to claim benefits. The "start, stop, start" (or "voluntary suspension") rule allows you to begin taking benefits early, stop them at your FRA (by filing a request with the Social Security Administration to suspend benefits), and take advantage of delayed retirement credits until age 70, when you'd begin receiving benefits again. This option can boost your lifetime benefits, and it can help those who begin to collect early but who can't withdraw their applications—perhaps because they retired early and earn more money in a second career.

During the "stop" period, benefits earn delayed retirement credits. If you suspend your benefits for the full four years before their second "start," they'd be 32% higher than when you suspended them. The delayed credits will also include the program's annual cost-of-living adjustments for inflation (if any). Your benefits at age 70 would still be less than if you hadn't claimed reduced benefits at age 62. But they'd still be much higher than if you hadn't suspended your benefits at your FRA. With this strategy, the "stop" period will fully suspend all of your family's benefits, which would resume again at the second "start."

For example, Cheryl is due a $1,000 monthly retirement benefit at her FRA of 66. Her benefit would rise 32% to $1,320 a month (in real, inflation-adjusted terms) if she waits to claim until age 70, but it would be reduced by 25% to $750 a month if she claims early, at age 62. However, that $750 would rise by 32% to $990 a month if she suspends (the "stop") at age 66 and resumes (the second "start") at age 70. That $990 is significantly higher than $750, but it's far lower than the $1,320 she'd receive if she waited until age 70 to claim benefits.*



*Sources: Vanguard calculations, based on data from Society of Actuaries, 2014, RP-2014 Mortality Tables Report (Schaumberg, Ill.: Society of Actuaries), and Society of Actuaries, 2014, Mortality Improvement Scale MP-2014 Report (Schaumberg, Ill: Society of Actuaries).

Restricted application *(as long as you reached age 62 by the end of 2015)**

How it works

- Typically, the younger spouse claims Social Security based on his or her own work history.
- When the older spouse reaches FRA, he or she files a restricted application for spousal benefits only (as long as he or she reached age 62 by the end of 2015).
- At age 70, that spouse claims his or her own Social Security benefits, which have grown as a result of delayed retirement credits.

Trade-offs

Pros:

- Social Security payments begin early for one spouse.
- One spouse receives delayed retirement credits, which means survivors benefits could grow.

Con:

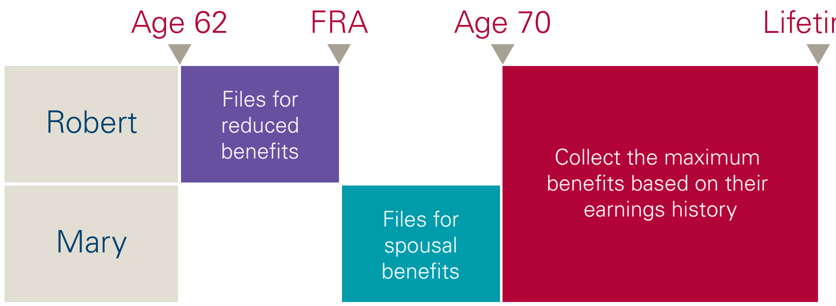
- The early retirement reduction would apply if a spouse claims before FRA.

You might benefit if

- You can meet basic living expenses by claiming some Social Security benefits now and more later.
- You're concerned about longevity risk.
- One of you has already claimed benefits and the other hasn't.
- One spouse's benefits after delaying are greater than his or her spousal benefits.

Restricted application

Robert is age 62, and his PIA is $1,000. His wife Mary is age 66, and her PIA is $2,496. If Robert and Mary require Social Security income early on, Robert can file and receive his reduced benefits of $750. Because Mary has reached her FRA, she's eligible to file a restricted application for only her spousal benefits of $500. This will allow her benefits on her earnings record to grow to $3,295 at age 70. The benefits to the surviving spouse will be the full $3,295.



*According to the Bipartisan Budget Act of 2015, signed into law on November 2, 2015.

Reset (corrective)

How it works

- If you change your mind about receiving benefits less than 12 months after you file, you can withdraw your original claim for Social Security.
- You must repay all of the benefits that your family received based on your record.
- You can reapply for Social Security later and receive the increased benefit amount resulting from delaying your claim.

