

Human-Centric Investing Podcast

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Episode 21, Social Security: What am I entitled to?

Host: John Diehl, John Diehl, Sr. Vice President, Strategic Markets, Hartford Funds

Featured Guest: Michael Lynch, Managing Director, Strategic Markets, Hartford Funds

- Female: This is the Human-Centric Investing Podcast with John Diehl, where we look at the world of investing for the eyes of our clients. Take it away, John.
- John Diehl: Hello, financial advisors. This is John Diehl, Senior Vice President of Strategic Markets at Hartford Funds. Welcome to the Human-Centric Investing Podcast. Joining me today is our own Mike Lynch, managing director of Strategic Markets here in Hartford Funds.
- Welcome, Mike, it's nice to have you back.
- Michael Lynch: Hey, John. Good morning. Thanks very much for having me.
- John Diehl: You know, interesting Social Security never seems to wane, I mean, our Social Security webinars are always well attended. And seminars typically draw a large crowd with lots of questions. But, you know, next to when I should begin taking Social Security, a question that we covered in episode 17, probably the second most often asked questions we get is, "What am I entitled to?" And the answers can vary a great deal depending on whether it's an individual who is asking, a spouse, a widow, or a widower. You know, I read a CNBC article last summer that said a single person only has to consider nine different scenarios when it comes to claiming retirement benefits. For married couples, the available options for filing strategies grow to 81, it's easy to see why people get overwhelmed or confused.
- As in any situation, you can't give hard and fast answers without knowing someone's real life circumstances, but perhaps you can give them some ideas that they should consider when developing their game plan. So with that, Mike, let's get started. Mike, do you think people understand the difference between filing individually and filing jointly, what do you run into in the field?
- Michael Lynch: You know, I don't think they do, I think for a majority of people, they just think filing jointly, you know, occasionally you'll have someone come up afterwards and talk to us at an event about filing on their own. But I think there's a, you know, there's almost as much information as misinformation out there. And I think sometimes, the internet is great, but you tend to jump to an answer that you think is the right answer, as opposed to what is actually the factual answer. So I think that's where it's an opportunity to really sit down, talk to your advisor, contact SSA whether it's ssa.gov, and the website, or, you know, set up a call and or book an appointment, and really talk about what your option is.
- And to your point, I think when you mentioned, you know, when should they file, I think that the important question is what income do you need? And then that will drive what option should I choose, and then, you know, from an age perspective, what make sense for me to file. Kind of coming up with that number first, and then behind the scenes saying, OK, how do we accomplish this? How do we get to that number? And then that hopefully will put them in a little better position.
- John Diehl: So, Mike, I guess, you know, a question I have connected to that, maybe some of the confusion comes, because usually when we talk about filing single or filing jointly, we're thinking about taxes, right? And in that case, it's kind of a choice, am I going to file single or not single necessarily, if I'm married, I can marry—I can file jointly or I can file kind of as separately as a married person, but in terms of Social Security, does everyone have to file single or if I'm married, do I have to file joint or kind of—how does that work?
- Michael Lynch: You know, to some extent, depending on the age group, you know, if you were over or born after

1954, then some of this is taken out of the equation, whereas Social Security Administration generally will calculate what's the highest amount, if I were to file just on my benefit, if I were to file for the spousal benefit, or, you know, maybe even a death benefit down the road. So the Social Security Administration takes some of the confusion out of the equation by saying this is really what you're entitled to. Now, if you have a client who's maybe a little bit older born prior to '54, they have an option called restriction benefits where they can kind of pick and choose to some extent, do I want just this benefit, based on, you know, once they reach full retirement age, but do I want this benefits versus that benefit? So, they have a little more flexibility, but some of that was phased out, and I think honestly, that phasing out helped, and I think it reduces some of the confusion.

