

Social Security

Options to help you maximize your benefits



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FIDELITY INSTITUTIONAL ASSET MANAGEMENT®



Today's Agenda

 **Social Security Essentials**

 **Benefits and Options**

 **Strategies to Consider**

 **Next Steps**

Social Security Eligibility and Sustainability



Eligibility

- Requirements include having 40 quarters of wages that were subject to Social Security payroll taxes (quarters do not need to be consecutive)
- Benefits are calculated based on the average of the 35 highest years of earnings

Sustainability

- Trust fund assets are invested in special issue U.S. bonds backed by the full faith and credit of the U.S. government
- By 2035, payroll taxes collected will pay approximately 80% of benefits owed

Social Security Terms

Full Retirement Age (FRA)

is the age when you are entitled to receive your full Primary Insurance Amount (PIA)

DETERMINING FRA

If you were born in:	Full Retirement Age
1943–1954	66
1955	66 + 2 mos.
1956	66 + 4 mos.
1957	66 + 6 mos.
1958	66 + 8 mos.
1959	66 + 10 mos.
1960 or later	67

Primary Insurance Amount (PIA)

CALCULATING PIA

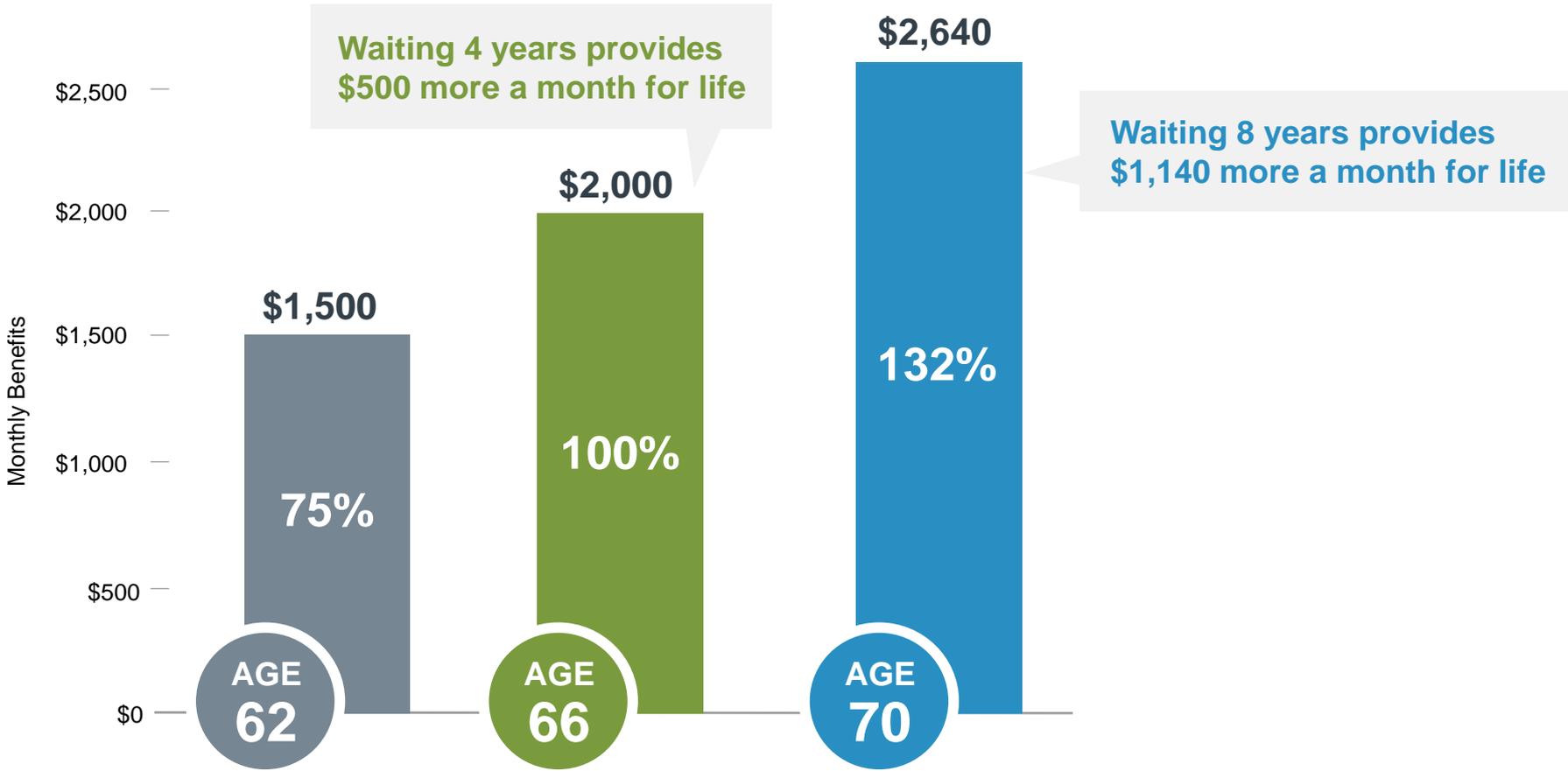


Collect Social Security before FRA and you'll receive a **reduced benefit.**

Source: Social Security Administration.

