BROKER WORLD

The Practice Management Minute...

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CFP®, CLU®, ChFC®, is the owner of CG Financial Group, one of the fastest growing annuity, life, and long term care IMOs in the industry. Gipple's passion is to fill the educational void left by the reduction of available training and prospecting programs that exist for agents today. Gipple is personally involved with guiding and mentoring CG Financial Group agents in areas such as conducting seminars, advanced sales concepts, case design, or even joint sales meetings. Gipple believes that agents don't need "product pitching," they need mentorship, technology, and somebody to pick up the phone…

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The #1 Social Security Mistake I See

I think almost every financial professional should be somewhat astute with Social Security. After all, Social Security is one of the very few things that almost all of our prospects and clients will have in common from a financial standpoint. Almost every one of them will be filing for their Social Security benefits eventually, and therefore doesn't it make sense for all of us to be able to field those questions if they come up?

I know there are some folks that believe that wealthy clients do not care about optimizing and maximizing their Social Security. That may be true for some of them, but I will say, when our agents and I conduct Social Security seminars, if we have 20 consumers in a room a few of them will be millionaires. So, although I do agree that the ultra-wealthy may view Social Security as a rounding error in their overall portfolios, I would adamantly say that there are plenty of affluent consumers that do care about optimizing their Social Security.

With that, I wanted to share with you the number one mistake that many consumers make or intend on making when it comes to filing for Social Security. This mistake is purely because of their misunderstanding of how Social Security works.

First off, let's step back and talk about "Delayed Retirement Credits." We all know that when you delay filing for Social Security retirement benefits past full retirement age, you get a .66 percent increase per month that you delay past that point. So, that comes out to be eight percent per year

in delayed retirement credits. This means that if my full retirement age is 67, then by delaying until age 70—which is the latest I can delay while getting delayed retirement credits—then I will have a 24 percent increase on my Social Security benefit permanently! In a time where everybody is living longer, if you do the math over your expected lifespan, delaying often makes sense. *(Note: Good Social Security software will calculate and compare the total amount of Social Security benefits you would get over various "lifespans" and different filing dates.)*

So, where is the mistake that I see many consumers make or intend to make (until they speak with me)? It has to do with spousal benefits. What I just explained regarding delayed retirement credits is if a Social Security recipient is going to be taking Social Security based off of their own earnings record. However, if you are in a situation where you are taking spousal benefits based off of your spouse's earnings record, delayed retirement credits do **not** apply.

Let's take a 63-year-old couple who is trying to decide when they should file for Social Security. Because they were both born in 1960, we know that their "full retirement ages" are age 67 (per the Social Security tables). He has made a ton of money over his lifetime, and she has made very little. This hypothetical is not Charlie being a stereotypical pig but is actually very common in families—like mine. Oftentimes **she** has stayed at home with the kids and therefore has not earned much while her spouse continued to work to bring home the bacon! By the way, we all know who had the toughest job, and the most important job. **Her!** Well, the Social Security administration recognizes this dichotomy and therefore says that if 50 percent of one of the spouse's full Social Security amount (Primary Insurance Amount) is more than her full retirement amount which is based on her own earnings record, then she can take her Social Security benefits based off of 50 percent of his full retirement amount. For instance, if his full retirement benefit is $3,000 per month based on his earnings record and hers is $1,000 per month, then you can bet that she will be looking to leverage the spousal benefit, which would come out to $1,500 per month. *To be clear, I am saying "full retirement amount" to simplify the conversation. Technically, it is the "Primary Insurance Amount," which is defined as the amount of Social Security benefits one would receive based on their earnings record at **full retirement age**.*

So, for our 67-year-old couple it is a common strategy for him to delay filing until age 70 in order to get that 24 percent step up in his benefits. If his "Primary Insurance Amount" was $3,000 (at full retirement age) then by waiting until age 70, he would get $3,720 (not including COLAs) for the rest of his life. It may also be natural for her to also want to delay until age 70 so that she gets those 24 percent step ups on her spousal benefit. She might think that those eight percent delayed retirement credits would be on top of her $1,500 per month benefit. Wrong, Wrong, Wrong.

As I have told several consumers, spousal benefits do not get those delayed retirement credits like they do if it was otherwise based on her own earnings record! Hence, if she delays until age 70, effectively what she has done was left three years of benefits on the table. Again, this is because there is no reward for waiting until age 70 when it comes to spousal benefits. Her spousal benefit at age 70 would still be $1,500 (not including COLAs). Again, she left three years of benefits on the table. Wouldn't that be a shock to her once she turned age 70 and saw that she only got $1,500?

More than likely, the ideal strategy would be that she files at her full retirement age (67) so that she does not leave those three years (ages 67-70) of Social Security benefits on the table. However, remember that, unless her spouse has filed for his benefits, she does **not** get the spousal benefit at least until the time comes that her spouse files.

So, because our hypothetical guy won't file until age 70 in my example, then what benefit will she get between the ages of 67 and 70? The benefit is based on her own earnings record, $1,000 per month (not including COLAs). Then, when he files at age 70, her benefit will bump up at that time to reflect the spousal benefit.

What have you done by alerting this couple that spousal benefits do **not** get delayed retirement credits? You have allowed her to not leave $36,000 ($1,000/month times 36 months) on the table!

*(Note: We will be displaying some great Social Security software that agents can utilize at our Chicago, Des Moines, and Minneapolis Lunch and Learns in November. If this interests you, inquire with us about registering at **info@cgfinancialgroupllc.com.**)*

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