



FRANKLIN TEMPLETON
INVESTMENTS

Franklin • Templeton • Mutual Series

< GAIN FROM OUR PERSPECTIVE® >

Gail Buckner
CFP[®], CRPS, AIF[®]

Franklin Templeton
Academy



Securing Social Security

Today, Tomorrow & for the Future



FRANKLIN TEMPLETON
INVESTMENTS

Franklin • Templeton • Mutual Series

Social Security...Then & Now

	1940	Today
Payroll Tax Rate¹	2%	12.4%
Earnings Cap	\$3,000 ²	\$117,000 ⁴
Total Beneficiaries³	222,000	62,980,000 ⁵
Worker: Beneficiary¹	159:1	Less than 3:1
Average Retiree Benefit¹	\$22.60/mo.	\$1,294/mo. ⁴

1. Social Security Administration, www.ssa.gov.

2. Social Security Administration, "Raising or Eliminating the Taxable Earnings Base," (2010), <http://aging.senate.gov/crs/ss9.pdf>.

3. Social Security Administration, (May 2013), www.ssa.gov.

4. Social Security Administration, Press Office, Fact Sheets, "2014 Social Security Changes," (November, 2013), <http://www.ssa.gov/pressoffice/factsheets/colafacts2014.html/>.

5. Social Security Administration, Policy, Research, Statistics & Policy Analysis, Program Statistics & Data files, "Monthly Statistics Snapshot – October, 2013," (November, 2013), http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot.



The Evolution of Social Security

1939:	Social Security benefits extended to spouses and dependents of retired workers¹
1956:	Women offered “early” retirement (age 62)¹
1961:	Men offered “early” retirement (age 62)¹
1970–71:	Benefits increased 10%,15% & 20% under President Nixon¹
1975:	Automatic COLAs introduced with a “flaw in the formula” that caused benefits to rise faster than intended²
1979–82:	For four years in a row prices grew faster than wages, so COLAs outpaced FICA tax collected²
By 1983:	Social Security faced insolvency¹

1. Social Security Administration, Special Collections, “Detailed Chronology of Social Insurance & Social Security,”

<http://www.socialsecurity.gov/history/chrono.html>.

2. Janice M. Gregory et al., “Strengthening Social Security for the Long Run,” (November, 2010)

http://www.nasi.org/sites/default/files/research/SS_Brief_035.pdf.

Social Security's Current Challenge

2010

1st year FICA tax collected did not cover benefits paid + administrative costs. Interest on bonds used to cover gap.

2021

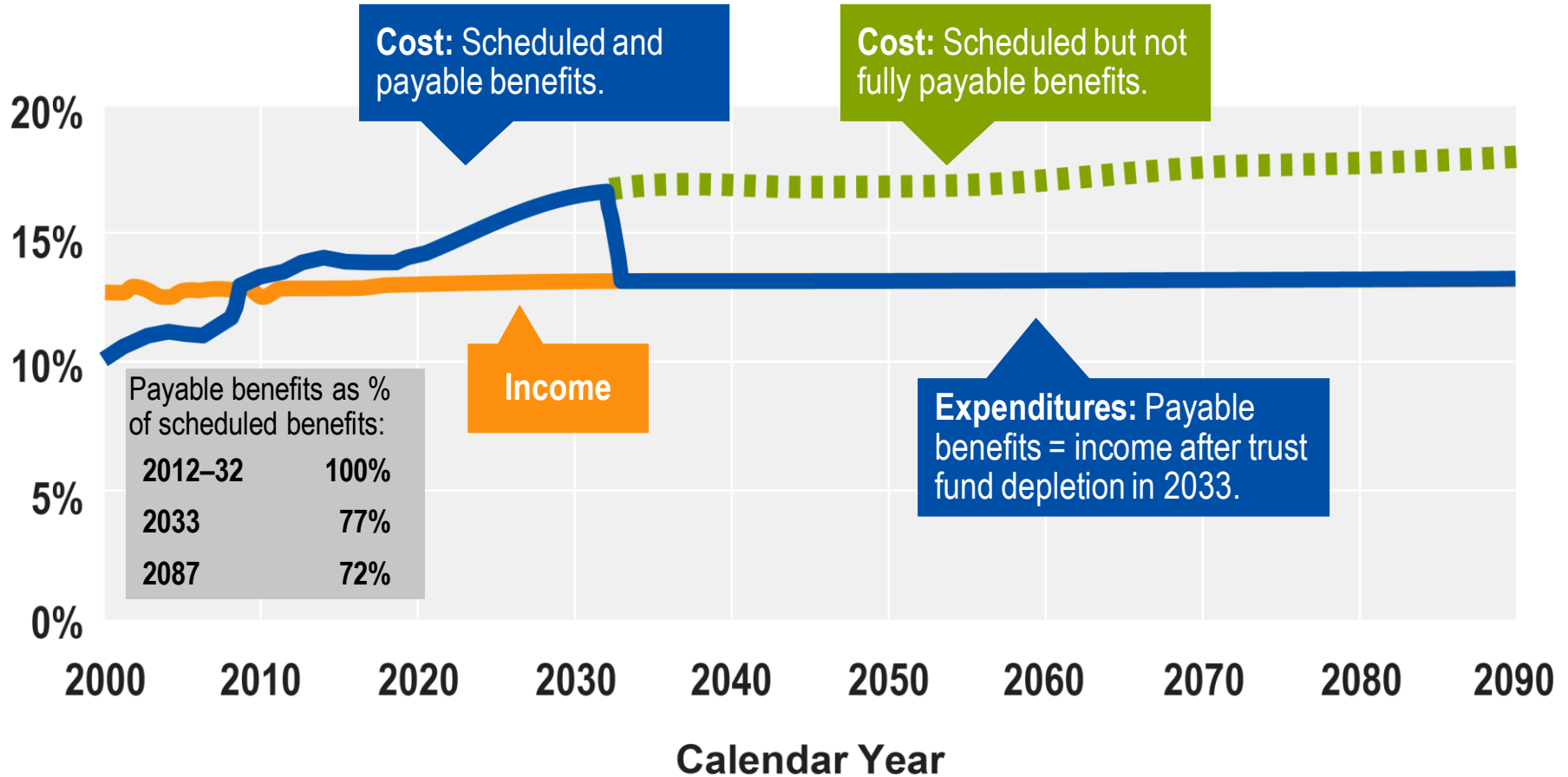
Interest on Trust Fund no longer covers shortfall. Principal must be tapped.