So, you know, ssa.gov is a great source to go out, take a look at your account, and that will help you determine what am I actually entitled to, and I think you're right, I think it's equally important, you know, when you think about filing single or filing joint from a tax perspective, you know, maybe carry that over, and talk to your tax person, and say, you know, if I did this, what happens? If I do that, what happens? Include the Social Security in that conversation and say, you know what, what should we do, what's our best option, maybe keep us in our current tax bracket as supposed to choosing a different option that may in fact put you in a negative, you know, kind of atmosphere so to speak.

John Diehl: So it really may be for those who are married kind of the same as a choice between filing jointly or filing married but separate tax returns for example. But let's start with people who are single, and who were filing individually. What's most important for them to know?

Michael Lynch: I think just the parameters as far as when they can file, generally as early as 62, can wait until full retirement age, and as we know, full retirement age recently was pushed up from 65 gradually to 67. So everybody's entitled to—or to some extent, everybody will probably have the majority of clients we're working with today who haven't filed a different full retirement age, whether it's 66 and two months or 67 years of age. But then after that, waiting between that full retirement and the age of 70 and the benefits, you know, dramatically increase by eight percent or up to eight percent every single year, kind of an enticement to wait until the age of 70. So I think for a single individual, it's really the opportunity to really truly sit down and say, what makes most sense for me?

You know, do I need this income at 62, is this extra income, and maybe I want to fund a life insurance, or 529 for some relatives, or is this something that it makes sense to wait out, I want to continue to work for a while, I may want to wait until full retirement age, and have some flexibility, or in fact, wait until the age of 70, and the nice part I think about Social Security whether you're married or single, is you have some flexibility, you know, my goal personally may be to wait until a certain age. But, you know, as we know, life gets in the way, right? Things change, I can always file as early as 62. Now, it may not be the best option for me, but if I need the income, that may make sense for me.

So, I think being flexible with this and really sitting down and saying, what amount am I really determining or what amount am I trying to receive? And then based on that kind of back in—back in that age.

John Diehl: And Mike, I thank you'd agree, probably the thing that we hear the most that what kind of concerns me is when people say, look, I can't wait because at age 62, I'm just going to start income, regardless of whether they continue to work, or what their financial need is, because I don't think a lot of people realize, you know, how much the penalty is now that normal retirement ages have been extended of starting those benefits at 62. So I think you're right, in beginning with what kind of income do you need. Now, at the end of the day, nobody can be sure how long we're going to live, right?

Michael Lynch: Right.

John Diehl: So usually people say, well, I want to make sure and get out of it when I can. But I think, wouldn't you agree the bigger issue is, now that we're in an age of extended longevity, the decisions you make at 62 may really come home to roost at age 82, wouldn't you agree?

Michael Lynch: Yes, I totally agree. Or even 92, right? I mean...

John Diehl: Yes.

Michael Lynch: If you file at 62, you're getting 70 cents under that—\$0.75 on the dollar, you know, your benefit is only 75% of what it could be, now again, you know, our clients need to sleep at night, right? So we can't give tax or legal advice, but, gosh, if they really don't need it, and their major concern is something is going to happen in the Social Security Administration, you may want to wait a little bit, and say, OK, let me see if something does happen, you know, change can be positive or negative, right? So hopefully, there will some positive changes down the road with Social Security, whether they tighten up some of these resources whether they fine tune some of these rules, and quite often grandfathering comes into play, just like we've seen what, you know, some prior changes.

Now, that's not to say that's a guarantee going forward, but if, you know, I'm sitting there, I'm 62, and I'm on the fence, and I see something negatively start to occur with Social Security, I certainly want to contact them and file, I want to sleep at night and be comfortable, but if I start to see some things that are positive reflections that they're going to make some positive changes down the road, and I'm comfortable with those changes, again, maybe I want to wait until I'm 63, 64, 65, but again, the good news is, if my target is say, 65 or 67, and something changes, you know, I have some health issues or I stop working, you know, unexpectedly, I work or I stop working a little bit earlier. I can always contact Social Security Administration and turn it on.

