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Social Security and Your Retirement

Al Chingren, CEBS, C(k)P

Vice President
Personal Finance and
Retirement Solutions

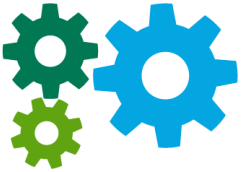
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Social Security – Agenda



The Basics



How Social Security Works

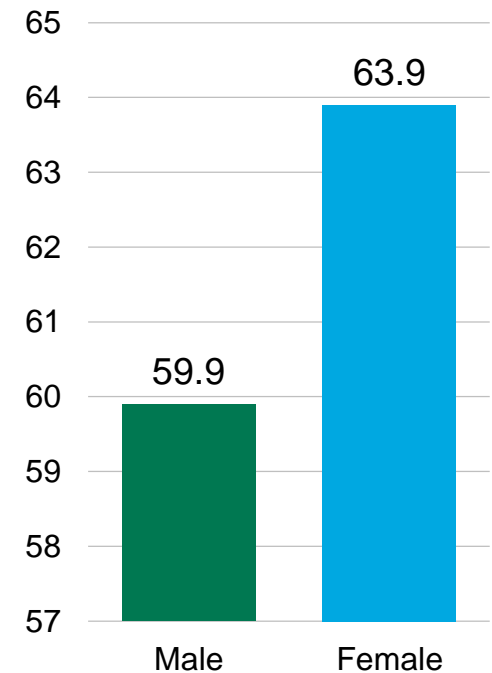


When Is the Best Time to Begin
Taking Social Security

What is Social Security?

- ▶ Granted by an act of congress in 1935
- ▶ Considered a “retirement” program, but also provides:
 - Disability benefits
 - Benefits to your survivors
- ▶ Provides for automatic cost of living adjustments annually
 - Average COLA since 2000 – 2.18%
 - COLA increase for 2019 – 2.8%

Life Expectancy in 1935



How Many People Receive Social Security?



One in five Americans

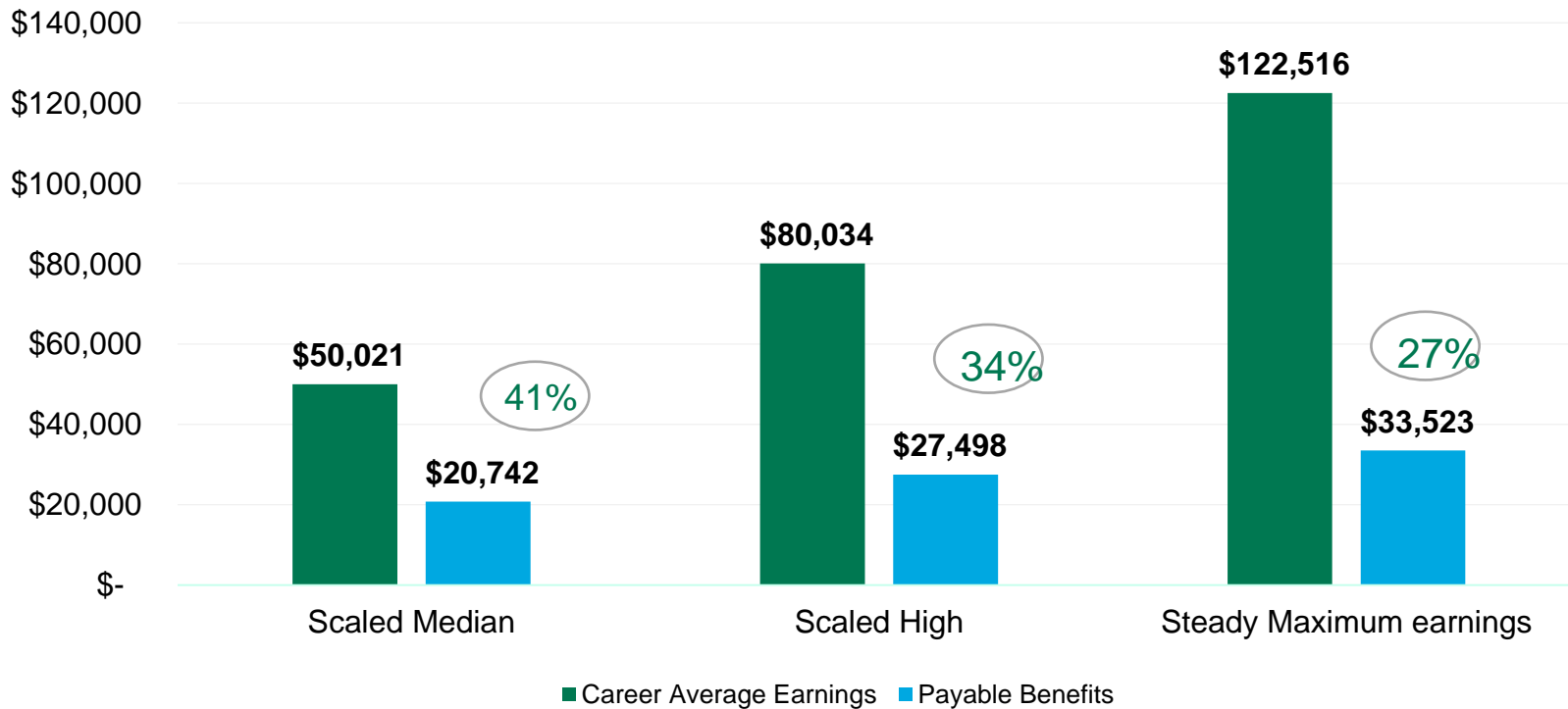
- ▶ 63 million people in current – payment status as of June 2018
 - 13% disability insurance
 - 72% retirement insurance
 - 15% survivor insurance
- ▶ For elderly, it's their largest source of income

Source: <https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf>

Benefits Don't Compare to Earnings

The More Money Made, the Smaller the Replacement Rate

Replacement Rates for Retired Worker Age 66, 2018

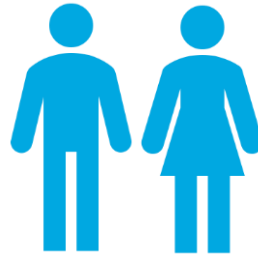


Source: SSA, Actuarial Note, Replacement Rates for Hypothetical Retired Workers, June, 2018