2033

**Trust Fund is exhausted.
FICA tax covers 75% of promised benefits + administrative costs.**

Help, It's Fallen and It Won't Go Up!

OASDI Income, Cost, and Expenditure as Percentages of Taxable Payroll



Source: *The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, Social Security Administration, www.ssa.gov.

Social Security's Financial Condition Is Not as Dire as You Think

“The projected 75-year projection period, the actuarial deficit is 2.72% of taxable payroll, 0.05% larger than in last year’s report.”¹

2013 Social Security Trustees Report

“The program faces a manageable shortfall over the next 75 years, which should be addressed soon to restore confidence in the nation’s major retirement program...”²

—**Alicia H. Munnell**
Center for Retirement Research

1. “The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds,” Social Security Administration, (May, 2013) <http://www.socialsecurity.gov/OACT/TR/2013/tr2013.pdf>.

2. “Social Security’s Financial Outlook: The 2013 Update in Perspective,” Center for Retirement Research, Boston College, (June, 2013) <http://crr.bc.edu/briefs/social-security%e2%80%99s-financial-outlook-the-2013-update-in-perspective/>, p.1.

What Is Social Security?

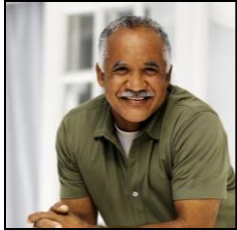
Government-Guaranteed Inflation-Adjusted Lifetime Annuity

“The Old-Age, Survivors, and Disability Insurance (OASDI) program makes monthly income available to insured workers and their families at retirement, death, or disability.”

— 2013 OASDI Trustees Report



What's It Worth?



Lou

Current Age: 59

Full Retirement Age (FRA) is 66.

SS Benefit at FRA is \$2,551/mo.

WHAT ARE THE OPTIONS?¹

Begin SS at:	Monthly Benefit ²	By Age:	Total Received ³	Lump Sum for Annuity ⁴
62	\$1,663	80	\$474,267	\$303,016
		90	\$869,580	\$431,181
66 ⁵	\$2,551	80	\$530,892	\$374,963
		90	\$1,069,671	\$587,284
70	\$3,869	80	\$540,229	\$421,513
		90	\$1,266,251	\$769,282

Source: Quick Calculator, Social Security Administration, www.ssa.gov.

1. This chart is hypothetical and for illustrative purposes only; individual Social Security benefits will vary. Taxes have not been taken into account. For this example, we assume the individual is currently earning \$80,000/year, was born on June 1, 1954, and, as a result has a "normal" retirement age of 66. The calculations make certain assumptions about earnings and assume future increases in prices or earnings so the estimated benefit is in future (inflated) dollars.