John Diehl: So, Mike, that will—we talked a little bit about filing individually, but talk a little if you will about spousal benefits, kind of what are they, and how do those work?

Michael Lynch: Sure, so spousal benefits, if you were married to someone for more than 10 years, that person is entitled to a Social Security benefit, then the spouse can receive that benefit and basically what they'll receive is one of two benefits.

They may receive up to 50 percent of that other spouse's benefit, so for example, my wife (Kim) and I, and I'm entitled to say \$2,000 a month at the age of 67, well, my wife (Kim) can file once I file, she can file for the spousal benefit which again is up to 50 percent, so let's just say for this example a thousand dollars a month, that may be dramatically higher than what her own true benefit may have been or maybe close or if in fact she looks at the spousal benefit, and says, well, actually, my benefit is \$1200 a month, Social Security would actually send her the thousand plus \$200. So they would actually turn on her benefit.

So again, that's where I think it makes it a little bit easier, because Social Security Administration will actually calculate these behind the scenes and say, what are you actually entitled to? What's the spousal benefit? And then based on that, give you the benefit whichever is greater. Sometimes it becomes a head scratcher when you do some of these seminars. So that's why you'd like to use some, you know, practical examples, but I guess the rule of thumb is, if you are married to an individual, you're entitled to take the benefit as early as age 62. You certainly have that flexibility, are entitled to those benefits, and if there is a divorce or if there is some type of issue, you're still entitled to those benefits which is, you know, certainly a good opportunity.

John Diehl: So, Mike, one thing you mentioned I just want to make sure I'm clear on, in order to collect the spousal benefit, let's say, my wife and I have been married a long time, I want to continue working, but maybe she thinks now would be the time to collect on a spousal benefit, because half of what my benefit will be is greater than her individual benefit, do I have to file in order for her to collect the spousal benefit or can she just...

Michael Lynch: Yes.

John Diehl: ...collect one even before I file?

Michael Lynch: Yes, that's a—that's one of the sticky points, because you would have to do something, John. So for your wife to receive the spousal benefit, you have to take some action, so you'd have to contact Social Security Administration, and actually start taking your benefits, and that's where it really is an opportunity to sit down and say, OK, is this—now, does that make sense? Because, yes, we've got more money coming in, but what if your goal was to defer years as long as possible, now unfortunately, for

her to get the benefit, the spousal benefit, you have to do something. So that kind of takes you off track of what your plan was ultimately.

John Diehl: And that make sense. So Mike, I know and you mentioned this briefly as well and it's probably, like, my favorite topic connected to this, because we get so many people that come and say, well, I could never do that, my ex-spouse would really be upset with me if he learned or she learned that I was collecting on their benefit. Can you just touch again on what ex-spouses are entitled to and kind of what the qualification is? And just really clearly, does that ex-spouse ever receive any kind of notification that someone is collecting on their benefit?

Michael Lynch: Yes, the good news is, again, as long as you are married, qualify for the parameters, so we encourage folks, contact Social Security Administration, you know, make sure they're actually entitled to it, but if they were a divorce situation, the good news is today, that, you know, for, like, you and your wife, you would not have to agree, you would not be contacted, you would not have to fill out any paperwork.

So divorce is a little different, where you don't have to do anything, but if your spouse, your ex-spouse was entitled to that benefit, again, the good news is they can receive that benefit as early as age 62. So if there was a contentious divorce, and spouses live states apart, didn't have any contact, you knew you weren't going to get any cooperation from the other spouse, the good news is, you could contact Social Security and say, I'm entitled to this, provided all of the information correct, and you can start receiving as early as 62, that other spouse does not have to agree, may not even actually be notified about it, so...

John Diehl: So they don't even -- so as opposed to the situation where we're married, that ex-spouse, like, I don't have to wait for that ex-spouse to file until I can start collecting my spousal benefit, is that what you're saying?

Michael Lynch: Right. Exactly. Yes, that's the one difference.

