

# Dialogues » WEALTH STRATEGIES FOR DISCUSSION



WINTER  
2009

The One Eleven Group at Smith Barney will empower you to **establish order in your financial life** and give you the **freedom to pursue your passions**.

Utilizing a combination of wisdom and experience, our comprehensive team approach will enable you to develop and implement a **strategic wealth plan**.

COURTESY OF  
THE ONE ELEVEN GROUP  
AT SMITH BARNEY  
A CITI FAMILY OFFICE TEAM

111 S. Pfingsten Road, Suite 200  
Deerfield, IL 60015  
Phone: 847.480.5416  
Facsimile: 847.498.1546  
Toll-free: 800.543.3623  
E-mail: 111group@smithbarney.com  
Web: www.smithbarney.com/111group

**DARREN GOLDE, CIMA®**  
Senior Vice President—Wealth Management  
Advisor, Citi Family Office

**WILLIAM JOHNSON**  
Senior Vice President—Wealth Management  
Senior Investment Management Specialist

**PAUL LEVITT, CFP®**  
Senior Vice President—Wealth Management  
Senior Investment Management Consultant

**RHONDA SALINS**  
Senior Vice President—Wealth Management  
Financial Planning Specialist

**CLARK GAPEN**  
First Vice President—Wealth Management  
Financial Planning Specialist

**HOWARD FELIX**  
First Vice President—Wealth Management  
Senior Portfolio Management Director

**CAROL PASSALAQUA, CFP®, CIMA®, CRPS®**  
Vice President—Wealth Management  
Chartered Retirement Plans Specialist<sup>SM</sup>

**SCOTT BERK**  
Second Vice President—Wealth Management  
Financial Planning Specialist

## Social Security Retirement Benefits

### How and When to Start Collecting

» Since 1935, the Social Security program has provided economic protection for Americans of all ages. For most, these benefits pay monthly benefits for life, providing the peace of mind that comes from a guaranteed source of income. While Social Security is not designed to be a sole—or even primary—source of support during retirement, these benefits can help supplement your pension, personal investments and savings.

This issue of *Dialogues* will discuss the critical decisions you may soon have to make regarding your Social Security benefits, and how they may affect your overall retirement plan. Be sure to ask your Financial Advisor about the following issues:

- » How Social Security retirement benefits are calculated
- » Determining when to receive benefits
- » Taxation of Social Security benefits
- » Spouse and survivor benefits ■

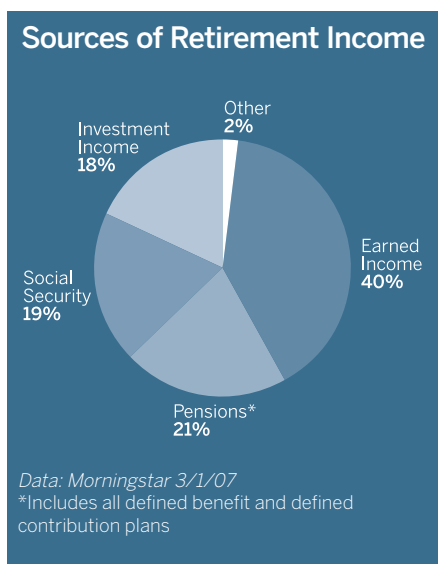
By the Smith Barney Division of Citigroup Global Markets Inc.

# How Retirement Benefits Are Calculated

» To qualify for retirement benefits, you must accumulate a minimum of 40 credits, which is usually ten years' worth of work.

While credits determine eligibility, your lifetime earnings determine how much money you can expect to receive each

month. However, the maximum amount of annual compensation used to determine Social Security benefits is the Taxable Wage Base (\$102,000 for 2008). Therefore, Social Security replaces a much smaller percentage of income for higher-wage earners. ■



## The Social Security Benefit Statement

Each year, the Social Security Administration is required to mail participants a statement illustrating their updated earnings record and potential benefits (go to <http://www.socialsecurity.gov/mystatement/> for a copy of your statement). Be sure to provide your Financial Advisor with a copy of your most recent statement so he or she can incorporate your projected monthly benefits into your retirement plan.

# When to Receive Benefits

» You will not automatically receive benefits when you become eligible for Social Security. You must apply for the benefits online, or by calling 1-800-772-1213, or by visiting a Social Security office.

### “NORMAL” RETIREMENT AGE

The Social Security Administration determines what is normal retirement age, i.e., the age at which you may receive full retirement benefits. Currently, those born in 1937 or earlier are eligible for full benefits at the “normal” retirement age of 65. For those born in 1938 or later, however, the eligibility age for full benefits will increase gradually, depending on the year you were born (see right). The maximum normal retirement age is currently 67 and applies to those born in 1960 and later.