2. Source: Quick Calculator, Social Security Administration, www.ssa.gov. Assumes future increases in earnings each year, through retirement year.

3. Source: *Estimated future cost-of-living adjustments (COLAs)*, Social Security Administration, www.ssa.gov. Assumes cost-of-living adjustment increases of 3% per year effective January of each year.

4. This is calculated using the net present value of the monthly payments from Social Security as of February 2013. Hypothetical investment assumes a 5% (pre-tax) rate of return, compounded monthly and monthly withdrawals equal to the Social Security benefit payment.

5. Normal (or full) retirement age based on a birth year of 1954.



FRANKLIN TEMPLETON
INVESTMENTS

What Do You Say?

1. You should file for Social Security three months before you want benefits to begin:	TRUE
2. You should file for Medicare at the same time you file for Social Security:	FALSE
3. Any creditor you owe money to can attach your Social Security benefits:	FALSE
4. If you postpone claiming Social Security at age 62 until age 70, based on the Delayed Retirement Credit, your benefit will be about _____% higher:	76%
5. If you are younger than your full retirement age and return to work, your Social Security check may be reduced and you will lose the money you would have received:	FALSE
6. It is possible to start receiving Social Security benefits, stop them, and re-start them at a future date.	TRUE

1. Source: *Top 25 Social Security Questions*, AARP, www.aarp.org.

2. Source: *Thinking of Retiring?*, Social Security Administration, (Jan. 2010), www.ssa.gov.

3. Source: 2008 Farm Bill, www.usa.gov.

4. Source: *When to Take Social Security Benefits*, National Academy of Social Insurance, (Jan. 2010), www.nasi.org.

5. Source: *When to Take Social Security Benefits*, National Academy of Social Insurance, (Jan. 2010), www.nasi.org.

6. Source: www.ssa.gov.



FRANKLIN TEMPLETON
INVESTMENTS

The Longer You Live, the More Important Social Security Becomes

“The nation’s 90-and-older population nearly tripled over the past 3 decades. Social Security represents nearly half the total income of individuals in this group.”

—“**Is 90 the New 85?**”

National Institute on Aging, 2011



It's Waaay More Complex Than You Think!

“There are **eight or nine options** for retirees, spouses, and widows.”¹

—**Stephen Richardson**
Social Security spokesperson

How, when and on whose record you claim Social Security can dramatically affect the amount you receive...*for the rest of your life!*

1. *Squared Away* (blog), Center for Retirement Research, Boston College. Blog entry July 11, 2011.

Social Security for Unequal Earners



Bob and Carol have been married for 40 years.

Bob

AGE ▶ 66 as of January

CAREER ▶ Several big-name technology firms. Retired at 62 / teaching part-time at a local college.

Carol

AGE ▶ 62 later this year

CAREER ▶ Worked fewer years in the paid workforce due to time spent caring for a learning-disabled child.

CHALLENGE

- **Between Bob's teaching job and income from other sources**, they have more than enough money to cover their core living expenses.
- **Bob refuses to spend money on anything but the necessities** and wants to delay start of Social Security until age 70 in order to get a bigger check.
- **Carol wants to apply for Social Security immediately** to have money of her "own" to spend.

WHAT DO YOU THINK?



Social Security for Unequal Earners



The Full Retirement Age (FRA) for both Bob and Carol is 66.

Monthly benefit at FRA:

Bob: \$2,000

Carol: \$700

WHAT ARE THE OPTIONS?

Carol files based on her **own work** record:

\$525/month

Carol files for **spousal benefits** based on *Bob's* work record:

\$0/month

Bob files for his benefits to begin, then immediately suspends them.
Carol files for spousal benefits:

\$735/month

Assuming annual inflation of 3%, at age 70 Bob's benefit will be:

\$2,971/month

Assuming annual inflation of 3%, at age 66 Carol's benefit will be:

\$827/month

Social Security for High-Powered DINKs



Ted and Alice pursued well-paying careers. They just retired.

Ted

AGE ▶ 66

CAREER ▶ Accountant

HEALTH ▶ Both parents alive and active in early 90's. Will probably outlive Alice.

Alice

AGE ▶ 66

CAREER ▶ Administrator of a hospital complex; high earner.

HEALTH ▶ Heart disease runs in her family. Both parents died at age 78.