John Diehl: Yes, make sense. Well, Mike, you know, one of the areas that a lot of advisors don't really get into that much or take a look at it, because it seems to kind of muddy the waters, is the topic of survivor benefits. So, what are survivor benefits? What is that based on?

Michael Lynch: Yes, so survivor benefits is a little different age wise, so if there is a death, that surviving spouse is entitled to their full benefit. So if, again, or my wife and (Kim) and I, and I died at say, 62, and she was 60 at the time, as early as age 60, she can file a claim the survivor benefit or the death benefit, and that's 100 percent of what I would've received. So she contacts them and says, I want to turn this income on today. They'll do the calculation and say, okay Mike was entitled to, again, \$2,000 a month, you'll start receiving that \$2,000 a month.

Now, again, same kind of stipulations provided that marriage lasted at least 10 years, but the one difference is, if, you know, you have an individual, say again, (Kim) and I, we're married for at least 10 years, and then say we got divorced, if I pass away and then after the age of 60, (Kim) could actually in fact get remarried, I pass away a few years later, after that age of 60. She could actually file and say, you know, I was entitled to that benefit, that spousal benefit even though I'm remarried, but again, after the age of 60, I can actually choose to get that higher death benefit. So, you know, the death benefit is always whatever the max benefit is for that other spouse, so again, if I pass away and my benefit is \$2,000 a month, the death benefit for (Kim) unlike a spousal benefit of 50%, or, you know, an ex-spouse 50 percent, it's actually 100 percent of that benefit whatever they're entitled to. Yes, the only—the only difference would be—I'm sorry... If, you know, if I passed away and I was entitled to \$2,000 a month, and say, (Kim) was entitled to \$2,200 a month on her benefit, the difference would be, she wouldn't get the \$2,000, she would actually receive the \$2,200, she would actually receive her benefit.

John Diehl: Right. Right. So my question I guess is, let's say we were married, my wife is collecting her spousal benefit, and then I pass away, at that point, does her survivor benefit take over, so she gets what I was being paid? Or that's—I just want to clarify.

- Michael Lynch: Sure, sure.
- John Diehl: Or does she continue on with her spousal benefit?
- Michael Lynch: So, something happen in that example, she would go from the 50 percent to 100 percent of your benefit, so again, you know, you were entitled to say 2,000, she was receiving a thousand for the spousal, if you pass away, she goes from a thousand to that \$2,000 a month. So she...
- John Diehl: So that leads—that leads to my next question then, so we talked a little bit earlier about individual benefits increasing if we wait until age 70 to begin taking income, what about that survivor spousal benefits? Does that work the same way? Or is it locked in at some point?
- Michael Lynch: That's locked in at your full retirement age, it's like a point, because some folks think, gosh, it's going to continue to ratchet up, and it actually doesn't, that's—that between the full retirement age, and your age of 70, that's your benefit max, the death benefit or the, you know, the spousal benefit, that generally stops at the full retirement age. So, again, the SSA would do the calculation for you, but one's an enticement not to file early to some extent or to file as long as or delay as long as possible, the other is, you know, what's the actual full benefit at the time of death? Again, capped at that full retirement age.
- John Diehl: So would the survivor or spousal benefit be impacted if I too—if I file at age 62 and took my benefits early? Because I'm doing it prior to normal retirement age or not?
- Michael Lynch: Yes. And my understanding is yes, so if you were, you know, entitled to ex but you took it a little early, you're starting to receive that benefit, my understanding is if something happens, your spouse would think that new, that new benefit but they couldn't get the full retirement age benefit.
- John Diehl: Right.
- Michael Lynch: Whatever you started turning on. And again, everything we've talked about today, the challenge, J.D., as I mentioned too is, you know, one stipulation is, you know, we mentioned some changes that potentially could happen down the road, this is as of today, so there may be some changes that incur some of these examples down the road, but this is what we know as of today.
- John Diehl: That's a—it's a really good point, you know, advisors, Mike, are likely to have clients who fit numerous profiles, and they're strategies are going to be equally unique, what are some beginning action steps that you always recommend for advisors as they kind of wade into the Social Security waters with their clients?
- Michael Lynch: You know, I think one is getting to know ssa.gov, getting to know the website, that's a great tool and resource. If I was an advisor, I would—I would start asking some of my clients that are currently retired, just as a refresher, you know, what option did you choose if you chose Social Security, why did you choose it? You know, wait, and why—I may remember some of them, and we may have talked about it, but if we didn't have that conversation, so I kind of build up that knowledge base of my current clients, that way if I have a client who is approaching Social Security, and says, you know, I want to talk to you about it, I can think of some existing clients, different ages, and why they chose certain options.
- And it just helps me get better educated, I think from our end at Hartford Funds, we've got a terrific worksheet that can help layout, you know, your sources of income, think about your income needs, and then really help you determine what makes sense from a filing perspective. And I think sometimes with Social Security, sometimes you get overcomplicated, and I think one of the beauties of our worksheet is, it makes it a little bit easier, it's not as complicated as some of the others that are out there.
- But it makes it a little bit easier, and it's a good tool of resource for the advisor to have, and that's on hartfordfunds.com/ss, so it's a good tool of resource. You know, I think leveraging your centers of influence in your area, you know, talking to maybe some attorneys in the area, talking to some CPA's certainly. You know, let's work together to help our client, be put in the best position, and, you know, maybe pick their brain, and, you know, leverage some of the resources you have in the area that kind