### EARLY BENEFITS

No matter how old you must be to receive full benefits, you may begin receiving Social

Security as early as 62. But taking payments at 62 will result in a permanently reduced benefit, ranging from a 20% reduction for people born in 1937 up to 30% for those born in 1960 or later. You may want to consider early benefits if you need income but prefer to leave your portfolio intact, or if you intend to invest the benefits and earn a more competitive return, though there’s no guarantee you will do so.

### DELAYED BENEFITS

If you continue working beyond your normal retirement age, you will be eligible to collect a permanently increased Social Security benefit when you retire. For those born in 1943 and later, approximately 8% more per year will be added automatically to the permanent benefit amount for every year you wait. Delaying benefits past age 70 will generally add nothing more to your monthly benefit. ■

## Age to Receive Full Benefits and Reduction for Early Benefits

Year of Birth	Normal Retirement Age	Percentage of Full Benefits at Age 62
1937 or earlier	65	80.0
1938	65 and 2 months	79.2
1939	65 and 4 months	78.3
1940	65 and 6 months	77.5
1941	65 and 8 months	76.7
1942	65 and 10 months	75.8
1943 – 1954	66	75.0
1955	66 and 2 months	74.2
1956	66 and 4 months	73.3
1957	66 and 6 months	72.5
1958	66 and 8 months	71.7
1959	66 and 10 months	70.8
1960 or later	67	70.0

Source: Social Security Administration 2008

## The Dollar Benefits of Early, Normal and Delayed Retirement

### Assumptions

Date of Birth: 01/01/1948

Current Earnings: \$100,000

	Monthly Benefit in Future Dollars <sup>1</sup>
Start at Age 62	\$1,612
Start at Age 66	\$2,392
Start at Age 70	\$3,680

Source: Social Security Administration Web Site: Quick Calculator

<sup>1</sup>Assumes increase in future prices and earnings

### FACTORS TO CONSIDER

Generally, the longer you wait to collect Social Security benefits, the higher your monthly benefit will be. Your Financial Advisor can help you project your benefits using the Quick Calculator on the Social Security Administration website at [www.ssa.gov](http://www.ssa.gov). There are several factors to consider when determining the appropriate time to take benefits:

» **Working and receiving Social Security.** If you begin taking Social Security benefits at your normal retirement age, you're entitled to the full benefit even if you continue working. Only those who take Social Security before reaching normal retirement age are subject to an earnings limit for Social Security benefits. You may earn up to \$13,560 (in 2008) annually before the year you attain your normal retirement age. Anything more will result in a benefit reduction of \$1 for every \$2 earned over the cap. You may earn up to \$36,120 (in 2008) before the month you reach your normal retirement age and avoid a benefits reduction. For example, if you reach normal retirement age on September 30, anything you earn from September 1 on will not be subject to the earnings limit. Before September 1, any earnings over \$36,120 will result in benefit reductions of \$1 for every \$3 earned over the cap.

### » IRAs and other savings vehicles.

Typically, it would pay to begin receiving Social Security if your only other alternative is to begin withdrawing assets from your tax-deferred retirement accounts. The reason for this is twofold: 1) by removing money from your 401(k)s and IRAs, you are forfeiting additional years of tax-deferred compounding; and 2) 100% of your retirement distributions are subject to income taxes, vs. a maximum of 85% of your Social Security payments.

» **Health history.** If you are in good health and have a family history of longevity, delaying your Social Security payments will result in a larger benefit over time. If you are in poor health and foresee a shorter life expectancy, consider taking your benefits sooner (keep in mind that women typically

live longer than men). Refer to the Social Security website to calculate your "break-even" age (<http://www.ssa.gov/OACT/quickcalc/when2retire.html>), when the accumulated value of higher benefits from postponing retirement will start to exceed the value of lower benefits from choosing early retirement.

» **Asset allocation.** Conservative investors may want to consider delaying receipt of Social Security benefits. The additional monthly benefit received by waiting until age 70 may result in more bang than money market or CD returns. Aggressive investors might consider taking Social Security sooner, so as not to disrupt potential growth to meet income needs. ■

## Example of Receiving Social Security While Working

### Assumptions

- Worker's normal retirement age: Age 66 (June 1, 2016)
- Takes Social Security benefits early: Age 62
- Begins consulting job: Age 64

### Employment Period: Full Year 2014

Earned Income	\$13,000
Amount Over Cap	\$0
Annual Benefit Reduction	\$0

### Employment Period: Full Year 2015

Earned Income	\$30,000
Amount Over Cap	\$16,440
Annual Benefit Reduction	\$8,200 (1/2 of excess)

### Employment Period: January – May, 2016

Earned Income	\$40,000
Amount Over Cap	\$3,880
Annual Benefit Reduction	\$1,293 (1/3 of excess)

### Employment Period: June – December, 2016

Earned Income	\$45,000
Amount Over Cap	Normal retirement age reached – no cap
Annual Benefit Reduction	\$0

For illustrative purposes only. Actual results will vary depending on normal retirement age and amount of earned income.