The Value of Waiting: Up to 8% per Year

Can you wait?

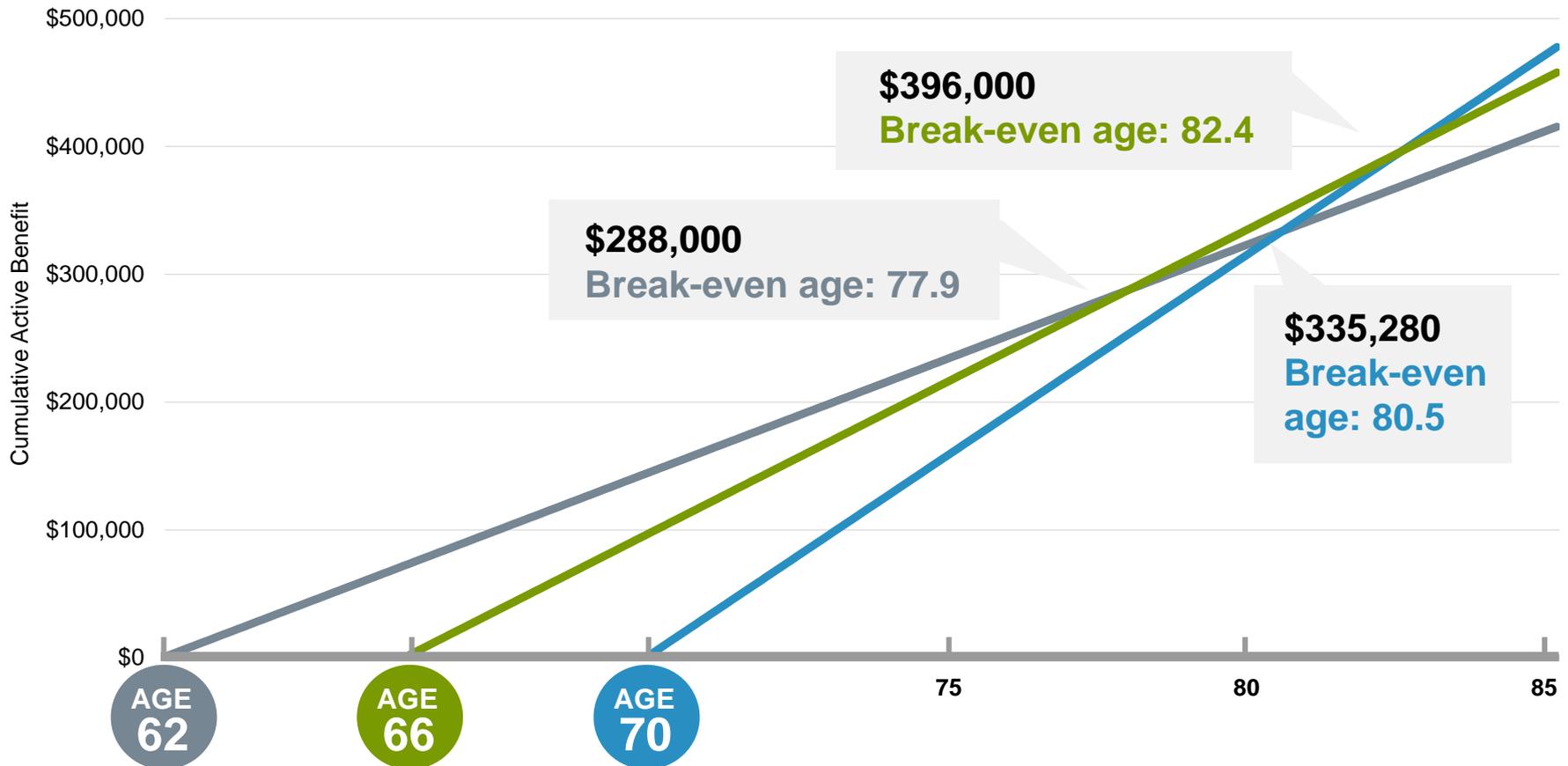


This hypothetical example assumes that the person is not working in retirement. Sample benefit amounts are not exact due to rounding. They do not reflect annual cost-of-living adjustments or taxes. Had taxes been taken into account, the amounts would be lower. Benefit at full retirement age is assumed to be \$2,000 per month.