Trade-offs

Pros:

- You can pay back the benefits interest-free.
- You have flexibility if your life circumstances change.

Cons:

- You must pay back all benefits in a lump sum.
- This is a once-in-a-lifetime opportunity.

You might benefit if

- You already claimed benefits within the past 12 months, but your circumstances have changed.
- You believe that you can defer your benefits and would prefer to receive delayed retirement credits.

Reset (corrective)

Deborah elected to receive Social Security benefits at age 64. She's now approaching age 65, has gone back to work, and wishes that she'd waited until after her FRA to claim Social Security because she could have received higher benefits. Deborah can pay back all the payments she received, without interest, and file paperwork with the Social Security Administration to stop benefits and withdraw her application. If she does, her retirement benefits can "reset" so that when she collects at a later date, she'll receive a higher benefit amount based on her age.

You can only withdraw and reset your Social Security application one time. If you choose to withdraw your application, you may wish to consider the source of the funds required to return to Social Security. Using taxable assets or taking a distribution from a retirement account may prove to be the most tax-efficient means of raising funds for the payback.

Claiming strategy considerations

The Social Security claiming strategy decision can be difficult because it involves a trade-off between receiving some income today and the potential to receive larger benefits later. The inability to meet spending needs or health concerns that reduce one's life expectancy could influence someone to take Social Security early. For those who can work longer or meet spending needs without claiming Social Security, delaying benefits can offer advantages. The additional income that results from delaying benefits can be a powerful source of longevity insurance and provide a higher level of inflation-adjusted guaranteed income for the rest of the claimant's life. For couples, the larger of the two benefits becomes the permanent benefit for the surviving spouse after one spouse passes away.

As the chart illustrates, couples have many Social Security claiming options to consider. While delaying benefits for both partners may provide the largest expected lifetime benefits, not everyone can afford to delay benefits until age 70. Couples may want to consider delaying the larger benefit since that benefit will persist as long as one partner is living.

Annual combined benefits for couples by age

Spouse 1/Spouse 2 claiming age	62	66	70	Survivor
62/62	\$36k	\$36k	\$36k	\$18k
62/66	\$18k	\$42k	\$42k	\$24k
66/66	\$0	\$48k	\$48k	\$24k
62/70	\$18k	\$18k	\$50k	\$32k
66/70	\$0	\$24k	\$56k	\$32k
70/70	\$0	\$0	\$63k	\$32k

Assumes same-age couple is born 1943–1954 and that each has a PIA of \$2,000 per month.
Some numbers have been rounded to the closest thousand.

Source: Vanguard calculations based on Social Security regulations, 2015.

Claiming strategies for widows and widowers

Widows and widowers, including those who are divorced, may be able to file for survivors benefits as early as age 60 and to receive either their own benefits or their survivors benefits while delaying the other. Depending on the claimant's age and earnings history, and the age and earnings history of the deceased spouse, strategies are available to maximize lifetime benefits.

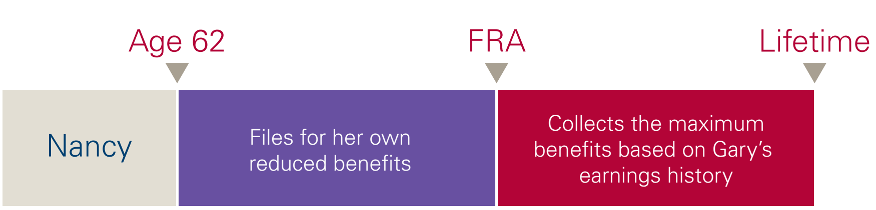
For a widow or widower with a lower earnings record than his or her deceased spouse, filing for benefits at age 62 but delaying the survivors benefits until FRA, when it will reach its peak, may make sense. Conversely, a widow or widower with a higher earnings record may be able to maximize benefits by applying to collect survivors benefits as early as age 60 while delaying his or her own benefits until age 70.