# Spouse and Survivor Benefits

## » SPOUSAL RETIREMENT BENEFITS

Social Security may provide your spouse with a retirement or survivor's benefit. If you're the working spouse, your nonworking spouse, age 65, is eligible to receive the higher of 50% of your retirement benefit or 100% of his/her own benefit. If you elect to begin receiving Social Security benefits at age 62, your benefit is permanently reduced, and that reduced benefit is what your spouse's benefit is based on. If your spouse takes benefits before the normal retirement age, the benefit would be reduced even further. A spouse's retirement benefit is available to a divorced spouse (must have been married at least ten years) and a spouse (of any age) who is taking care of a child under age 16 or disabled.

## SPOUSAL SURVIVOR BENEFITS

For marriages where only one spouse was employed, if the working spouse dies, the surviving spouse will receive 100% of the worker's benefit at his/her normal retirement age. The 50% spousal benefit stops at that time. If both you and your spouse take retirement benefits based on your own earnings records, the surviving spouse will receive the greater of the two benefits. If you are both receiving the same amount, upon the death of the first spouse, payments for that spouse will stop. Rules apply to the survivor's benefit:

» If the worker died *before* receiving Social Security retirement benefits, the surviving spouse, at his or her normal retirement age, will receive 100% of the worker's benefit. Survivor benefits received between age 60 and normal retirement age will be permanently reduced.

» If the worker died *after* receiving Social Security retirement benefits, the amount received by the surviving spouse cannot exceed the amount of the benefit paid to the worker.

» The survivor's benefit terminates upon remarriage, death or eligibility for an equal or greater retirement benefit due to his or her own employment.

## A LITTLE-KNOWN SOCIAL SECURITY PROVISION

Contrary to popular belief, electing to take Social Security benefits is not an irrevocable decision. For individuals who are past their normal retirement age and elected to take reduced Social Security benefits early, current provisions provide a way to reverse this decision. To receive the higher benefit that would have been paid at normal retirement age, you may reapply using SSA Form 521 (go to [socialsecurity.gov](http://socialsecurity.gov) for a copy).

There is one major drawback of reapplying for the higher benefit: you must repay all of the benefits you received up until reapplying, though payments are made free of interest. Despite the repayment requirement, this strategy may increase your guaranteed monthly income in a relatively cost-effective way. Keep in mind that Social Security payments are subject to taxes and may change. Contact your tax advisor before deciding whether this strategy is appropriate for you.

## TALK TO YOUR SMITH BARNEY FINANCIAL ADVISOR

Your Social Security benefits are a key piece of your retirement plan. Before making any decision, talk to us about when to take Social

Security. We can run a complimentary Retirement Analysis that incorporates your potential benefits into a comprehensive plan for the retirement you envision. ■

## Taxation of Social Security Benefits

» It comes as a surprise to many that Social Security benefits are subject to income tax.

In fact, Social Security benefits are taxed as ordinary income in the year of payment. Taxation depends on your filing status and your provisional income. Provisional income generally includes adjusted gross income (AGI includes things like pension income, withdrawals from retirement accounts, investment income and earned income), plus tax-exempt interest income and one-half of Social Security benefits. ■

### Benefits Subject to Tax

Filing Status	Provisional Income	Percentage of Benefit Subject to Income Tax
Single	• Less than \$25,000	• 0%
	• \$25,000 – \$34,000	• 50%
	• Over \$34,000	• 85%
Joint	• Less than \$32,000	• 0%
	• \$32,000 – \$44,000	• 50%
	• Over \$44,000	• 85%

Source: Social Security Administration, 2008

Unless you are otherwise advised in writing, Smith Barney is acting as a broker-dealer and not as an investment advisor.

Citigroup Inc., its affiliates, and its employees are not in the business of providing tax or legal advice. These materials and any tax-related statements are not intended or written to be used, and cannot be used or relied upon, by any such taxpayer for the purpose of avoiding tax penalties. Tax-related statements, if any, may have been written in connection with the "promotion or marketing" of the transaction(s) or matter(s) addressed by these materials, to the extent allowed by applicable law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

© 2009 Citigroup Global Markets Inc. Member SIPC. Smith Barney is a division and service mark of Citigroup Global Markets Inc. and its affiliates and is used and registered throughout the world. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates, and are used and registered throughout the world.