Social Security “Break-Even” Age

The age at which you break even and begin to come out ahead versus taking Social Security before full retirement age



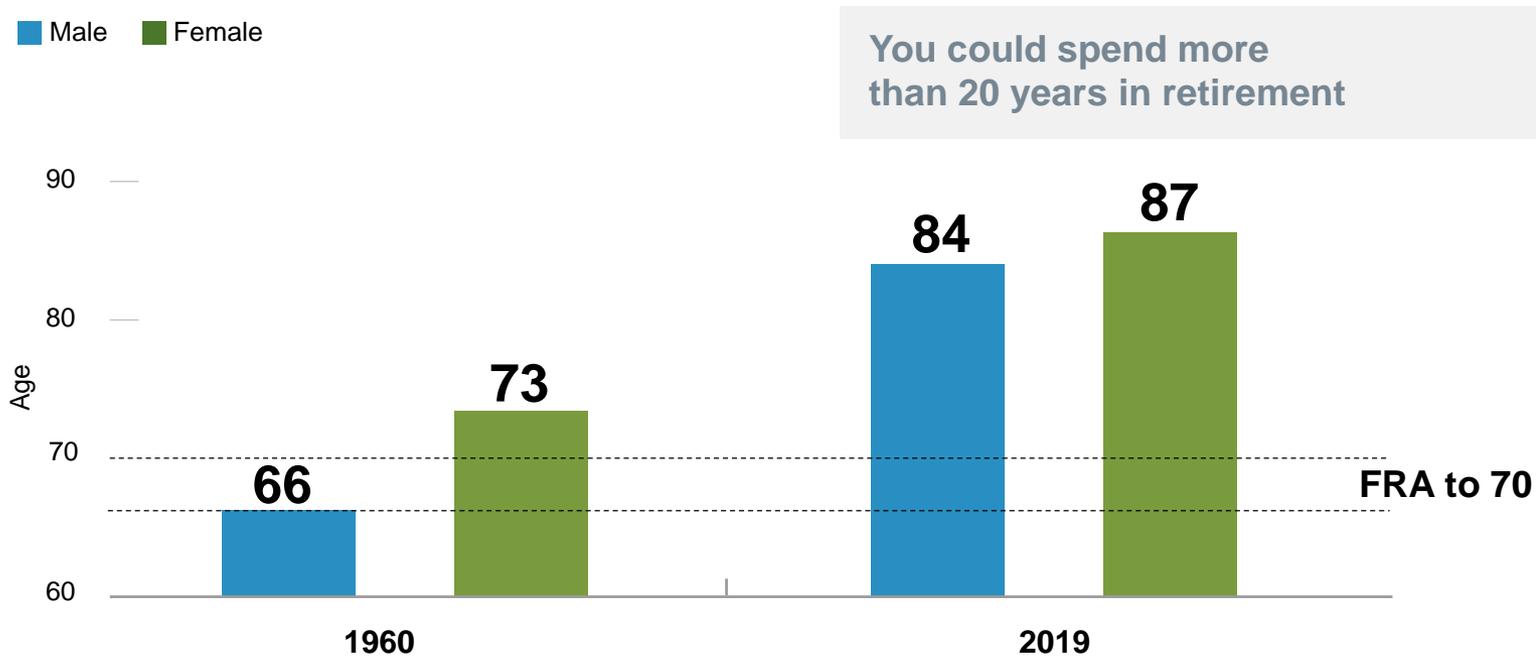
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Longevity: We Are Living Longer in Retirement

Retirement years could exceed working years

AVERAGE LIFE EXPECTANCY AT 65

■ Male ■ Female



Source: Social Security Administration Life Expectancy Calculator, 2019. Figure assumes a person is in good health.

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Social Security by the Numbers

Approximately 64 million retirees received Social Security benefits in 2019¹

SO, WHO'S TAKING THEIR BENEFITS WHEN?²



Delaying benefits beyond FRA could result in an **8% increase** year over year until age 70

1. Social Security Administration, 2019

2. Center for Retirement Research at Boston College analysis of Social Security Administration data, 2015.

Social Security and Working

Working while taking Social Security has its drawbacks

	Limits	Consequences
Before FRA	\$18,240 per year	For every \$2 over the limit, \$1 is withheld
Year Turning FRA	\$48,600 per year	For every \$3 over the limit, \$1 is withheld from benefits until the month they reach FRA
After FRA	None	No limit on earnings

A **Special Earnings Limit Rule** may be applied to clients who retire mid-year if client:

- Under FRA, has earnings of \$1,520* or less in any month, and didn't perform substantial services in self-employment
- Reaches FRA, has earnings of \$4,050* or less during any given month, and didn't perform substantial services in self-employment

* Source: Social Security Administration, 2019.