Social Security is Half or Most of Total Income for Many



At least 50% of total income



48%

of aged beneficiary couples

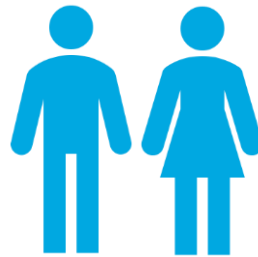


69%

of aged non-married beneficiaries



At least 90% of total income



21%

of aged beneficiary couples



44%

of aged non-married beneficiaries

■ Social Security ■ Other

Source: <https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf>



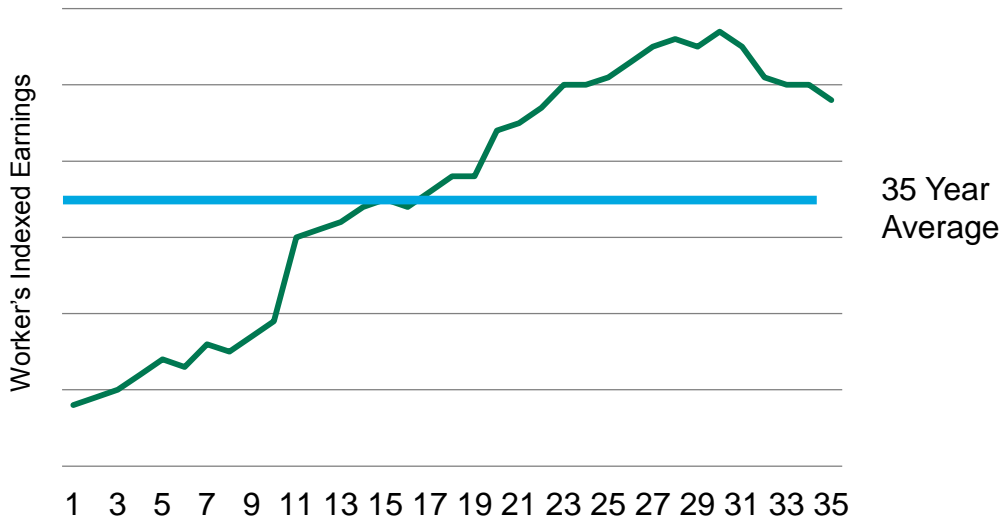
Benefits Establish an Income to Build On

Type of Beneficiary	Average Monthly Benefit after COLA <i>(new awards)</i>	Average Yearly Benefit
All retired workers	\$1,460	\$17,520
Aged widow(er), non-disabled	\$1,037	\$12,444
Aged couple, both receive benefits	\$2,087	\$25,044

Source: SSA, Fast Facts & Figures About Social Security, September 2018

Calculating Your Benefit A Multi-Step Process

Average Indexed Monthly Earnings (AIME)



Primary Insurance Amount (PIA)*

90% of the first \$926 of AIME
+ 32% of AIME \$926 to \$5,583
+ 15% of AIME over \$5,583

PIA

▶ 40 credits needed to qualify, generally. 1 Credit = \$1,360 in 2019

*2019 Formula

Source: <http://www.socialsecurity.gov/OACT/COLA/piaformula.html>

When You Were Born Matters

Year of Birth

Full Retirement Age (FRA)

1943–1954



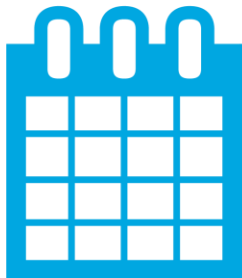
Age 66

1955–1959



Age 66 +2 months
for every year after 1954

1960 & After



Age 67

If born on January 1st, refer to the previous year.

If born on the 1st of the month, your benefit – and your full retirement age – are calculated as if your birthday was in the previous month.

Source <https://www.ssa.gov/planners/retire/retirechart.html>

Spousal Options Can Boost Household Benefits

Sam's benefit
\$2,000



Kathy's benefit
\$800

or

spousal benefit of up to 50%
of primary worker's benefits

\$1,000

Sam	\$2,000
+ Kathy	<u>\$1,000</u>
Household	\$3,000

- ▶ Must have been married for at least 12 months
- ▶ Can't apply for spousal benefit until spouse has filed for Social Security

Source: SSA Publication No. 05-10024, ICN 454930, January, 2018

Surviving Spouses Can Pass Along Benefits

Sam's benefit
\$2,000



Kathy's benefit
\$1,400

If Sam
passes away,



Kathy's benefit
increases to
\$2,000 if at FRA

How it works:

- ▶ Kathy must be at least 60 years old (50 years old if she is disabled) to start reduced benefit
- ▶ Sam and Kathy must have been married for at least 9 months prior to his death (with exception for accidents)

Source: SSA Publication No. 05-10024, ICN 454930, January 2018



How Social Security Works

Benefits May Include Ex-Spouses and Families

Former Spouses



- ▶ If age 62 or older, unmarried, and if the marriage lasted 10+ years.
- ▶ If divorced for at least 2 years and both ex-spouses are at least age 62, the ex-spouse can receive benefits even if still working
- ▶ Generally, the greater of your own or 50% of ex-spouse benefit

Children



- ▶ Children up to age 18 (or 19 if full-time high school student)
- ▶ Disabled children – even if 18 or older
- ▶ Unmarried children, generally

Source: SSA Publication No. 05-10024, ICN 454930, January 2018

Drawing Early Has Costs. Delaying May Have Benefits.

If your birth year is 1954 or earlier ...

age **62**

age **66**

age **70**

Your monthly benefit ...



