



MARKET OUTLOOK

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Optimizing Social Security Retirement Benefits

What does it mean?

Getting a good return on your investment

Optimizing your Social Security retirement benefits means getting the best return possible on each dollar you invest in the system. Every pay period, you pay 6.2 percent of your salary in taxes that finance your future benefits (retirement, disability, and survivor's benefits) and those of other Americans (for 2011 only, this tax rate has been reduced to 4.2 percent). In addition, your employer pays an equal share of taxes; if you're self-employed, you contribute both your own portion and the employer portion by paying a self-employment tax.

Most Americans should plan a benefit strategy

About 96 out of 100 jobs are covered by or are eligible for coverage under Social Security. This means that most Americans will use their benefit coverage at some point during their lives. The amount of Social Security benefits you receive will partly be determined by law, inflation, and other conditions outside your control. However, if you make wise decisions regarding when you retire and how much you earn, you can increase the amount of benefit you will receive.

Example(s): Mack and Zak are identical twins. Mack retires early at age 62. Zak, on the other hand, waits to retire because he knows that his monthly benefit will be 30 percent higher than Mack's if he retires at age 67 (his normal retirement age). Unfortunately, Zak fails to consider that even though Mack's monthly benefit is

More Social Security information available at www.sfginvest.com

Sometimes getting accurate information about Social Security can be daunting. To make it easier, Strategis has added many articles focused on common Social Security questions and concerns to its Internet site.

The information is compiled by Forefield, a leading provider of financial planning knowledge for professional advisers. The content in this newsletter is a sample of the type of information available at the Strategis web site:

www.sfginvest.com

lower, Mack will receive 60 extra benefit checks for retiring early.

Will you get out of Social Security what you're putting in?

Your return may not equal your investment

If you have a 401(k) or another qualified retirement plan, you probably know exactly how much you contribute to it each month. From year to year, you watch as your savings grow—first doubling, then tripling. But do you know what you contribute to Social Security? Because Social Security taxes are involuntary (unlike contributions to a private retirement plan), you probably don't. You may know approximately what distribution you will receive from an IRA, for example, but when you're



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ready to retire, how much of what you've paid into the Social Security system will you collect? The answer to that question is tricky because you may never need to use some of the benefits you have earned. In addition, Social Security is both a pay-as-you-go system of benefits and a social program. What you pay into the system isn't exactly what you get out of it. In fact, the more money you make, the less return you may get on your investment because the Social Security benefit formula greatly favors low-income individuals.

How the average indexed monthly earnings (AIME) benefit formula favors low-income individuals

If you retire at normal retirement age, your retirement benefit will be 100 percent of your primary insurance amount (PIA). Your PIA is calculated by applying a benefit formula to your AIME. If you have had low earnings over your lifetime, your benefit will be much lower than the benefit of someone who had high earnings. However, because the benefit formula is weighted to favor individuals with low earnings, you will get back a greater percentage of what you put in than someone who had high earnings.

Example(s): Willie, Billie, and Millie are triplets. They all performed in a traveling circus and retired after working for 33 years. This is how the benefit formula affected them: Willie, a lion

tamer, had high earnings over the years. When he retired, his AIME was calculated to be \$2,930. After the benefit formula was applied, his PIA was calculated to be \$1,210.20. Thus, his monthly retirement benefit amount of \$1,210 is 41 percent of his AIME. Billie, a trapeze artist, had average earnings over the years. When she retired, her AIME was calculated to be \$1,948. After the benefit formula was applied, her PIA was calculated to be \$938. Her monthly retirement benefit amount of \$938 is 48 percent of her AIME. Millie, a clown, had low earnings over the years. When she retired, her AIME was calculated to be \$877. After the benefit formula was applied, her PIA was calculated to be \$568.70. Her monthly retirement benefit amount of \$568 is 65 percent of her AIME.

One rule that you can't change

Clearly, the individual with the highest earnings (Willie) receives the highest monthly retirement benefit. However, the individual with the lowest earnings (Millie) receives the best return on her investment. Does this mean that you should try to earn less so that you will receive a greater percentage of your investment back? No. But it does mean that Social Security is a better investment for someone who has lower lifetime earnings than it is for someone who has higher lifetime earnings. Since Social Security is a compulsory social insurance system, this is one rule that you can't change. However, you can make some decisions during your lifetime that will affect the amount of your retirement benefit.

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Decisions that affect the amount of your Social Security retirement benefit

When you receive your retirement benefit

Choosing when to start receiving retirement benefits is a personal decision but one that shouldn't be made hastily. Taking time to clip grocery coupons may save you a few dollars; taking a few minutes to decide when you want to start receiving retirement benefits could save you thousands. This is because retiring earlier or later than normal

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retirement age can greatly change the amount of your monthly retirement benefit.

