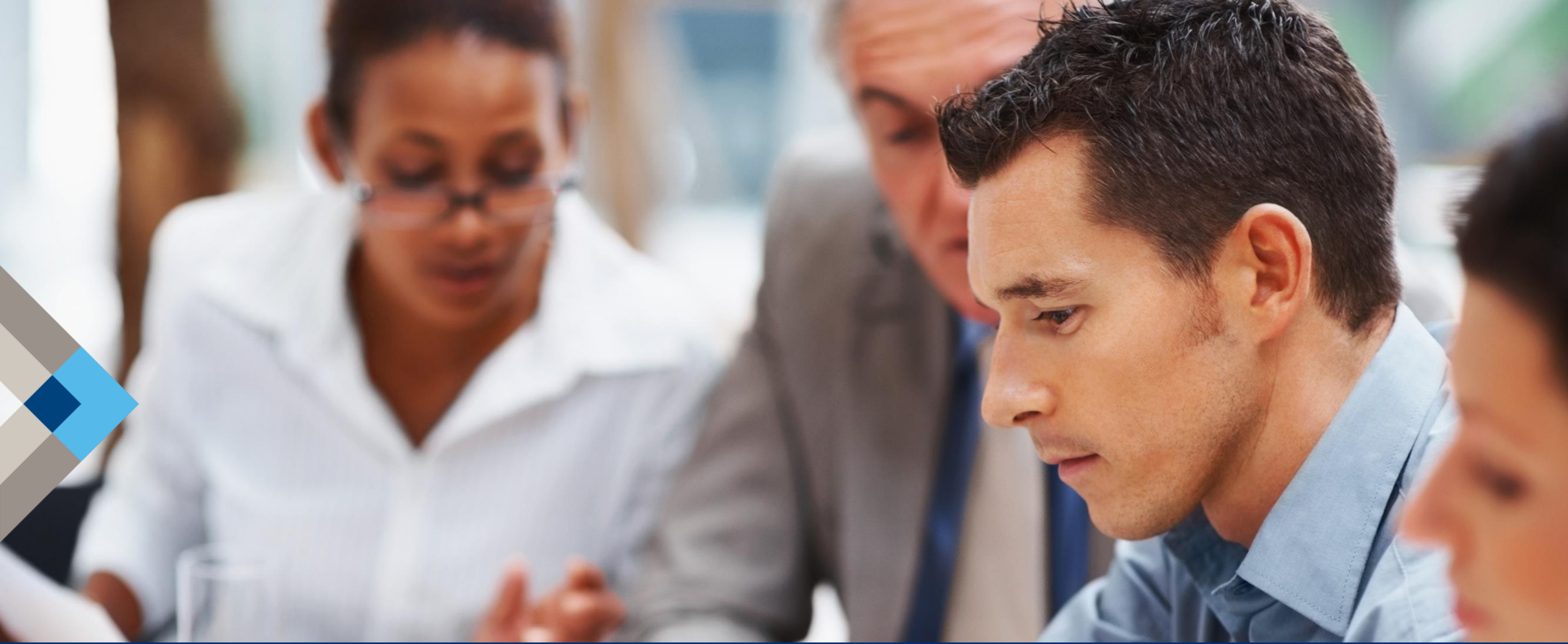

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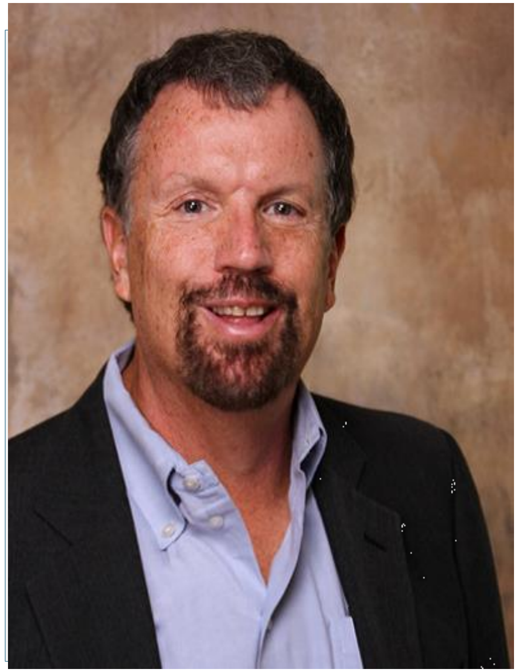
August 8-10, 2022