Provisional Income

Federal tax on benefits



Percentage of Benefits Subject to Tax	Single Filers' PI	Married Filers' PI
0%	\$25,000	\$32,000
Up to 50%	\$25,000–\$34,000	\$32,000–\$44,000
Up to 85%	Above \$34,000	Above \$44,000

Source: Social Security Administration, 2019.

Provisional Income Typically Includes

- ✓ **50% of Social Security benefits**
- ✓ **Income from municipal bonds**
- ✓ **Wages**
- ✓ **Business income**
- ✓ **Interest**
- ✓ **Capital gains**
- ✓ **Dividends**
- ✓ **Traditional IRA distributions**
- ✓ **Rental income**

May Not Include:

- Tax-deferred build-up inside IRAs, 401(k)s, and annuities
- Income from Roth IRAs
- Non-taxable income from life insurance

Spousal Benefits

If you are married and collect early, your spousal benefits are reduced

PERCENTAGE OF SPOUSAL BENEFITS

Client Age	62	63	64	65	66	67
	35.0%	37.5%	41.7%	45.8%	50% FRA	
	32.5%	35.0%	37.5%	41.7%	45.8%	50% FRA

Spouse can collect up to **43%–54% more** by waiting until FRA.

Source: Social Security Administration, 2019.

Maximizing Couples' Benefits Strategy

ABOUT OUR COUPLE

Joe

FRA: 66

PIA: \$1,900

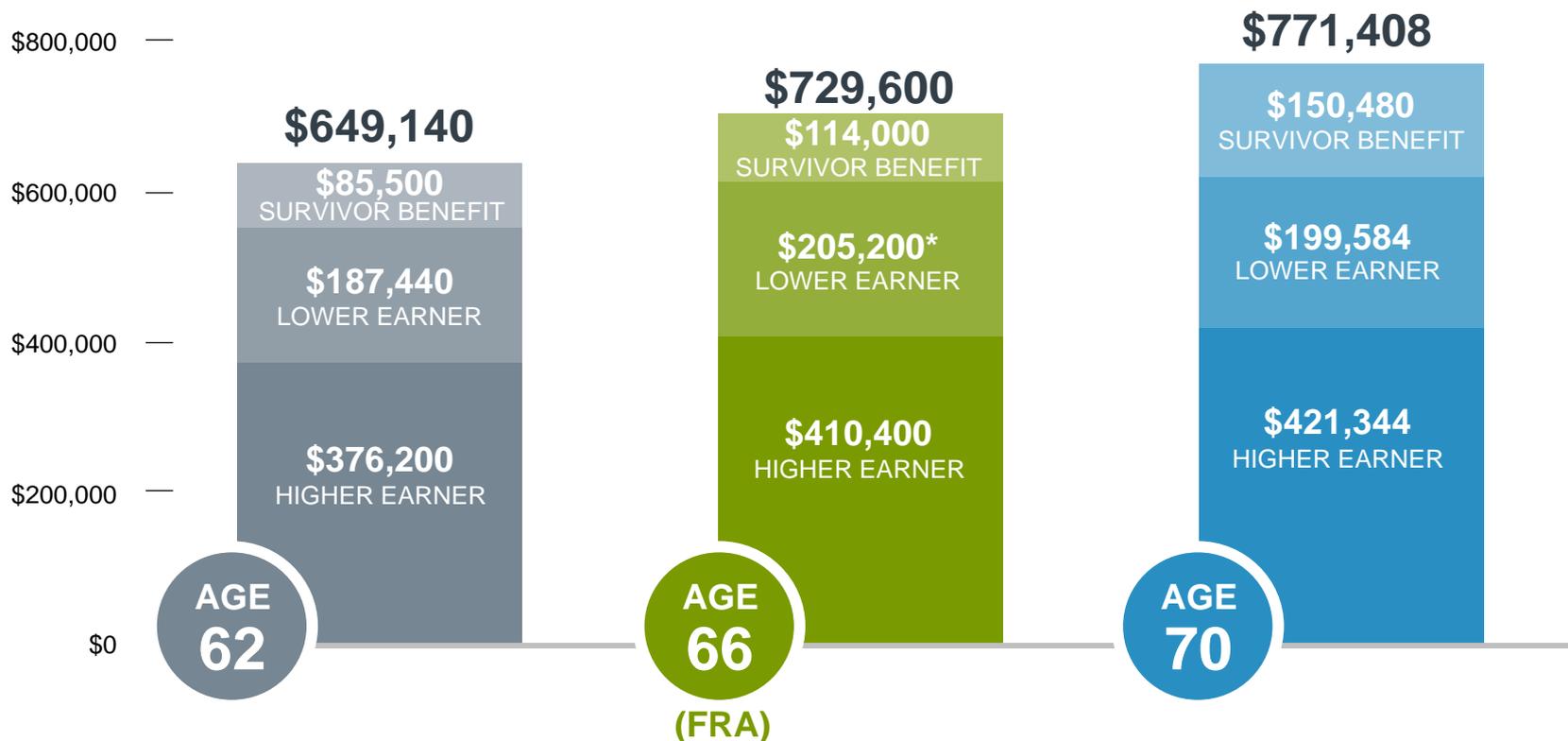
Life expectancy: 84

Erin

FRA: 66

PIA: \$900

Life expectancy: 89



* Total includes spousal benefit of \$10,800.