Collecting early will **decrease** your monthly payment amount



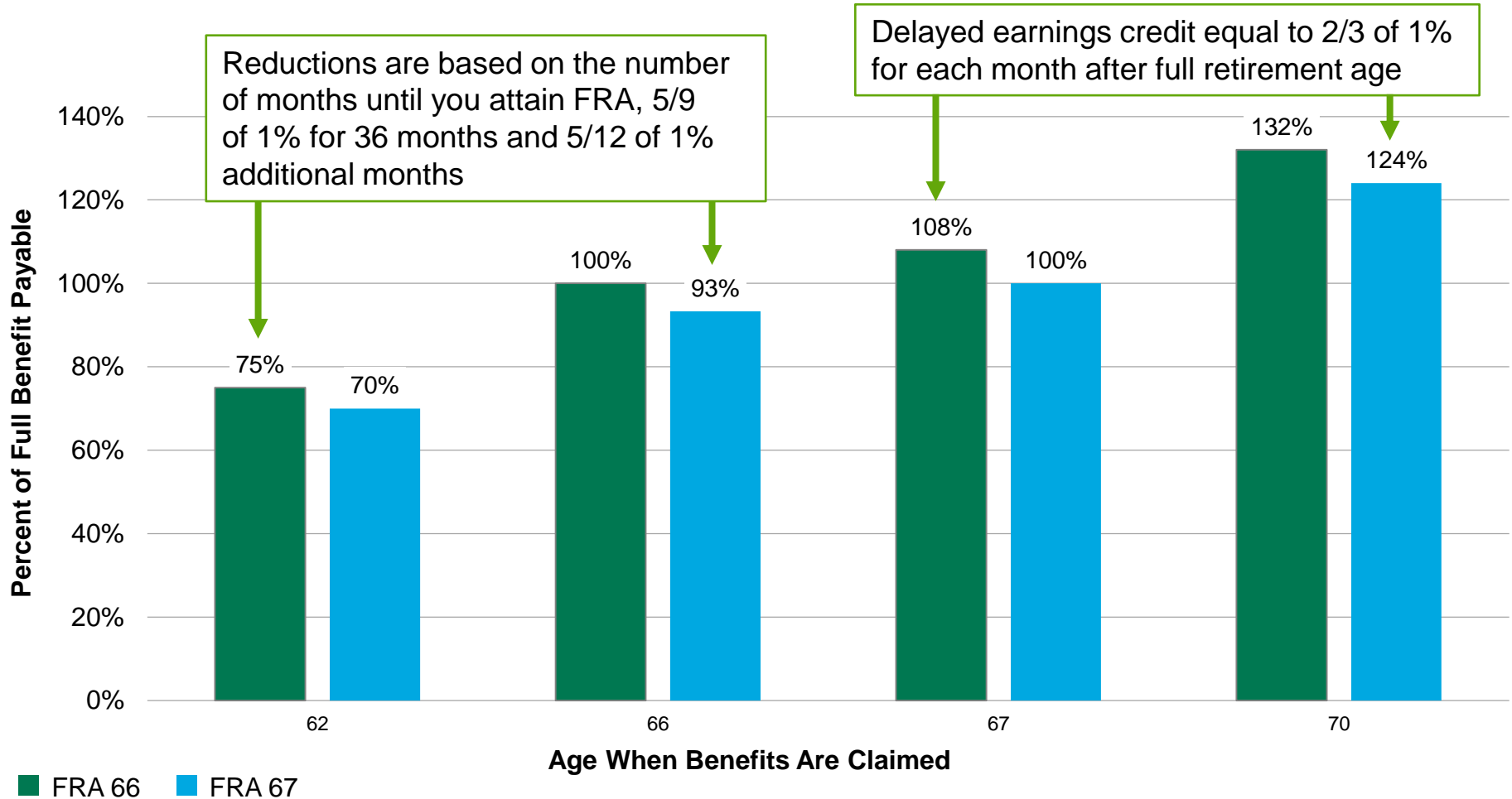
Delaying benefits can **increase** your monthly payment amount



When is the Best Time to Begin?

Until Age 70, Each Month You Wait Increases Your Benefit

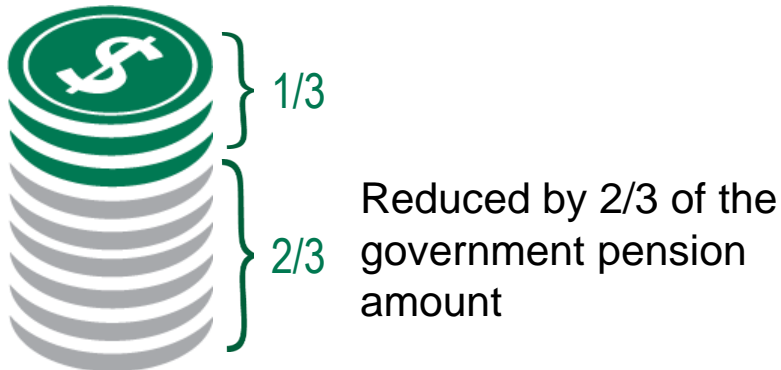
Percent of Full Benefit Payable, FRA age 66 or 67



Source: www.socialsecurity.gov November 2018

Civil Retirement System Participation May Reduce Benefits

Government Pension Offset



- ▶ Covered by Civil Retirement System rather than Social Security
- ▶ Reduction applies to spousal/survivor benefits

Windfall Elimination Program (WEP)

~~90%~~
40% of the first \$926 of AIME

+ 32% of AIME \$926 to \$5,583

+ 15% of AIME over \$5,583

PIA

- ▶ Covered by Civil Retirement System and Social Security
- ▶ Phased out for individuals who have substantial earnings covered by Social Security between 20-30 years

Source: www.socialsecurity.gov

Retirement Earnings Test

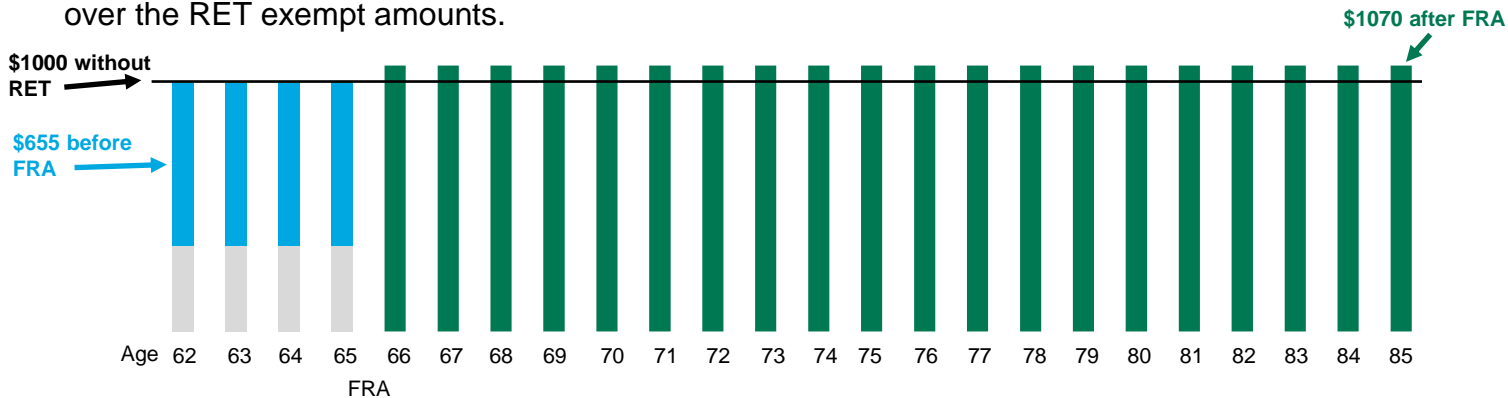
Claim early, and money may be withheld. The good news is, it can be earned back.