LIMRA LOMA

Life Insurance and Social Security: Perfect Together



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Summary of Claiming Options

Year of birth	Full retirement age	Age 62 adjustment	Age 70 adjustment
1943 – 1954	66	-25.00%	+32.00%
1955	66 and 2 months	-25.83%	+30.67%
1956	66 and 4 months	-26.67%	+29.33%
1957	66 and 6 months	-27.50%	+28.00%
1958	66 and 8 months	-28.33%	+26.67%
1959	66 and 10 months	-29.17%	+25.33%
1960 and later	67	-30.00%	+24.00%

Maximum Social Security Benefit for 2022*

Retirement at age 62, $2,364 per month

Retirement at age 66, $3,240 per month

Retirement at age 70, $4,194 per month

Note: does not include any reduction for Medicare Part B premium.

*** Source: SSA.gov**

Maximum Social Security Withholding for 2022*

- For 2022, Social Security withholding tax rate is 6.2% for up to $147,000 in earnings. Maximum is $9,114.
- Employer portion is an additional 6.2%.
  Combined 12.4% Social Security tax would be $18,228.
- Medicare is an additional 1.45% with no income limit, combined 2.9% for employee and employer.

*** Source: SSA.gov**

LIMRA LOMA

Concept #1

Using Life Insurance to Replace the Loss of Social Security Benefit

General Rule: Survivor Benefits

- In most cases, once spouses are past age 70, the higher of the two benefits becomes the survivor benefit.

Pertinent Information

- Mr. Kugler is age 60 and has a $2,000 benefit at age 67
- His enhanced retirement benefit at age 70 is $2,480 per month
- Mrs. K is age 60 and has a $1,500 benefit at age 67
- Her enhanced retirement benefit at age 70 is $1,860 per month

Goals and Objectives

- The combined retirement benefit is $4,340 per month.
- At death of first spouse, only Mr. K's retirement benefit of $2,480 per month will be available. This continues to the surviving spouse.
- The lower retirement benefit ($1,860) will terminate when the first spouse dies.
- The family wants the surviving spouse to continue to receive the entire $4,340 after the death of the first spouse.

At Age 70 Enhanced Social Security Retirement Benefit

Social Security Administration → $4,340 Combined Benefits → Mr. and Mrs. K

- ❑ Includes DRCs – Mr. K’s $2,480 and Mrs. K’s – $1,860 no COLAs

Death of First Spouse to Die
(Assume Age 70)

Social Security Administration → $1,860 Benefit Termination → Mrs. K’s Benefit Terminates

- ❑ Lower of the two benefits terminates at the first death

Death of First Spouse to Die (Assuming Age 70)

Social Security Administration → $2,480 Per Month → Higher Benefit Continues to Surviving Spouse

Life Insurance to Fund Loss of SS Benefits Annuity Payout at Age 70

$300,000 Life Insurance on Mr. K and Mrs. K → $1,860 17 Years → Surviving Spouse

- ❑ Lower of the two benefits terminates at the first death

Concept #2

Using Life Insurance to Avoid The "Tax Torpedo"

Social Security Taxation Basics

- Up to **85%** of Social Security distributions can be taxable
- **100%** for 401(k)s, etc.
- Some planning opportunities
- “Tax Torpedo”
- Tax-free income can increase taxes on SS benefits

Social Security Taxation Basics

- Single taxpayer:
  - First threshold amount: $25,000
  - Second threshold amount: $34,000
- Married Taxpayer:
  - First threshold amount: $32,000
  - Second threshold amount: $44,000
- Note that thresholds are **not** indexed for inflation

An In-Depth Case Study on Social Security Taxation

- Assume there are three brothers, all close in age, who are all recently retired.
- Each of the brothers has $50,000 in Social Security income and $50,000 in income from other sources.
- Although all three have the same basic level of income, the sources of that income are all different.
- The brothers receive $50,000, $40,000 and $30,000 from their IRAs respectively. For Brothers 2 and 3, a life insurance policy is used to provide supplemental income.