CHALLENGE

- Ted and Alice would like a couple of thousand dollars a month in extra income so they can afford to take some major trips while Alice is still physically able to do so. Additionally, they want to give their investments more time to recover from the recent market decline.
- They're thinking of starting **Social Security** instead of tapping their retirement accounts. Since Alice is likely to have the shorter lifespan, they feel she should be the one to begin benefits.

WHAT DO YOU THINK?



Social Security: More Options at FRA!



Full Retirement Age (FRA) for both Ted and Alice is 66.

Alice's monthly benefit is \$2,500.¹
Ted's monthly benefit is \$1,800.

WHAT ARE THE OPTIONS?

Option A ²	Today	Age 70	Age 78
Alice begins Social Security benefits now	\$2,500 /mo	\$2,814 /mo	\$3,563 /mo
Ted files to “restrict the scope of his SS application” to spousal benefit ONLY	\$1,250 /mo	\$2,674 /mo	\$3,386 /mo
Total	\$3,750 /mo	\$5,488 /mo	\$6,949 /mo

Option B ²	Today	Age 70	Age 78
Alice files to “restrict the scope of her SS application” to spousal benefit ONLY	\$900 /mo	\$3,713 /mo	\$4,704 /mo
Ted begins Social Security benefits now	\$1,800 /mo	\$2,026 /mo	\$2,565 /mo
Total	\$2,700 /mo	\$5,739 /mo	\$7,269 /mo

If Alice dies at age 78, Ted’s benefit = 32% higher

1. Source: Social Security Administration, <http://www.socialsecurity.gov/pressoffice/factsheets/colafacts2014.html>. Maximum Social Security benefit in 2014 is \$2,642/month.

2. Includes Delayed Retirement Credit (DRC) of 8% and assumed annual inflation rate of 3%.

Social Security & D-I-V-O-R-C-E



Warren is a self-described artist. He is divorced from Joanne, an attorney, after 12 years.

Warren

- HEALTH** ▶ The years have taken their toll on Warren—who looks a lot older than 59.
- CAREER** ▶ 16 years as a motorcycle mechanic, which provided 40 quarters of Social Security credit.
- LIFESTYLE** ▶ After living with his girlfriend Gloria for 6 years, Warren is considering marriage.

CHALLENGE

- **Warren knows that Joanne made substantial money** as an attorney and a smart friend told him he might be able to get a higher benefit if he files for Social Security benefits as her ex-spouse. He needs your advice on what kind of income he can expect to get from Social Security.

WHAT DO YOU THINK?



Social Security & D-I-V-O-R-C-E



Warren is 59 in 2012.

His Full Retirement Age (FRA) is 66.

WHAT ARE THE CRITERIA?

Years of marriage needed to collect on ex-spouse's work record	10
Minimum length of divorce	2 years
Maximum benefit	50% of ex-spouse's benefit ¹
Earliest age divorced spouse can file	62
Impact of re-marriage	Must be <u>un</u> married when you file. If marry afterwards, generally lose benefit¹

What if Joanne were *deceased*?

1. Source: Social Security Administration, www.ssa.gov.

Social Security & Widows¹



Warren will be 59 in 2012.

His Full Retirement Age (FRA) is 66.

WHAT ARE THE CRITERIA?

Years of marriage needed for widow to collect on deceased spouse's work record

9 months, however there are exceptions

Earliest age widow can file

60²

Maximum benefit

100% of ex-spouse's benefit

Impact on benefit paid to another widow/divorced spouse of same worker

None

Impact of re-marriage

Must be unmarried when file or marriage must be able to be "disregarded"

Re-marriage after age 60

No impact^{3,4}

1. Surviving divorced spouse follows the same rules as a widowed spouse in terms of claiming benefits based on their spouse's work record. If you begin benefits at age 60 you will receive a reduced benefit. If you are a surviving divorced spouse who is disabled, you can start receiving benefits at age 50.

2. Age 50, if disabled. If begin benefits at age 60, you can switch to benefits based on your own work record if this is higher.

3. If disabled, no impact on benefit if you re-marry after age 50.

4. If you re-marry, at age 62 you may switch to spouse benefits based on new spouse's record if this is higher.



FRANKLIN TEMPLETON
INVESTMENTS



**FRANKLIN TEMPLETON
INVESTMENTS**

< GAIN FROM OUR PERSPECTIVE® >

**Franklin Templeton Distributors, Inc.
One Franklin Parkway
San Mateo, California 94403-1906
(800) DIAL BEN®/342-5236
franklintempleton.com**

All investments involve risks, including possible loss of principal. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.