Temporary Benefit Reduction

Before the beneficiary's FRA, SSA withholds some or all of her Social Security benefits for any month she earns over the RET exempt amounts.

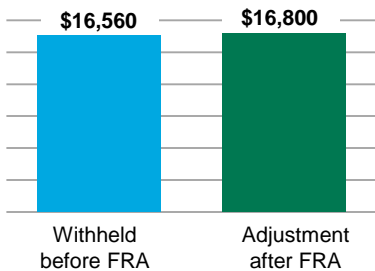
Benefit Increase After FRA

After reaching FRA, SSA increases her Social Security benefits for any months she was affected by the RET.



^a We assumed that the beneficiary received a monthly benefit of \$1,000 before the RET, which factors in the reduction for early retirement. Full calendar year benefits are assumed and annual adjustments for cost-of-living and RET exempt amounts are not shown.

- ▶ In 2019, if earnings exceed \$17,640
 - For every \$2 over the above limit - \$1 is withheld from social security benefit
- ▶ In the year that you reach full retirement age, the limit for that year goes to \$46,920
 - For every \$3 over the above limit, \$1 is withheld from benefit until the month you reach full retirement age
- ▶ The illustration shows how the RET works for a hypothetical female beneficiary who claims benefits at age 62, works until age 66 earning \$25,920 a year, and lives to age 86.^a



Lifetime Totals

Over a typical life span, an RET-affected beneficiary recoups most, or all, of the benefits SSA withheld before FRA.

Source: www.socialsecurity.gov

Benefits May Be Subject to Taxes

Percent you may have to add to taxable income	Single Filers / Qualifying Widow(er)	Joint Filers
Up to 50% if “combined” income is between . . .	\$25,000 and \$34,000	\$32,000 and \$44,000
Up to 85% if “combined” income exceeds . . .	\$34,000	\$44,000

Combined Income: Modified Adjusted Gross Income (MAGI)

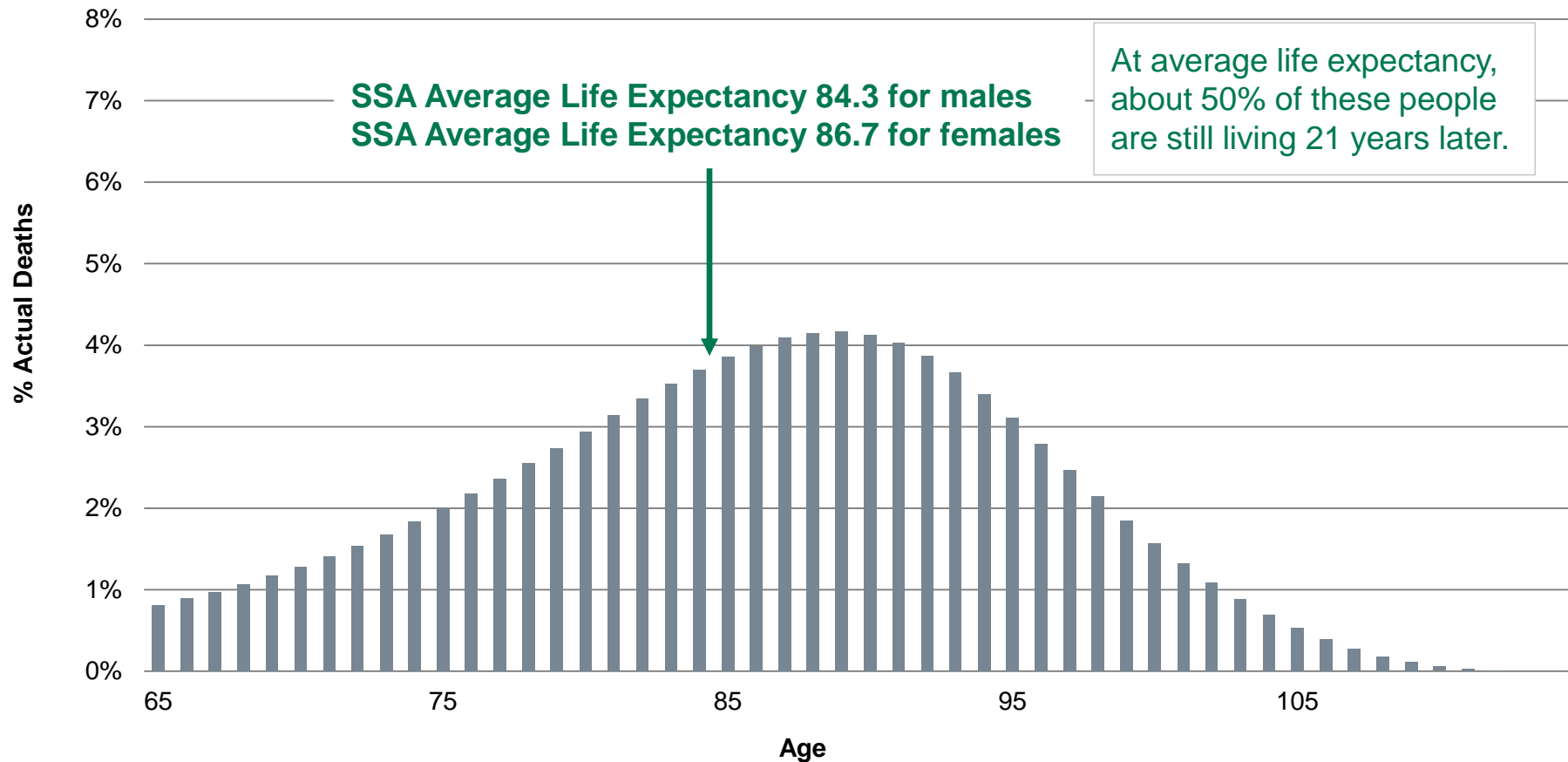
- + nontaxable interest income
- + ½ of your social security benefits
- = combined income