This hypothetical scenario depicts the differences in amounts that a retiring couple would receive, depending on when they started collecting Social Security benefits.

Three Opportunities to Maximize Benefits

You may be able to boost your Social Security benefits

1

Strategies for Couples

Spouses should evaluate options to determine when to file for benefits

2

Survivor Benefits

This option works best if one spouse is expected to outlive another

3

Former Spousal Benefits

Ex-spouses may be eligible for a portion of benefits

Opportunities to Maximize Benefits

Couples should evaluate options together to determine when to file for benefits

1 Strategies for Couples

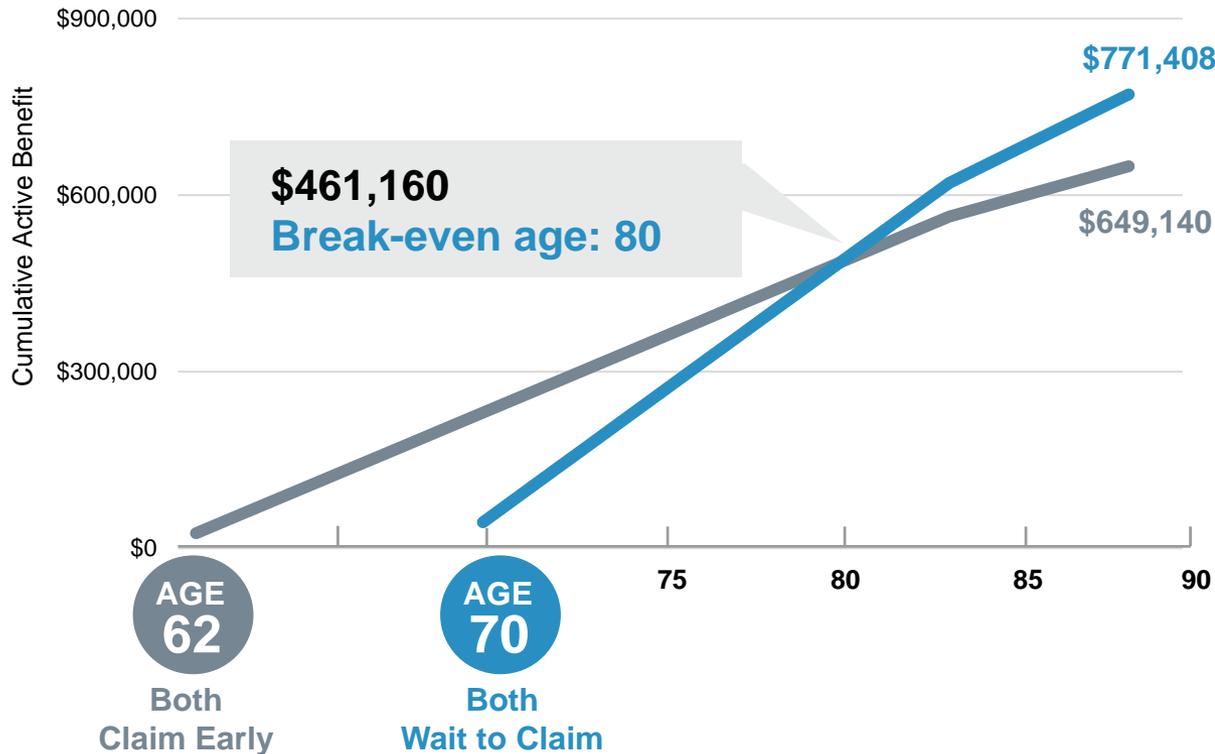
ABOUT OUR COUPLE

Joe

FRA: 66
PIA: \$1,900

Erin

FRA: 66
PIA: \$900



Benefits of filing early

- Can help alleviate financial stress transitioning into retirement

Benefits of delaying filing

- Eligibility for **delayed retirement credits**, and an **increased monthly benefit** for those between ages 62 and 70
- **A greater benefit amount** to help cover costs throughout retirement

Hypothetical example. The "suspending" spouse must have reached full retirement age.
Source: Social Security Administration (Policy RS 00615.250).