An In-Depth Case Study on Social Security Taxation

- Social Security income can be anywhere from 0% to 85% taxable, depending on your other sources of income.
- Because of the so-called “tax torpedo,” not only does Brother 1 pay more income tax on his overall income, more of his Social Security income is also taxable.
- By structuring his retirement income in a tax efficient manner, Brother 3 saves $4,362 per year in income taxes, even though his gross income is the same as the other two.
- Although all three brothers receive the same amount of Social Security income, the amount of taxable Social Security income varies depending on the other income.

Tax Year 2022,Married Couple Filing Jointly

Both Age 65+, Standard Deductions; $100,000 Gross Income

Calculation	Brother 1	Brother 2	Brother 3
Social Security Income	$50,000	$50,000	$50,000
Taxable SS Income	32,350	23,850	15,350
IRA Distribution	50,000	40,000	30,000
Adjusted Gross Income	82,350	63,850	45,350
Standard Deduction	28,700	28,700	28,700
Taxable Income	53,650	35,150	16,650
Tax	6,027	3,807	1,665
Loan from Insurance policy	0	10,000	20,000
Analysis			
Gross Income	$100,000	$100,000	$100,000
Net Income	93,973	96,193	98,335
Tax Savings	0	$2,220	$4,362
15 Year Present Value @5%		$23,042	$46,002

Income tax due based upon 2022 Federal income tax tables. Source: Kenneth Sokol

Results and Benefits

- Key point to this strategy: start early with a Roth or building cash value in the policy to use during retirement.
- Second and perhaps less obvious: survivor benefits from the life insurance policy can be an important benefit.
- Note: does not consider Medicare Parts B & D.

Concept #3

Using Social Security
to Enhance your Family Legacy

Pertinent Information

- Mr. Kugler was born in 1960 and has worked his entire life. His Full Retirement Age (FRA) is age 67.
- His Primary Insurance Amount is $3,000.
- This means that he would be eligible to collect $2,100 per month at age 62, $3,000 per month at age 67, or $3,720 per month at age 70.
- He currently has sufficient assets so that he does not need the Social Security income to maintain his standard of living.

Goals and Objectives

- Mr. K would like to consider his Social Security options.
- He does not need the money for his living expenses, but he would like to enhance the family legacy for his children.
- He recognizes that optimizing his Social Security benefits can only go so far. By itself, all Social Security can do is maximize the benefits for himself and his spouse. It can't do much to help his children.
- He is willing to consider other options to enhance his family legacy.

Proposed Arrangement

- Life insurance is one option that can “leverage up” his family’s inheritance.
- Mr. K would like to consider using his pre-tax Social Security income to purchase a life insurance policy.
- He would like to compare his options at age 62, 67 and 70.

Illustration

Age 62 Security Mutual's WL4U2 LP121 - Security Designer			
Year	Total Net Premiums	Guaranteed Net Surrender Value	Guaranteed Net Death Benefit
1	$25,200	$0	$672,302
2	50,400	3,200	672,302
3	75,600	21,225	672,302
4	100,800	39,578	672,302
5	126,000	58,725	672,302

* Policy Form Nos. 2112-NY-17CSO; ICC14-2112; Series 2112

Illustration

Age 67 Security Mutual's WL4U2 LP121 - Security Designer			
Year	Total Net Premiums	Guaranteed Net Surrender Value	Guaranteed Net Death Benefit
1	$36,000	$0	$730,515
2	72,000	4,646	730,515
3	108,000	29,513	730,515
4	144,000	54,723	730,515
5	180,000	80,189	730,515

* Policy Form Nos. 2112-NY-17CSO; ICC14-2112; Series 2112

Illustration

Age 70 Security Mutual's WL4U2 LP121 - Security Designer			
Year	Total Net Premiums	Guaranteed Net Surrender Value	Guaranteed Net Death Benefit
1	$44,640	$0	$763,596
2	89,280	12,706	763,596
3	133,920	42,296	763,596
4	178,560	71,946	763,596
5	223,200	101,589	763,596

* Policy Form Nos. 2112-NY-17CSO; ICC14-2112; Series 2112

Results and Benefits

- Mr. K would will consider using his pre-tax Social Security income to purchase a life insurance policy.
- He can do this at age 62, 67, 70 or any time in between. Although the proposed death benefit goes up as he gets older, he must also consider insurability issues. In other words, being insurable at age 62 does not mean that he will still be insurable as he gets older.