When you retire at normal retirement age, you will receive a retirement benefit equal to 100 percent of your PIA. If you retire early (often at age 62, but anytime before normal retirement age), you will receive a reduced benefit. If you retire later than normal retirement age (but before age 70), you will receive an increased benefit. Because you want to receive the highest benefit, you want to postpone retirement as long as possible, right? Not necessarily. Even though you will receive less money per month if you retire early, over your remaining lifetime you may receive more than someone who retired late or at normal retirement age. For example, if you retire at age 62, you will receive 48 more benefit checks than someone who retires at 66.

This may add up to a substantial amount of money that will be difficult to compensate for even with an increased benefit check. On the other hand, you may want to work as long as possible because you need to provide for your family. In addition, if you postpone receiving your Social Security retirement benefit, you will increase your benefit substantially because your monthly earnings may increase and you will receive a late retirement credit.

Tip: When deciding at what age you want to begin receiving Social Security retirement benefits, consider other retirement benefits you may receive as well. For example, you may be able to retire at age 62 (or earlier) and begin receiving a pension from your employer as well as a Social Security supplement that will pay you a benefit equivalent to what you would receive from Social Security until you reach normal retirement age. Consider, too, your tax situation, and how your

Investment Company Act, Rule 3a-4

As your investment advisor, we are required by the Investment Company Act, Rule 3a-4, to make recommendations in accordance with your individual needs and financial circumstances. We must also periodically check to ensure that these needs and circumstances have not changed. So if there have been changes in your financial circumstances, please contact your advisor at 1-800-279-3377. We will be happy to make any necessary adjustments in your portfolio selection.

decision will affect your spouse or dependent family members.

How much you earn during your lifetime

Since your retirement benefit check will be based on your average monthly earnings, earning more during your lifetime is one way to maximize your Social Security retirement benefit. The indexed income you receive in a certain number of your highest earnings years (usually 35) is added up and divided by the number of months that elapsed during those years. The result is your AIME amount. Then, a benefit formula will be applied to determine your PIA upon which your monthly benefit will be based.

You can't increase your monthly benefit by changing the formula used to calculate it; that formula is determined by law. However, you may increase your monthly benefit by increasing your AIME amount. You may also wish to increase your AIME to ensure that you will be eligible for minimum Social Security benefits in the event that you've worked only sporadically in a job covered by Social Security.

How much you earn after you retire

Part of your Social Security retirement benefit is not payable if you're under normal retirement age and have earned income in retirement in excess of a certain amount. This amount is known as the retirement earnings test exempt amount. Currently, you can earn up to \$14,160 if you have not yet reached normal retirement age or up to \$37,680 during the year you reach normal retirement age (up to, but not including the month you reach normal retirement age). If you make the same as or less than these amounts, your Social Security retirement benefit won't be reduced.

Once you have reached your normal retirement age, your earnings in retirement won't reduce your Social Security benefit. So to optimize your benefit, you can calculate how your earned income might affect your benefit and consider postponing any earned income in retirement until you reach your normal retirement age. However, keep in mind that the benefit reduction is based on your actual earnings and is not permanent; your monthly benefit is reduced starting in January of the year following the year you had excess earnings and will be reduced

until the excess earnings are used up. Additionally, if your monthly benefit is reduced in the short term due to your earnings, you'll receive a higher monthly benefit later. That's because the Social Security Administration (SSA) recalculates your benefit when you reach full retirement age, and omits the months in which your benefit was reduced.

Get the information you need to plan your strategy

Before you can plan a strategy to optimize your retirement benefits, you need to find out what benefits you are entitled to and how much you might receive. The SSA will provide you with a free estimate of your future benefits, as well as a list of what benefits you are entitled to based on your insured status. This *Social Security Statement* can also be used to check your earnings history. You will automatically receive this statement every year approximately three months before your birthday, or you can request one from the SSA. You can also use the SSA's Retirement Estimator tool available on the SSA's website (www.ssa.gov) to estimate your future Social Security benefits.

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Electing Delayed Social Security Retirement Benefits

You can elect to delay receiving Social Security retirement benefits past normal retirement age.

Prerequisites

You want to optimize your Social Security retirement income and:

- You are at least normal retirement age
- You are fully insured for retirement benefits
- You have applied for delayed retirement benefits by contacting the Social Security Administration

Key Strengths

- Your retirement benefit will increase
- Your surviving spouse's benefit will increase
- Your delayed retirement credit isn't counted toward your family maximum

Key Tradeoffs

- Even though your monthly benefit will be higher, your lifetime benefit may be lower
- The delayed retirement credit won't increase benefits paid to most family members

Variations from State to State

- None

How Difficult Is It to Implement?

• For information on how electing delayed retirement benefits will affect you, you can order a Social Security Statement from the Social Security Administration.

• To apply for delayed retirement benefits, contact the Social Security Administration two or three months before the date you wish to begin receiving benefits.

Visit a local office or call (800) 772-1213.

• For investment options or retirement planning advice, contact a financial professional.