Source: www.socialsecurity.gov

When Is the Best Time to Begin? Depends on Longevity

Annual Percentage of Deaths

Population of 65 Year-Olds



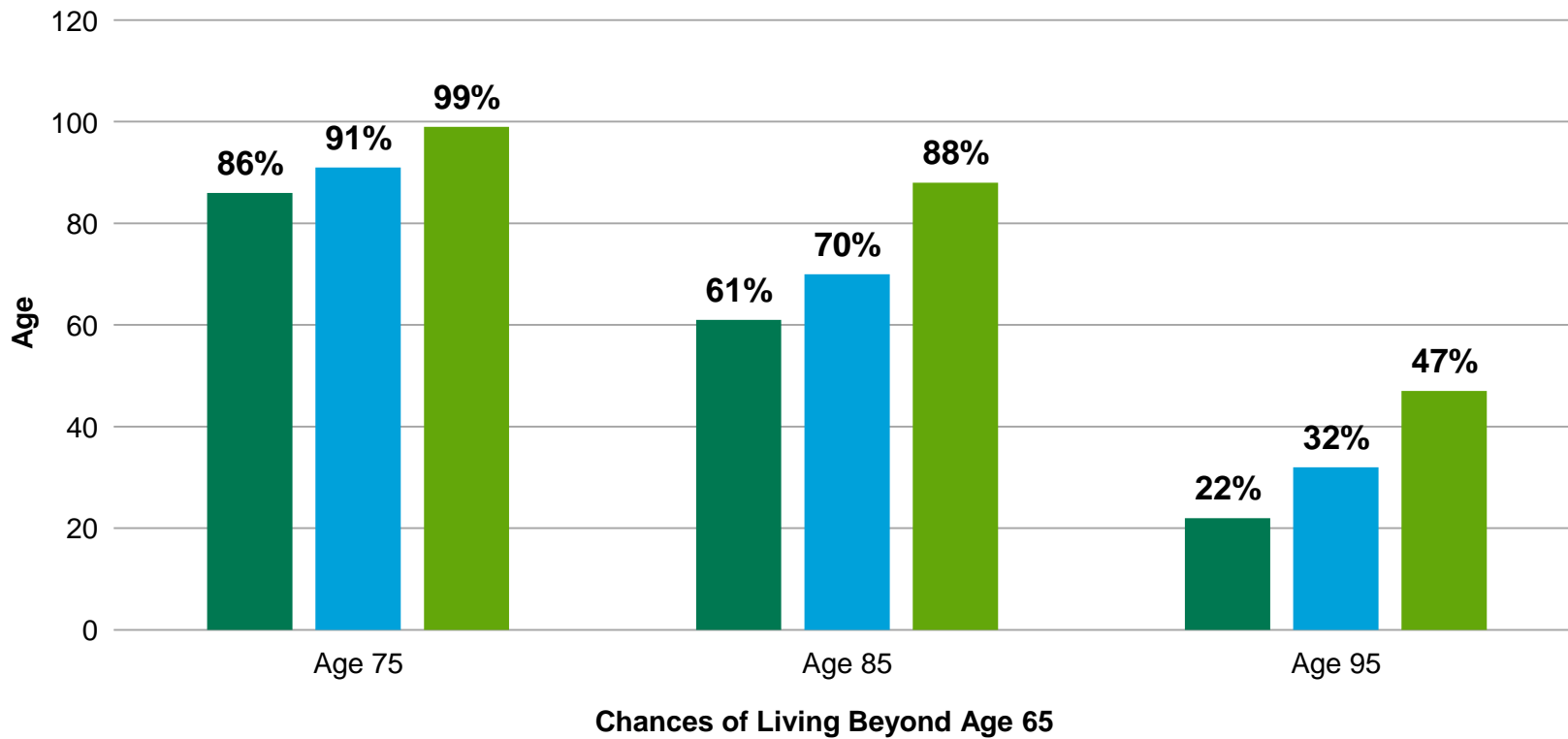
Source: 2000 Individual Annuity Mortality table



When is the Best Time to Begin?

Couples Should Consider Longevity Survival Probabilities

Plan for Longevity as a Couple



Sam



Kathy

Either

Source: Society of Actuaries, www.longevityillustrator.org



When is the Best Time to Begin?

Online Benefit Calculators Can Help You Plan

Social Security Online
www.socialsecurity.gov

Home FAQs Contact Us Search

Office of the Chief Actuary

Social Security Quick Calculator

Benefit estimates depend on your date of birth and on your earnings history. For security, the "Quick Calculator" does *not* access your earnings record; instead, it will [estimate your earnings](#) based on information you provide. So benefit estimates made by the Quick Calculator are rough.

Although the "Quick Calculator" makes an initial assumption about your past earnings, you will have the opportunity to change the assumed earnings (click on "See the earnings we used" after you complete and submit the form below).

You must be at least [age 22](#) to use the form at right.

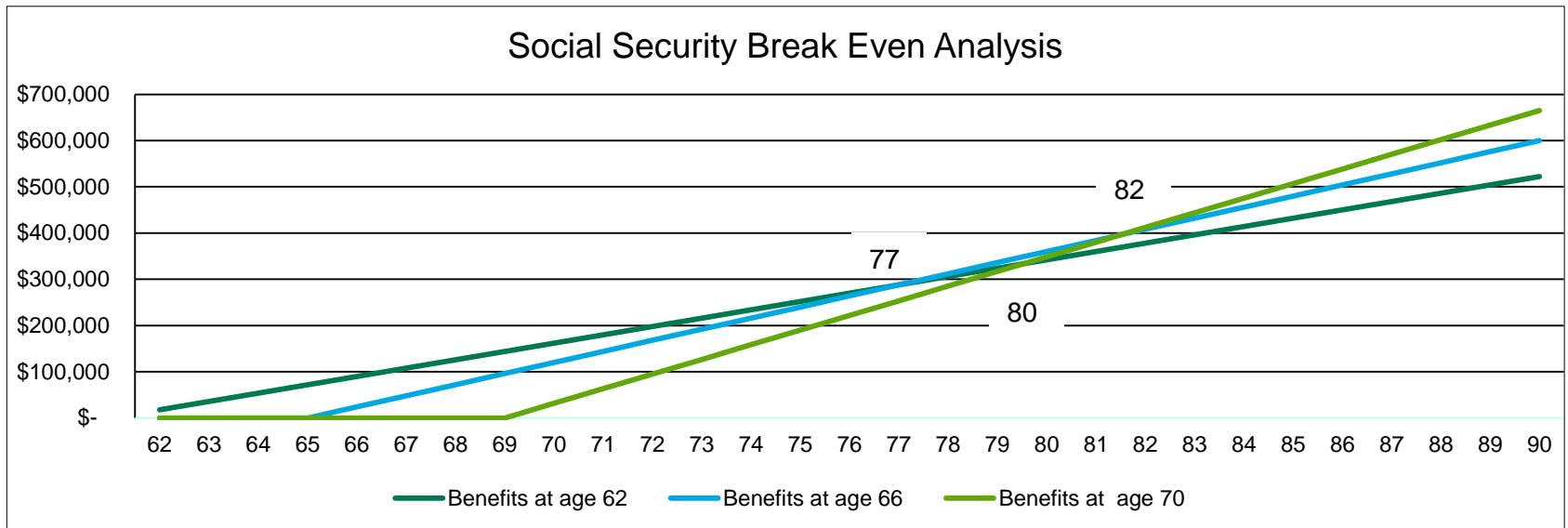
Lack of a substantial earnings history will cause retirement benefit estimates to be unreliable.