Concept #4

Hedging Your Social Security Bet: How Life Insurance Can Help

Pertinent Information

- Mr. Kugler is age 60. His Full Retirement Age (FRA) is age 67. He is just starting to look at his Social Security options.
- His Primary Insurance Amount (PIA) is $3,000.
- With this PIA, he can choose to collect at $3,000 per month starting at age 67.

Pertinent Information

- Another option would be to start at 62 and collect roughly 70%, or $2,100 per month. He starts five years before Full Retirement Age, but takes a lower monthly benefit for the privilege of doing so.
- Another option is to wait until age 70. If he does, he will collect 124%, or $3,720 per month. He is losing out on the earlier payments, but making up a piece of that lost income every month.

Pertinent Information

- Note: we assume he will stop working if he collects before FRA. If not, the so-called “Earnings Test” would likely make it impractical to work and collect at the same time, at least until he reaches FRA.
- Although we illustrate the basic ages of 62, 67 and 70, Mr. K can choose to collect at any time in between if he desires. But the benefit reaches its maximum at age 70, so there’s no reason to wait beyond that age (not including any Cost of Living Adjustments (COLAs), which would apply either way).

Planning Concerns

- Mr. Kugler wants to know the best time to collect.
  For many people it comes down to a simple breakeven analysis.
- If he starts at age 62, he can begin collecting $2,100 per month immediately, vs. $3,000 if he waits until age 67.
  If he chooses option 1, he's already ahead by a cumulative total of $126,000 by the time he reaches age 67.

Planning Concerns

- But with option 2, starting at age 67, he begins making up the difference a little bit at a time. By age 78, he will be slightly ahead if he chooses option 2.
- Option 3 is starting at age 70. If he does the math, the breakeven between age 62 and 70 is about age 80. And between 67 and 70 it’s age 82. In other words, if he lives past age 82, his best option is likely to be collecting at 70.

Simplified Breakeven Analysis: 62, 67 & 70

Age	Annual	Cumulative	Annual	Cumulative	Annual	Cumulative
62	$25,200	$25,200				
63	25,200	50,400				
66	25,200	126,000				
67	25,200	151,200	$36,000	$36,000		
70	25,200	226,800	36,000	144,000	$44,640	44,640
71	25,200	252,000	36,000	180,000	44,640	89,280
77	25,200	403,200	36,000	396,000	44,640	357,120
78	25,200	428,400	36,000	432,000	44,640	401,760
79	25,200	453,600	36,000	468,000	44,640	446,400
80	25,200	478,800	36,000	504,000	44,640	491,040
81	25,200	504,000	36,000	540,000	44,640	535,680
82	25,200	529,200	36,000	576,000	44,640	580,320
83	25,200	554,400	36,000	612,000	44,640	624,960

Breakeven Age

Planning Concerns

- When he looks at it this way, it all boils down to one question: does he think he's to live past age 82?
- If he thinks yes, he would be inclined to wait. If he thinks not, he will probably want to collect early.
- Also note that this approach has its limitations, one of the biggest being that this analysis does not consider any potential spousal or survivor benefits.

Planning Concerns

- It also does not consider the so-called “time value of money.” However, Security Mutual’s *Social Security Evaluator* gives SML life insurance advisors the ability to perform this more sophisticated analysis.
- Cost of Living Adjustments are also not factored in. While amount of future COLAs is unknown, they will increase the dollar amount of future benefits. Future COLAs will help maintain the current purchasing power for today’s SS benefits. The concept remains the same whether the analysis uses assumed COLAs or not.

Life Insurance Options

- Based on his current health and family history, Mr. Kugler expects to live well into his 90s.
- Although he may think he's got a good life expectancy, he could always be wrong. If he decides to collect at age 70, but dies suddenly at 69, he could lose out on over $200,000 of cumulative Social Security benefits that could otherwise have been collected and enjoyed.

Life Insurance Options

- Life insurance may be a good tool to “hedge” against this risk.
- If he’s healthy at his current age 60, he could purchase a policy for $200,000 on his life. That way, if something were to happen to him, there would be additional money for his heirs to replace the Social Security income he chose to forego.