Opportunities to Maximize Benefits

Important for large differences in benefit amounts and/or life expectancies

2 Survivor Benefits

ABOUT OUR COUPLE

John

FRA: 66

PIA: \$2,000

Life Expectancy: 85

Claire

FRA: 66

Life Expectancy: 94

TIP: Works best if the younger spouse is expected to outlive the older spouse.

John takes Social Security at:

Claire's benefits over her lifetime:

AGE
62

\$355,200

AGE
66

\$444,000

AGE
70

\$465,120

Eligibility

- Married to spouse for at least 9 months
- Married to an ex-spouse for at least 10 years and did not remarry prior to age 60
- Receive the highest benefit if eligible for multiple survivor benefits
- If eligible for own benefit and a survivor benefit, one may be activated early without reducing the other

This hypothetical assumes John's monthly benefit at ages 62, 66, and 70 is \$1,500, \$2,000, and \$2,640, respectively.

Opportunities to Maximize Benefits

Useful for divorced spouses

3 Former Spousal Benefits

TIP: Eligible for more than one benefit? Client will receive the highest.

Divorced Benefits*

The ex-spouse may be entitled to 50% of an ex-spouse's benefits if:

- Marriage lasted at least 10 years
- The couple has been divorced for at least 2 years
- The ex-spouse is currently unmarried

Divorced Survivor Benefits

If client dies, ex-spouse may be eligible for benefits if:

- Ex-spouse was entitled to Social Security or disability insurance at time of death
- Marriage lasted at least 10 years
- Ex-spouse has not remarried prior to age 60

You should seek the advice of a legal or tax advisor or contact Social Security to assist with questions.

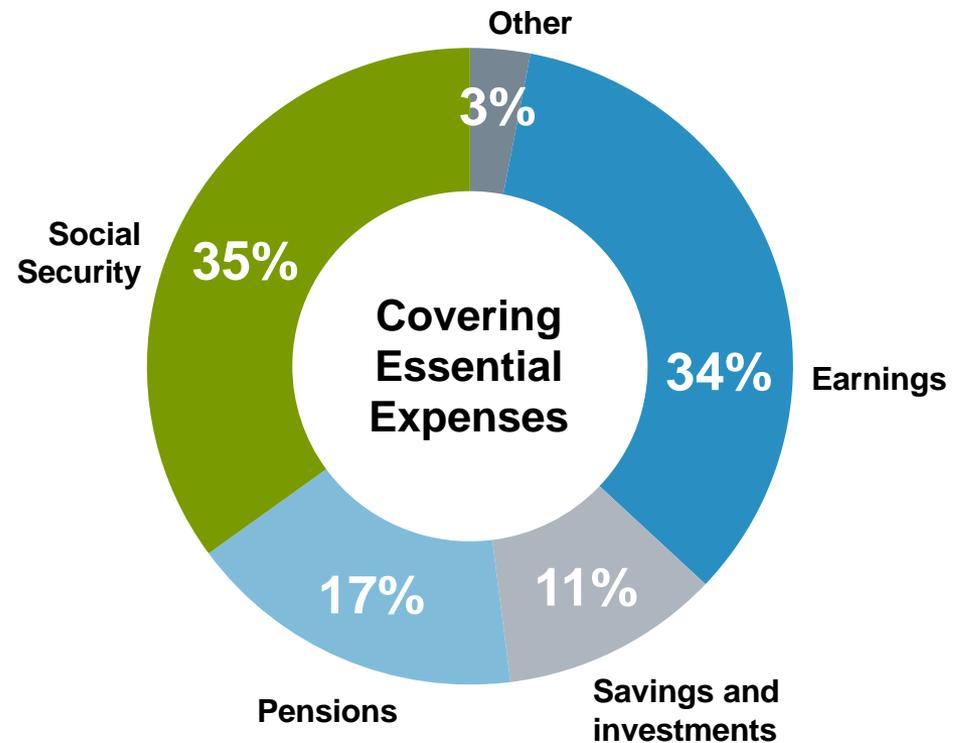
* Provision is subject to final instruction from the SSA.