Claiming individual benefits early

How it works	Trade-offs	You might benefit if
• The widowed spouse claims Social Security benefits based on his or her own work history. • When the widowed spouse reaches FRA, he or she claims survivors benefits.	Pro: • The widowed spouse can collect some benefits early while waiting to collect a larger amount of survivors benefits at FRA. Con: • The earnings test may reduce the individual benefits if the widow or widower is still working before reaching FRA.	• You can meet basic living expenses by claiming some Social Security benefits now and more later. • The survivors benefits based on a deceased spouse's earnings record are greater than the benefits available to the widow or widower based on his or her own earnings record.

Claiming individual benefits early

Nancy is approaching age 62 and considering retirement. Based on her earnings record, her PIA at age 66 (her FRA) is $800. Her husband Gary passed away last year at age 63 before claiming Social Security, and his PIA is $2,100. At age 62, Nancy files for her own benefits, receiving a reduced benefit of $600 per month. At her FRA, Nancy files to collect the full $2,100 monthly survivors benefit based on Gary's earnings history.

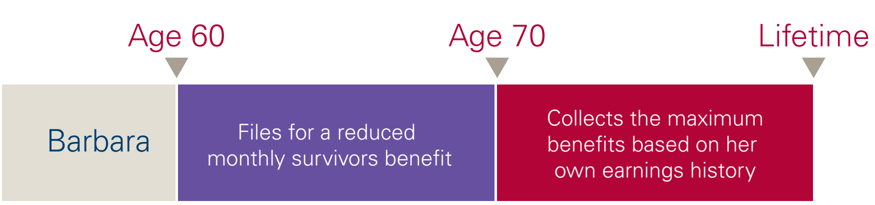


Survivors benefits

How it works	Trade-offs	You might benefit if
• The surviving spouse applies to collect survivors benefits as early as age 60. • At age 70, the surviving spouse claims his or her own Social Security benefits, which have grown as a result of delayed retirement credits.	Pro: • The widowed spouse can collect survivors benefits early while earning delayed retirement credits for the individual benefits with a larger PIA. Con: • The earnings test may reduce the survivors benefits if the widow or widower is still working before reaching FRA.	• You can meet basic living expenses by claiming some Social Security benefits now and more later. • The individual benefit amount for the surviving spouse is greater than the survivors benefits based on the PIA of the deceased spouse.

Survivors benefits

Barbara is age 58 and plans to retire at age 60. Her PIA at age 66 and 6 months (her FRA) is $2,200. Her husband Steven passed away last year at age 56 with a PIA of $1,800. At age 60, Barbara applies to receive a reduced monthly survivors benefit of $1,287. She continues to receive this monthly benefit until age 70 when she can collect the maximum based on her own earnings record, which has grown to $2,816 per month after accruing delayed retirement credits.



Taxation of benefits

Tax planning is an important part of any retirement income strategy, so you should carefully consider the taxation of your Social Security benefits when designing a tax-efficient strategy for your portfolio. Up to 85% of your Social Security benefits may be subject to federal income tax. Whether your benefits will be taxed is based on a provisional income (PI) formula (provisional income is adjusted gross income plus tax-exempt bond interest plus 50% of Social Security benefits), with thresholds detailed in the table below. While retirees with significant income will most likely be subject to the maximum taxation of 85% of benefits, the PI formula and Social Security taxation rules may allow some Social Security recipients to increase their after-tax retirement income, depending on their mix of account types and flexibility around withdrawals. There are three tests of PI, and the smallest of the three determines what becomes taxable:

1. 85% of Social Security benefits; or
2. 50% of Social Security benefits plus 85% of any excess PI over $34,000 for single recipients or $44,000 for married recipients filing joint taxes; or
3. 50% of excess PI over the $25,000 for single recipients or $32,000 for married recipients filing joint taxes plus 35% of the excess PI over $34,000 for single recipients or $44,000 for married recipients filing joint taxes.

Federal taxation of Social Security benefits

Provisional income		% of benefits that's taxable
Single	**Married, filing jointly**	
$0 to $25,000	$0 to $32,000	0%
> $25,000	> $32,000	up to 50%
> $34,000	> $44,000	up to 85%

Source: IRS publication 915 (2015).