Enter your date of birth (month/day/year format) / /

Enter earnings in the current year: \$

Your annual earnings must be [earnings covered by Social Security](#).

If you entered 0, we assume you are now retired. Enter the last year in which you had covered earnings and the amount of such earnings.
Year: Earnings: \$



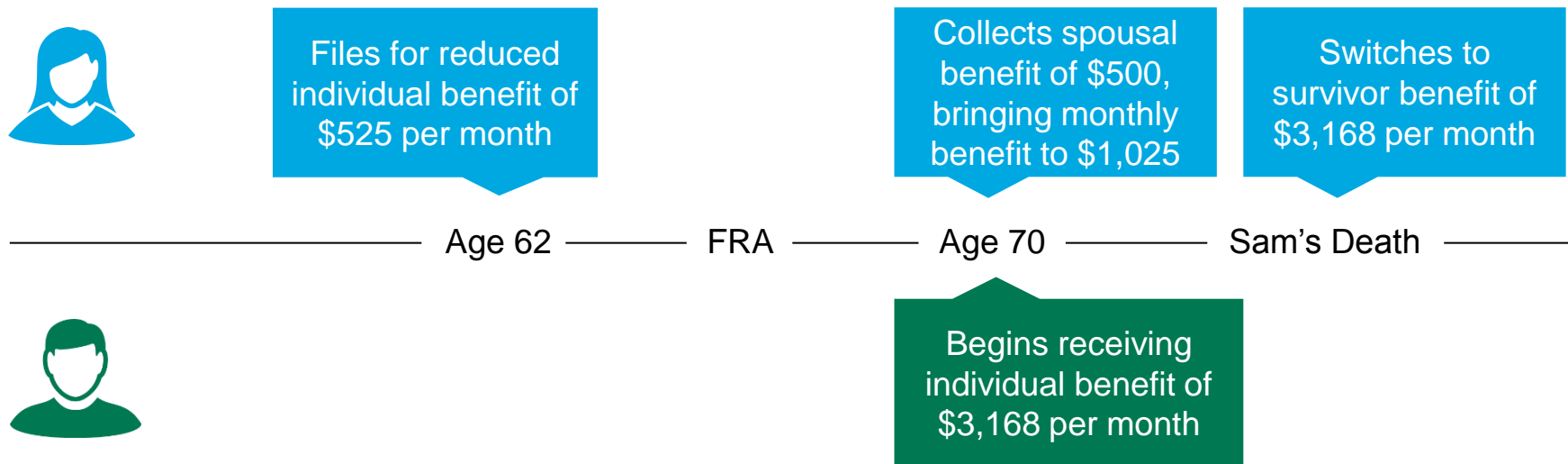
Source: <http://www.ssa.gov/planners/benefitcalculators.htm>

When is the Best Time to Begin?

Large Difference in Earned Income

Kathy

PIA = \$700. Full retirement age = 66



Sam

PIA = \$2,400. Full retirement age = 66

The filing strategy utilized above represents an example of early filing combined with late filing to increase Social Security benefits. Results may differ depending on each individual's earnings history.