Life Insurance Options

- The life insurance would likely come to the heirs on a tax-free basis.
- If Mr. K does indeed make it well past age 70, he'll end up with better Social Security income, along with an extra $200,000 legacy for his heirs.

Life Insurance Options

- How much would it cost? Using SML's Security Designer WL4U3 10 Pay, a male preferred nonsmoker age 60 could purchase a guaranteed death benefit of $200,000 for an annual premium of $13,053.
- The policy would be fully paid up at age 70 when he files for Social Security. Should he unexpectedly die before that age, the policy would replace most, if not all, of the income that he gave up by waiting.

Life Insurance Options

- In addition, the WL4U3 10 Pay would generate guaranteed cash value of over $114,000 by the time he turns age 70.
- Non-guaranteed paid-up additions dividends* could add to the death benefit and cash values. Alternative life insurance policies may be considered as well.

* The payment of dividends is not guaranteed, and the amount credited, if any, may rise and fall depending on experience factors such as investment income, taxes, mortality and expenses.

Results and Benefits

- Mr. Kugler recognizes that there is uncertainty in most financial decisions. This is includes when to collect Social Security.
- The decision on when to collect is essentially a bet. Life insurance can help hedge that bet.

Concept #5

Social Security “Max” Strategy

Pertinent Information

- Mr. and Mrs. Kugler are both age 60.
- Mr. K has a Primary Insurance Amount (PIA) of $3,000. This means that if he collects his Social Security benefit age 67, he will collect $3,000 per month.
- Over the years, Mrs. K only worked outside the home sporadically. She does not have enough of a work history to qualify for her own Social Security benefit.
- She would, however, qualify for spousal benefit of $1,500 at age 67.

Planning Concerns

- Mr. and Mrs. Kugler are financially independent. They wish to get the most they can out of Social Security, but they do not need it to fund their living expenses.
- Their biggest concern at this point is leaving a legacy for their children.
- They want to know what is the best time to file for Social Security.

Social Security Options

- They can file for Social Security as early as age 62 or as late as age 70, or any time in between.
- Since she does not have a personal benefit, Mrs. Kugler cannot collect her spousal benefit before Mr. Kugler files. She can, however, wait until several years after if she wishes.

Social Security Options

- Their basic options are as follows:
  - Both file at age 62. He gets $2,100 personal benefit (70%), she gets $975 (65%). Note there are different reduction tables for personal and spousal benefits.
  - Both file at 67. He gets a $3,000 personal benefit, she gets a $1,500 spousal benefit
  - Both file at 70. He gets $3,720 personal benefit (124%), she gets $1,500 spousal benefit. Note that spousal benefit is capped at 50% of his $3,000 PIA.

Proposed Arrangement

- Mr. Kugler has a defined benefit pension and is familiar with the “pension max” concept.
- Under the “Social Security Max” concept, Mr. and Mrs. Kugler have the option of filing at age 62, taking the reduced combined benefit and using the monthly income to purchase life insurance.

Proposed Arrangement

- The life insurance would help them meet their goal of providing a legacy to their family.
- If they collect at age 62, their combined benefit would $3,075 per month. Assuming the maximum income tax inclusion rate (85%), and a 35% tax bracket, they would net approximately $2,160 per month.

Life Insurance Arrangement

- Using SML’s Security Designer WL4U3 LP121, a male preferred age 62 with a monthly premium of $2,160, they can purchase
  a guaranteed death benefit of approximately $703,000.
- Both the premium and SS benefit used to pay for it are payable for life. While SS benefit will increase due to future COLAs, premium will remain fixed.
- Death proceeds would thus help to enhance the family legacy.

Results and Benefits

- Life insurance is one way to “leverage up” the family’s inheritance.
- Non-guaranteed paid-up additions dividends* could add to the death benefit and the cash values. Alternative life insurance policies may be considered, as well.

* The payment of dividends is not guaranteed, and the amount credited, if any, may rise and fall depending on experience factors such as investment income, taxes, mortality and expenses.

Results and Benefits

- Note: we assume they will stop working if they collect before Full Retirement Age (FRA). If not, the so-called “Earnings Test” would likely make it impractical to work and collect at the same time, at least until each of them reaches FRA.
- For 2022, the Earnings Test threshold is $19,560 in annual wages.

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SML Planning Minute Podcast

https://smlny.com/smlpodcast/

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