Filling the Income Gap

Most people do not rely only on Social Security in retirement

Essential expenses such as health care and mortgages should be covered by guaranteed* income sources:

- Social Security
- Annuities
- Pensions



* Subject to the claim-paying ability of the issuing insurance company.

Next Steps

Meet with your financial advisor

1	2	3
Discuss a retirement budget	Develop a written plan with milestones	Schedule regular check-ins

Additional Information to Consider

Restricted Application

Claiming strategy only available to individuals who were age 62 as of 12/31/15

HYPOTHETICAL EXAMPLE

Greg, Age 62

FRA: 66

PIA: \$1,000

Laura, Age 66

FRA: 66

PIA: \$2,000

TIP: Works best for households that can handle lower monthly checks.

Greg and Laura are ready to retire:

Claim Now

Laura, age **66**, receives **\$2,000 per month**

Greg, age **62**, receives **\$750 per month** (75% of \$1,000)

Laura and Greg together receive **\$2,750 per month**

Claim More Later

Both claim, but Laura only claims spousal benefits

Laura and Greg together receive **\$1,250 per month**

(Laura receives **\$500** and Greg receives **\$750**)

At age **70**, Laura claims her benefits

Laura and Greg together receive **\$3,390 per month**

(Laura receives **\$2,640** and Greg receives **\$750**)

Hypothetical example.

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Maximizing Spousal Benefits

When filing for benefits, a person's age can make a difference

ABOUT OUR COUPLE

Bob

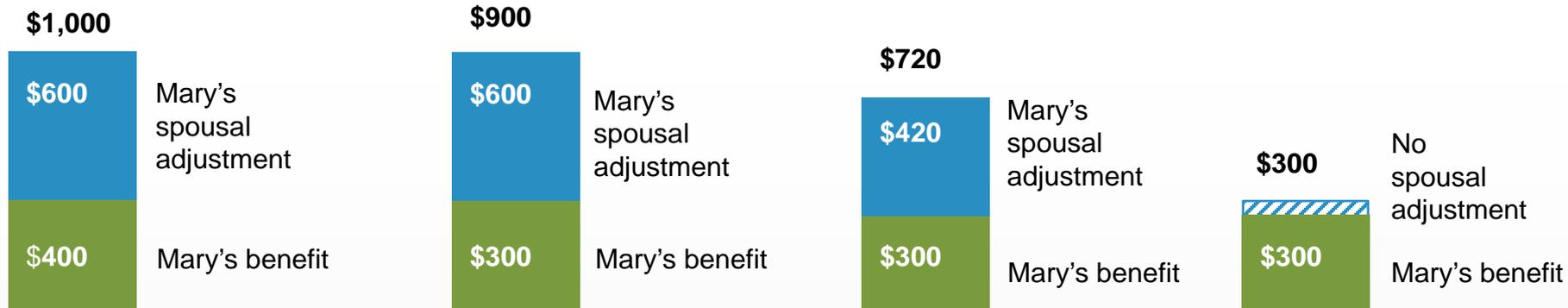
FRA: 66

PIA: \$2,000

Mary

FRA: 66

PIA: \$400



Scenario 1:

Files at FRA (66) for full benefit and is eligible for spousal benefit.

Scenario 2:

Files at age 62 and receives reduced benefit. Entitled to spousal benefits at FRA.

Scenario 3:

Files at age 62 and is entitled to reduced benefit and spousal benefit.

Scenario 4:

Files at age 62 and is only entitled to reduced benefit.

Windfall Elimination Provision (WEP)

Calculating a reduction in individual benefits

Who may be affected?

- ✓ Individuals who earned a pension and did not pay Social Security taxes, and are eligible for Social Security benefits (based on their earnings and work history)
- ✓ A modified formula is used to calculate PIA
 - Reduces replacement rate of 90% of the first \$960 to 40%*
- ✓ Maximum reduction in 2019 is \$480 or 50% of pension, whichever is less
- ✓ WEP reduction may be as low as \$0

CALCULATING WEP

WEP

40%–90% of the first Average Index Monthly Earnings (AIME) \$960

+

32% of AIME \$960 through \$5,785

+

15% of AIME over \$5,785

Social Security Administration, 2019.

* For each year over 20 of "substantial earnings," an individual receives 5% on top of the first 40%.

Who Can Get SSDI?



Eligibility

- Social Security pays benefits to people that can't work because they have a medical condition that's expected to last at least one year or result in death.
- Social Security pays disability benefits through two programs, **Social Security Disability Insurance (SSDI)** and **Social Security Income (SSI)**.
- The main difference between SSDI and SSI:

SSDI is available to workers who have accumulated a sufficient number of work credits

SSI disability benefits are available to low-income individuals who have either never worked or who haven't earned enough work credits to qualify for SSD.