For example, Michael and Patricia are a married couple who are both age 62 and who anticipate a pre-tax retirement income of $75,000 from their Social Security benefits ($24,000) and IRAs ($51,000). Based on their earnings history, their combined PIA is $2,667. Claiming benefits early would result in the annual benefit of $24,000, but waiting until age 70 would mean a yearly benefit of $42,240. Taking benefits early would result in $51,000 in taxable IRA distributions, and 85% of their Social Security benefits would be taxable. Assuming Michael and Patricia have no other income and use the standard deduction, their federal taxes would total $6,698.

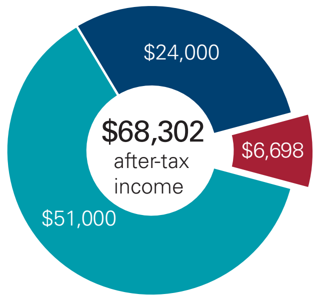
Delaying benefits until age 70 would require additional IRA distributions in the years between their retirement and age 70. But after their Social Security benefits start, they would need only $32,760 in required minimum distributions and additional distributions from their IRAs. Using the same assumptions—that is, no additional income and the standard deduction—only 34% of the couple's Social Security benefits would be taxable, and their federal taxes would total $3,061. Under the delayed benefit scenario, their total taxes would be slightly higher in the years before they claim Social Security benefits, but lower taxes after age 70 would offset the initial tax cost in less than two years.

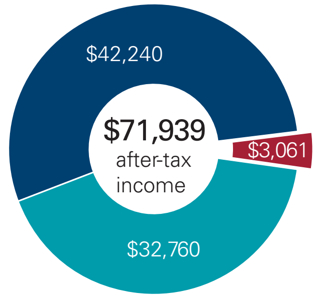
Developing a sound tax strategy can be difficult to do without professional help, so you might consider consulting a tax advisor.

The effects of delaying benefits on federal taxes

Scenario 1: Michael and Patricia both start collecting benefits at age 62.

Scenario 2: Michael and Patricia both start collecting benefits at age 70.





- Federal taxes
- Social Security benefits
- IRA distributions

Disclaimer

If you'd like to discuss any of these strategies further, please contact your financial advisor.

The information in this brochure is for educational purposes only and is based on current Social Security laws. Congress can enact legislation at any time to change the rules governing Social Security.

You may be eligible for some benefits as a widower, divorcee, or family member of a primary Social Security beneficiary. More information about these benefits is available on the Social Security Administration website at **ssa.gov.**

ADDENDUM: THE BIPARTISAN BUDGET ACT OF 2015

According to the Bipartisan Budget Act of 2015, you may still be able to take advantage of these advanced strategies if you meet certain requirements, described below.

Advanced claiming strategies for married couples

Married couples who have the resources to meet basic living expenses without receiving benefits upon retirement have a variety of strategies available. Each strategy may offer an opportunity to maximize benefits throughout retirement and to decrease longevity risk, the risk that you'll outlive your retirement resources.

There are three main claiming strategies available to married couples: file and suspend, restricted application, and a combination of the two. If you reached FRA and submitted your request by April 29, 2016, you may elect the file-and-suspend strategy. If your spouse reached age 62 by the end of 2015, you're grandfathered in for the restricted-application strategy. If you and your spouse meet both requirements, you can use the combination strategy. Most couples would benefit from using the combination strategy, especially if both of them worked, so we'll explore that strategy first.

Combination strategy (file and suspend and restricted application)

How it works	Trade-offs	You might benefit if
• At FRA, one spouse (the higher earner—typically both have a substantial earnings record) files for retirement benefits and then immediately suspends payments (must be done by April 29, 2016). • Then the other spouse (who's reached age 62 by the end of 2015) files a restricted application for only spousal benefits at FRA. • Both spouses can benefit from delayed retirement credits because they haven't claimed benefits based on their own earnings records. • At age 70, both spouses claim benefits based on their own earnings records.	Pros: • Each spouse will receive the full delayed retirement credits at age 70. • Survivors benefits are maximized. Con: • The spouses receive no Social Security benefits before they both reach FRA.	• You can meet basic living expenses while Social Security benefits are deferred. • You and your spouse are close enough in age that your benefits will overlap in the window between FRA and age 70. • Each of your own benefits after deferral are greater than the spousal benefits you'd each receive otherwise. • You want to maximize both your and your spouse's Social Security benefits. • You're concerned about longevity risk.