of think about how do I get better educated from an SSA perspective.

John Diehl: And one other things I think helps, Mike, is that, you know, if you come up with a plan on Social Security, maybe it's best to send that client to the Social Security Administration.

Michael Lynch: Sure.

John Diehl: Kind of with an educated approach to asking questions, right? So, if you're going in and say, you know, as I—if the client may go to the Social Security Administration and say, you know, as I've reviewed this, I think my best option for myself and my spouse would be to do this, and I think you and I have both found Social Security Administration's pretty helpful.

And if in—and in any situation, you're doubtful about what you give back from them, we would always recommend, you know, trying twice or three times even, just making sure that you get consistent answers and that client is very comfortable with what they've finally decide on doing, because in most cases, I mean, with certain exceptions, once you make that election with Social Security, it's pretty much a done deal, right?

Michael Lynch: Yes, exactly. And I would encourage them, contact them if there's an office locally, or if they're living in a remote area, or, you know, beach area, or whatever. Contact them over the phone and then set up an appointment where you can set up a date and time over the phone, maybe you have an FA and it works out for the advisor, it works out scheduling wise, maybe do it in the financial advisor's office, in case there are some questions over a speaker phone provider, you know, all the parties allow for it.

But I think that ability to—if I can go face to face, that's great. But if I can't, it just doesn't make any sense, I can't get to the location, or it's too remote an area, you know, call them up and say, you know, what really is the point, I mean, how can I set up some time over the phone to talk to somebody who is an expert, and really get that knowledge, who can get the information I'm looking? I think that gives them some flexibility.

John Diehl: I think that's right, I think it's important that an advisor, look, let's face it, most financial advisors don't spend the bulk of their day thinking about issues connected to Social Security benefits, and so I think it's really important that advisors take on the role as general educator about Social Security, not necessarily as a Social Security advisor, wouldn't you agree?

Michael Lynch: Yes, exactly. Yes. I think education pointing them to the tools and resources is probably better suited.

John Diehl: Well, Mike, our time together is coming to a close. I want to thank you for being on the podcast today.

Michael Lynch: Thanks, John. I appreciate it.

John Diehl: And for those of you that were just listening, Mike mentioned some worksheets and guides that can help in terms of kind of getting that client prepared for that Social Security conversation. Those can be downloaded at HartfordFunds.com/ss. Again that's HartfordFunds.com/ss. From all of us at Hartford Funds, we want to thank you and we will talk to you again soon on our next episode of the Human-Centric Investing Podcast.

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