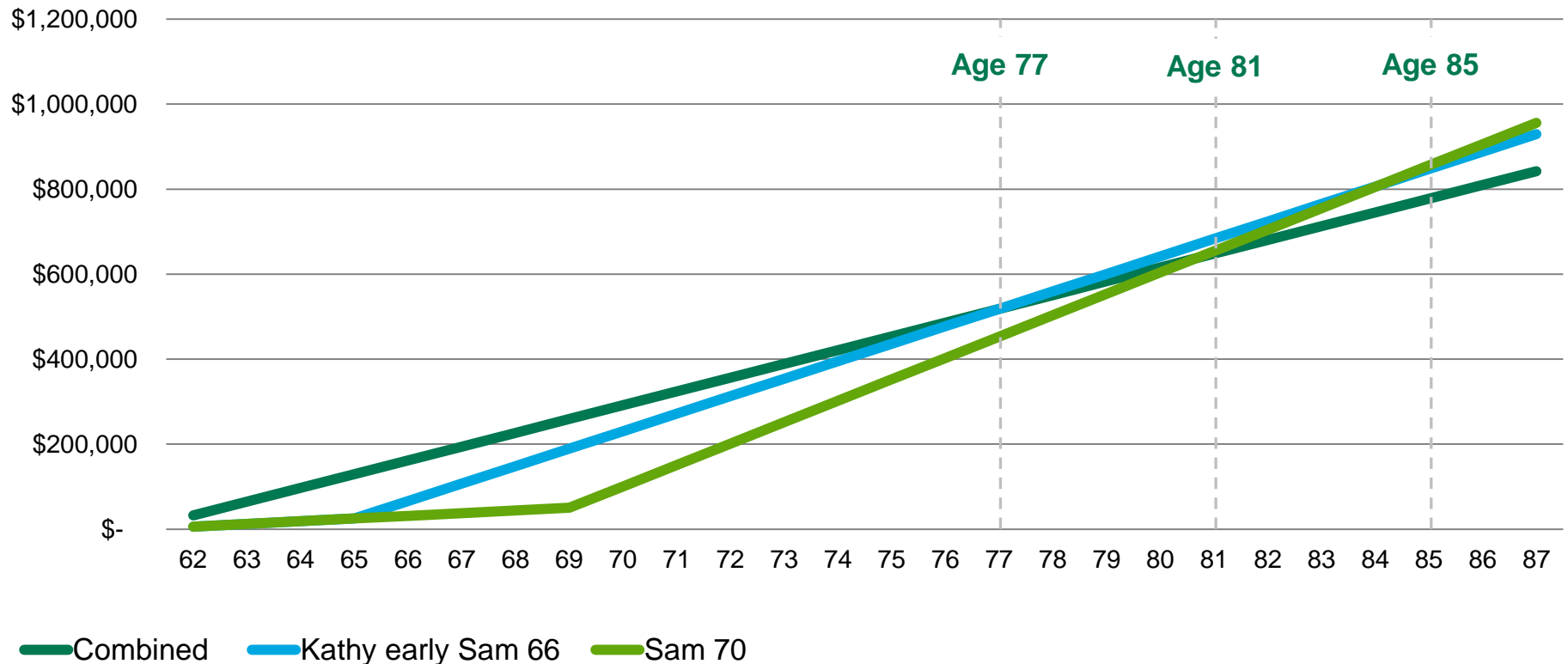


When is the Best Time to Begin?

Basic Comparison of Accumulated Benefits

Combined Early, Kathy Early Sam 66 and Sam 70

Kathy \$700, FRA 66
 Sam \$2,400, FRA 66



The above chart represents an example accumulated benefits with early filing combined with late filing to increase Social Security benefits. Results may differ depending on each individual's earnings history.

When is the Best Time to Begin?

2015 Budget Act Eliminates Previous Strategies

Before

After

Deemed Application Rules “Claim Now, Claim More Later” Restricted Application Strategies

Only applies prior to Full Retirement Age

Expanded to apply to all benefits regardless of age except for those who attain 62 prior the end of 2015

File and Suspend

An individual could suspend his/her own benefits, but spouses could draw spousal benefits

If an individual suspends earnings, the spousal benefits are also halted

Source: Bipartisan Budget Act of 2015, Subtitle C-Protecting Social Security Benefits, Section 831, November 2, 2015.



When is the Best Time to Begin?

File Restricted Benefit Strategy Similar Earned Income

Available if age 62 prior to 1/2/2016

Kathy

PIA = \$2,100. Full retirement age = 66



Files allowing Sam to begin spousal benefits and collects \$2,100 per month

Switches to survivor benefit of \$3,168 per month

Age 62

FRA

Age 70

Sam's Death



Files for spousal benefit only and collects \$1,050 per month

Begins receiving individual benefit of \$3,168 per month

Sam

PIA = \$2,400. Full retirement age = 66

The filing strategy utilized above represents an example of Restricted filing to increase Social Security benefits. Results may differ depending on each individuals earnings history.

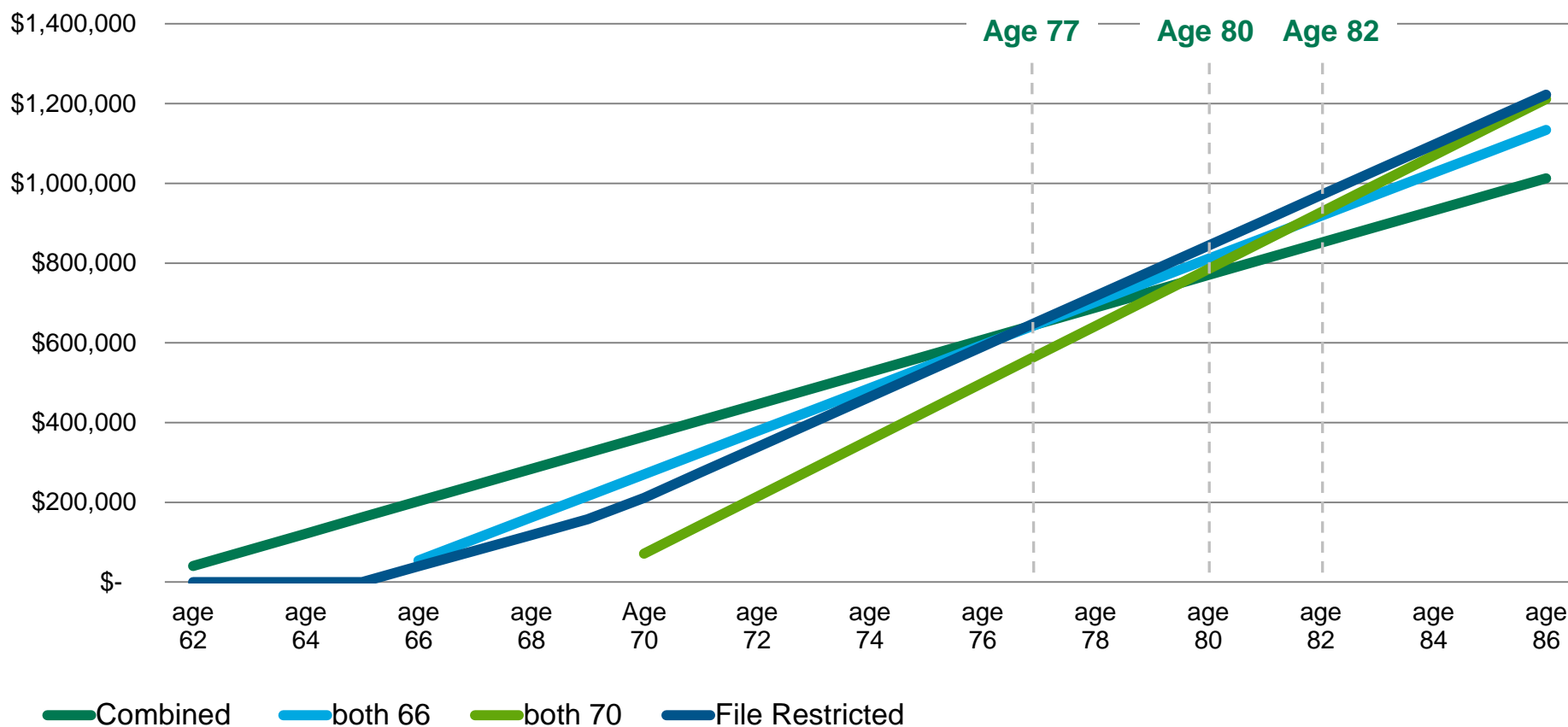


When is the Best Time to Begin?