Combination strategy

Susan recently reached age 66 (her FRA), and her PIA is $2,130. Her husband John is age 64, and his PIA will be $1,316 when he reaches FRA. Susan can file for benefits and then immediately suspend her claim. This allows John to file a restricted application for his spousal benefits of $1,065 in two years. Then both John and Susan can claim benefits based on their own earnings records with the full delayed retirement credits at age 70. Susan will receive $2,812, and John will receive $1,737. This strategy maximizes benefits for the surviving spouse ($2,812).

File and suspend

How it works

- At FRA, typically the spouse with the higher PIA files for retirement benefits and then immediately suspends payments (must be elected by April 29, 2016).
- The other spouse is then eligible to claim spousal benefits.
- That spouse will receive the greater of the spousal benefits or the benefits based on his or her own earnings record.
- At age 70, the spouse with the higher PIA claims benefits based on his or her own earnings record. Those benefits will have grown as a result of delayed retirement credits.

Trade-offs

Pros:

- The spouse with the higher PIA will receive the full delayed retirement credits.
- The spouse with the higher PIA will maximize survivors benefits.

Con:

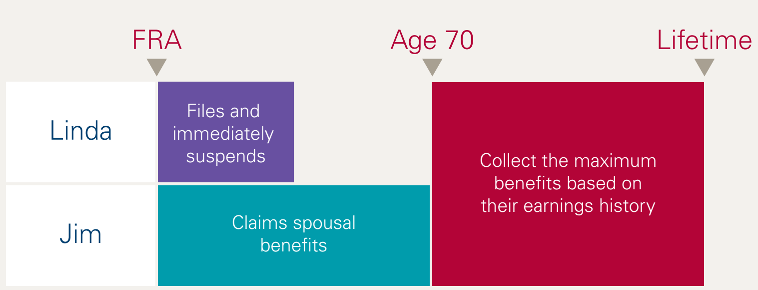
- One spouse will face the early retirement reduction if he or she claims benefits before FRA.

You might benefit if

- You can meet basic living expenses during the period of deferral.
- You're concerned about longevity risk.
- Spousal benefits will be greater than the benefits based on the spouse's own earnings history, even after delaying.

File and suspend

Linda and Jim are approaching retirement and have decided that they'd like to defer Social Security to grow their benefits. Linda is a year older than Jim and has a PIA of $1,500. Jim's PIA is $500. They decide that Linda will file and immediately suspend her benefits at her FRA. One year later, Jim can claim spousal benefits of $750. At age 70, Linda will begin to collect benefits based on her earnings record. These benefits will have grown to $1,980 monthly. With this claiming strategy, Linda and Jim have maximized their monthly Social Security payments, and the survivors benefits will be $1,980, adjusted for inflation.



Restricted application

How it works

- Typically, the younger spouse claims Social Security based on his or her own work history.
- When the other spouse (who's reached age 62 by the end of 2015) reaches FRA, he or she files a restricted application for spousal benefits only.
- At age 70, that spouse claims his or her own Social Security benefits, which have grown as a result of delayed retirement credits.

Trade-offs

Pros:

- Social Security payments begin early for one spouse.
- One spouse receives delayed retirement credits, which means survivors benefits could grow.

Con:

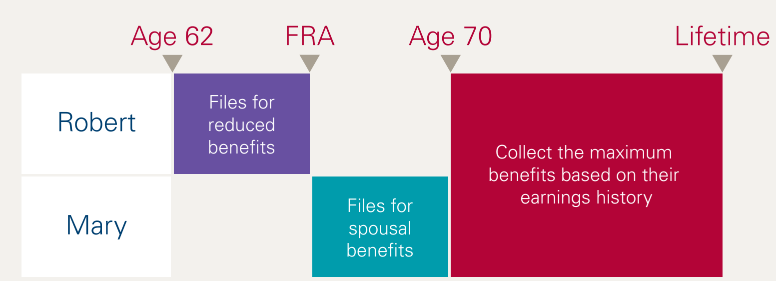
- The early retirement reduction would apply if a spouse claims before FRA.