How Do I Meet Earnings Requirement for SSDI?

1

A recent work test based on your age and when you become disabled

If you become disabled ...	Then you generally need:
In or before the quarter you turn age 24	1.5 years of work during the 3-year period ending with the quarter your disability began
In the quarter after you turn age 24 but before the quarter you turn age 31	Work during half the time for the period beginning with the quarter after you turned 21 and ending with the quarter you became disabled. Example: If you became disabled in the quarter you turned age 27, then you would need three years of work out of the six-year period ending with the quarter you became disabled.
In the quarter you turn age 31 or later	Work during five years out of the 10-year period ending with the quarter your disability began

2

A duration-of-work test to show that you have worked long enough under Social Security

If you became disabled ...	Then you generally need:
Before age 28	1.5 years of work
Age 30	2 years
Age 34	3 years
Age 38	4 years
Age 42	5 years
Age 44	5.5 years
Age 46	6 years
Age 48	6.5 years
Age 50	7 years
Age 52	7.5 years
Age 54	8 years
Age 56	7.5 years
Age 58	9 years
Age 60	9.5 years

How Do I Apply for SSDI?

- Apply online at www.socialsecurity.gov or
- Call toll-free number 1-800-772-1213 to make an appointment to file a disability claim at your local Social Security office.

You should apply for disability benefits as soon as you become disabled. Processing an application for disability benefits can take three to five months.

Who Decides if I'm Disabled?

- **The Social Security Administration (SSA) will review your application to make sure you meet some basic requirements for disability.** SSA will check whether you worked enough years to qualify and evaluate any current work activities. If basic criteria is met your application will be forwarded to the Disability Determination office in your state.
- **The state agency completes the initial disability determination decision for SSA.**
- **The amount of your SSDI benefit is not based on the severity of your disability, but rather on the amount of income on which you've paid Social Security taxes.**

- **Factors the agency will consider: your medical condition, when your medical condition began, how your medical conditions limit your activities, medical test results, what treatment you have received.**
- **If your medical sources can't provide needed information, the state agency may request an in-person medical examination.**

If you disagree with a decision made on your claim, you can appeal it.

How Does Work Affect My SSDI Benefit?

- **You cannot collect SSDI if you are engaged in what SSA deems Substantial Gainful Activity (SGA).**
- **You cannot receive an SSDI benefit in any month in which you earn over a certain limit (\$1,260 for 2020).**

Nine-month trial work exception

SSDI recipients are entitled to test their ability to work and continue to receive full benefits regardless of whether they make more than the SGA amount for a nine-month trial work period. For 2020 SSA considered any month in which a person had a monthly income of more than \$910 per trial work month. Once you have completed the nine-month trial work period you can still receive SSDI for any month in which your earnings fall below the SGA level for a period of 36 months.

What Happens to My SSDI Benefit When I Reach FRA?

Once you reach FRA your payment will switch from an SSDI benefit to an SSA “Old Age” or retirement benefit, the difference being that your benefit is being paid from a different fund.

The switch from an SSDI benefit to a retirement benefit happens automatically and does not affect your benefit amount.

Upon reaching FRA you are no longer subject to the earnings test.

Government Pension Offset (GPO)

A reduction in spousal or survivor benefits

Who is affected?

- ✓ Individuals with a pension from a job not covered by Social Security, and
- ✓ Those eligible for Social Security spousal or survivor benefits (based on someone else's earnings and work history)

GPO reduces
Social Security
benefit by

**two-thirds of the
pension amount**

Other Beneficiaries

Who may qualify to receive your benefits?

- ✓ **A spouse 62 years of age or older**
- ✓ **A spouse at any age if that spouse is caring for your child (younger than age 16 or disabled)**
- ✓ **Former spouses age 62 or older**
- ✓ **Parents dependent on your clients**

- ✓ **Unmarried children younger than age 18, or:**
 - up to age 18 or 19 if full-time student or not yet graduated from high school
 - age 18 or older and severely disabled (with a disability that started before age 22)

Same-Sex Marriages

Married same-sex couples now get Social Security benefits

Same-sex married couples are eligible for Social Security spousal and survivor benefits

- Couples living in a state that previously did not recognize same-sex marriages can apply for benefits
- Non-married spouses also may be eligible for spousal benefits

A surviving spouse qualifies for the one-time lump-sum death benefit to help pay for expenses

More information at
www.ssa.gov/same-sex-couples

Online Resources

Social Security Administration website

www.ssa.gov

- Calculators
- Applications
- Latest information and process documents
- Social Security updates



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