Basic Comparison of Accumulated Benefits

Combined Early, Both 66 and 70

Similar Earned Income



The above chart represents an example of accumulated benefits with Restricted filing to increase Social Security benefits. Results may differ depending on each individual's earnings history.



When is the Best Time to Begin?

Survivor Benefits Are Unique from Other Retirement Benefits

Kathy

PIA = \$2,000. Full retirement age = 66



Begins survivor benefit of \$1,430 per month

Switches to individual benefit of \$2,640 per month

Age 60

FRA

Age 70



Sam

PIA = \$2,000. Full retirement age = 66

The filing strategy utilized above represents an example of File and Suspend to increase Social Security benefits. Results may differ depending on each individual's earnings history.



When is the Best Time to Begin?

Can You Reset Social Security Benefit?

Do-Over Option

	Before December 2010	After December 2010
Do-Over Option	Collect benefits at 62, and repay benefits at any time up to age 70 to restart at the higher amount	Withdrawal decision must be made within 12 months of the original election and each individual is only granted one withdrawal per lifetime



When is the Best Time to Begin?

Social Security – Filing for Benefits

How to File

- ▶ Via the Internet at www.socialsecurity.gov
- ▶ In the office or over the telephone
- ▶ For an appointment, call 1-800-772-1213

When to Contact Social Security

- ▶ Up to 3 months before you retire or attain age 62
- ▶ If over age 62, review your benefit options to determine when to start



When is the Best Time to Begin?

Social Security Planning Worksheet

Social Security Information

- 1) What is your current age? _____
- 2) What is your spouse's current age? _____
- 3) Are you planning to work until your Full Retirement Age? Yes No Maybe
- 4) Is your spouse planning to work until Full Retirement Age? Yes No Maybe
- 5) Are you considering delaying Social Security benefits past Full Retirement Age? Yes No Maybe
- 6) Will you continue working in retirement? Yes No Maybe
- 7) Do you have sufficient financial resources outside of Social Security to meet your income needs? Yes No
- 8) Are you planning for survivor benefits? Yes No
- 9) Do you have any health concerns or concerns about a shorter life expectancy? Yes No

Financial Information

Do you/your spouse have:

	<u>You</u>		<u>Your Spouse</u>	
	Yes	No	Yes	No
A 401(k) plan with current or previous employer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Assets in IRA accounts?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other assets?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Any fixed or variable annuities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



When is the Best Time to Begin?

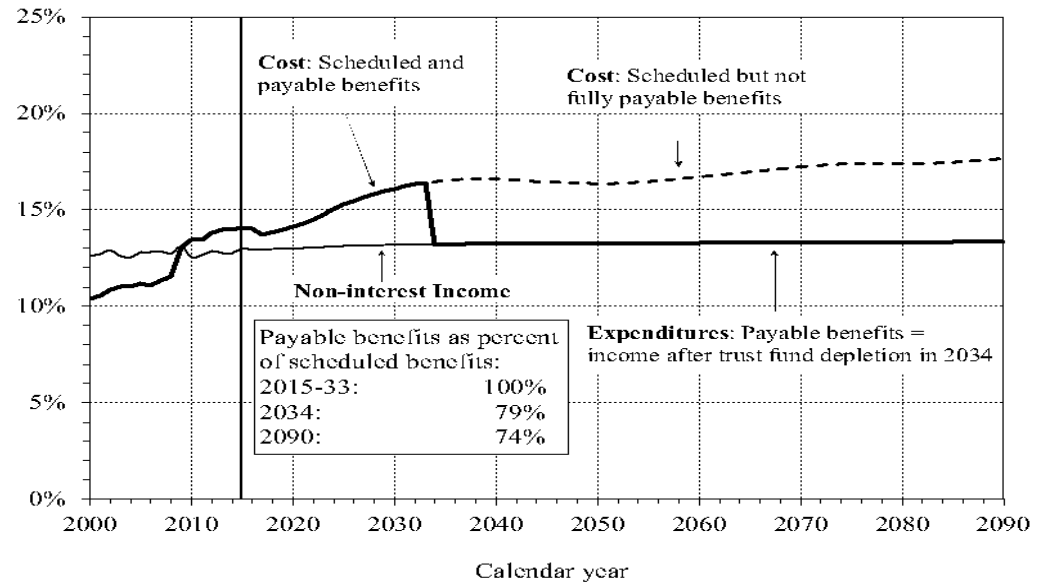
Social Security Cost as a Percentage of GDP

Future forecast: Benefits can't be sustained at 100%

- ▶ 2018 Trustee's Report states that Social Security is fiscally unsustainable.
- ▶ In 2034 the Social Security trust funds will be depleted.
- ▶ Estimated tax receipts will be sufficient to pay approximately 79% of benefits.

Unlikely that Social Security benefits for current retirees will be substantially affected by reform proposals that might emerge.

Figure II.D2.—OASDI Income, Cost, and Expenditures as Percentages of Taxable Payroll
[Under Intermediate Assumptions]



Source: 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds

Two Categories to Consider

Increase Taxes

- ▶ Apply Social Security tax to all wages
- ▶ Increase payroll tax 2.78% from 12.4% to 15.18%

Reduce Benefits

- ▶ Raise the FRA to 70 in stages
- ▶ Adopt chained CPI
- ▶ Adjust Benefits
 - Cut 17% immediately/permanently
 - Reduce benefits for those with lifetime wages above the national average

Source: Bowles Simpson report, 2010, 2018 Social Security Trustees Annual Report, June 2018

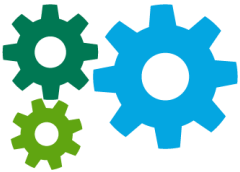


Summary



The Basics

Social Security benefits can be an integral part an overall retirement planning strategy



How Social Security Works

- ▶ Understand eligibility and how benefits are determined
 - ▶ Understand how working in retirement may affect benefits
-



When Is the Best Time to Begin Taking Social Security?

- ▶ Evaluate social security and how to integrate benefits into a financial plan for retirement years including when to begin
- ▶ Consider options to maximize benefits while reducing potential tax liability

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