You might benefit if

- You can meet basic living expenses by claiming some Social Security benefits now and more later.
- You're concerned about longevity risk.
- One of you has already claimed benefits and the other hasn't.
- One spouse's benefits after delaying are greater than his or her spousal benefits.

Restricted application

Robert is age 62, and his PIA is $1,000. His wife Mary is age 66, and her PIA is $2,496. If Robert and Mary require Social Security income early on, Robert can file and receive his reduced benefits of $750. Because Mary has reached her FRA, she's eligible to file a restricted application for only her spousal benefits of $500. This will allow the benefits on her earnings record to grow to $3,295 at age 70. The benefits to the surviving spouse will be the full $3,295.



Advanced claiming strategies for individuals

These tables summarize two claiming strategies that are available to any individual eligible for Social Security benefits. An individual who doesn't qualify for another type of Social Security benefits has the option to file for but immediately suspend benefits if he or she reached FRA and submitted the request by April 29, 2016. This strategy allows benefits to continue earning delayed retirement credits until the claimant begins receiving payments and allows the claimant to request a lump-sum payment, if he or she wants to, before beginning to receive benefits. If the claimant chooses to receive a lump-sum payout of benefits that have been held in suspension, he or she will forfeit any earned delayed retirement credits.

File and suspend

How it works	Trade-offs	You might benefit if
• At FRA (by April 29, 2016), you can file for benefits and then immediately suspend payments. • If you change your mind about delaying benefits, you can retroactively claim any benefits forgone during the suspension period.	Pros: • Enhances flexibility if you're unsure about your ability to delay. • Provides a lump sum of retroactive payments. Con: • If you retroactively claim benefits, you'll lose delayed retirement credits.	• You'd like to earn delayed retirement credits but are unsure whether you'll need the Social Security income between FRA and age 70.

File and suspend

David would prefer to defer claiming benefits until age 70, but he's worried that he'll need the Social Security income if an unexpected expense comes up. He decides to file for benefits and then suspend the payments by April 29, 2016, since he'll have reached his FRA by then. The grandfathering rules of the Bipartisan Budget Act of 2015 provide that if he needs extra money before age 70, he can retroactively claim a lump sum of payments. Additionally, he'll receive his PIA monthly going forward. In the case of no unexpected expenses, David's benefit amount will grow, and at age 70 he'll begin receiving his maximum monthly payment.

Reset (corrective)

How it works	Trade-offs	You might benefit if
• If you change your mind about receiving benefits less than 12 months after you file, you can withdraw your original claim for Social Security. • You must repay all of the benefits that your family received based on your earnings record. • You can reapply for Social Security later and receive the increased benefit amount resulting from delaying your claim.	Pros: • You can pay back the benefits interest-free. • You have flexibility if your life circumstances change. Cons: • You must pay back all benefits in a lump sum. • This is a once-in-a-lifetime opportunity.	• You already claimed benefits within the past 12 months, but your circumstances have changed. • You believe that you can defer your benefits but would prefer to receive delayed retirement credits.

Reset (corrective)

Deborah elected to receive Social Security benefits at age 64. She's now approaching age 65, has gone back to work, and wishes that she'd waited until after her FRA to claim Social Security because she could have received higher benefits. Deborah can pay back all the payments she received, without interest, and file paperwork with the Social Security Administration to stop benefits and withdraw her application. If she does, her retirement benefits can "reset" so that when she collects at a later date, she'll receive a higher benefit amount based on her age.

You can only withdraw and reset your Social Security application one time. If you choose to withdraw your application, you may wish to consider the source of the funds required to return to Social Security. Using taxable assets or taking a distribution from a retirement account may prove to be the most tax-efficient means of raising funds for the payback.