035 Retirement Paycheck with Jason Parker & Erik Ramsey

Announcer: Welcome back, America, to Sound Retirement Radio, where we bring you concepts, ideas and strategies, designed to help you achieve clarity, confidence and freedom as you prepare for and transition through retirement.

Now, here is your host, Jason Parker.

Jason: Seattle, Tacoma, Olympia, Gig Harbor, all the good people right here in Kitsap County, welcome back to another round of Sound Retirement Radio. I'm your host, Jason Parker, and I have my good friend, associate, Erik Ramsey in the studio with me this morning.

Erik: Hello, hello. How's it going?

Jason: It's going good, boy, we got so many great things to talk about with people this morning.

Erik: We do, we do.

Jason: What episode are we on Erik?

Erik: We are on episode 036 if you're looking at the podcast, or we can just say 36 I think.

Jason: We're going to be talking today about something that everybody, everybody, regardless of their station in life have to be considering which is ...

Erik: Retirement.

Jason: ... retirement planning and how to maximize Social Security.

Erik: Such an important part of retirement.

Jason: Nobody's going to teach you this. You're not going to go into the Social Security Administration, nobody's going to teach you how to do it there. You're not going to pick up a pamphlet and somebody's going to teach you. You have to know the rules if you're going to maximize this thing. I'm excited, because we've had a really positive response. We've got a webinar coming up on this topic, which people can

register for right online at Sound Retirement Planning. What's the date on that one?

Erik: That's January 27th, I believe at 4:00.

Jason: 4:30.

Erik: 4:30, thank you.

Jason: 4:30, so January 27th. If you're interested in learning more, we're going to cover this in great detail today, but if you're interested in learning more hopefully you will join us for the webinar. Again, you can register for that at soundretirementplanning.com. Erik, we've got some thoughts that I'd like you to share, but before we do, Rebecca told me a joke last night, and I know how much our listeners enjoy waking up and hearing these jokes Saturday morning.

Erik: It actually got me out of bed this morning, like I need to hear this joke. What's it going to be?

Jason: What did mama corn say to baby corn?

Erik: Oh boy, I don't know.

Jason: Where's papa corn? Man, you even brought sound effects in this one.

Erik: I did. We're going high tech on this.

Jason: Where's popcorn? That's one that people, the whole family can enjoy that one. There you go, see. For years and years my wife has been rolling her eyes at the dinner table and then she brings that one and lays that one out for us last night. I got to tell you, I'm so proud of her.

Erik: There we go world, all for you to enjoy.

Jason: Erik, today, abundance, production, where are we going for the first couple minutes?

Erik: If we're trying to look at a Christian world view in finance, an issue that I wanted to look at is kind of the difference between perspectives of abundance versus scarcity. It seems to me that a lot of the world is

motivated by fear, and that's always a dangerous thing. What I wanted to talk about today, scarcity, the mindset of scarcity, it's basically a fear that says there isn't enough or what if there isn't enough? It's not a very articulate fear, but it's very real and it motivates us a lot.

Let me give an example. Suppose you're on a ship and then it sinks and you get to the life raft and there's one bottle of water but 20 people. Jason, how are you going to feel in that situation?

Jason: They better hope I'm either a generous person or a strong swimmer or something, I don't know.

Erik: The fact is, most of us are going to be motivated by that scarcity mentality, looking around thinking there's just not enough for everybody. We're going to be motivated to do some pretty nasty things. History tells us in those situations it gets bad. People are going to be motivated to toss the other guy over and call the sharks, and that's just a boat mentality, but it flows over into the rest of the financial world: what if there isn't enough? In that situation, people start hoarding and they start being greedy, but the opposite mentality is one of abundance.

Let's take the example: have you ever been at a Thanksgiving table where there's just frankly too much food? Then somebody says, "Pass the mashed potatoes." Nobody says, "No, there won't be enough," and then keeps the whole bowl for themselves, it's a completely mentality. There's more than enough, you pass the mashed potatoes. Here comes the big question, if we look at the US economy or frankly the whole world, which attitude is more appropriate? Which attitude fits the situation? Are we in a lifeboat situation with a few resources but not enough to go around, or do we actually have more than enough? Which one is it?

It seems to me that people's opinion on this shifts radically as the market shifts. When the market goes into a downturn, they go into scarcity mode. Horde everything you can, and that gets pretty nasty, and then sometimes people never come out of that. Even when the market is up they still panic. As I've been thinking about it and praying about it, I believe, and people may very well disagree with me, but I believe that an abundance mentality makes a lot of sense. Yes, the market will go up and down, but these are basically corrections. They are going back to what they ought to be, where the value ought to be in the market.

To me, we have stuff in this world because we create stuff. I have shoes, not because I made shoes, but because someone made shoes, and I made money doing something completely different than making shoes, and because of that, because we all make stuff, we all get to share stuff. Because everybody's making stuff, there is actually an abundance. I have more than one pair of shoes. None of them are terribly stylish mind you, but that's my fault, I didn't listen to my wife.

The thing is, as long as people are creating, I think there's going to be an abundance. If we look at scripture, the first thing we see god doing is in fact creating. We don't see god running around smiting, that's not his first thing. He isn't running around acting in judgment, he's creating. He creates the whole world, he explodes the universe into being. He is a guy who likes to create. His first command to humanity was not leave stuff alone or don't do this or don't do that. His first command was make babies and then go and subdue the world, make it work. Go produce stuff.

It seems to me that the idea of production is built into this universe. If we have made something, it is not an accident. It's not like we accidentally found a few drops of water in the desert that will soon disappear. Production, and I think, in fact I'm going to go so far as to say abundance, is built into this universe by the creator. The market will go up and down, it will be overvalued, it will be undervalued at times, but I believe there is reason to hope that there will be enough to go around, because it's built into the universe by a loving god.

That's my feelings, and others will disagree with me and I would love to have coffee with them. There's more than enough coffee to go around, in my opinion.

Jason: One of the things I love about an abundant mentality, an abundance mindset, and one of the things I've learned is that gratitude plays a huge role in that. When I am intentional about just sitting down and writing out everything that I'm grateful for today, I appreciate it and I respect it and I realize it so much more, but at the same time, if I sit down and I write out all of the things I'm lacking and that's what my focus becomes, all the things I don't have, it's easy. There's the verse, one of my favorites in Matthew, "Seek and you will find." It's so true, whatever you focus on is whatever you're going to find.

In your case, you can see abundance, you see a god that's loving and wants to bless and increase, and other people maybe could look at the same thing and see lack and not enough. I think it's so interesting how you find what you're looking for there.

Erik: You do, and it changes everything. When everybody goes out and works and shares, there's more than enough to go around, but when people panic and they start to just hoard, then there isn't. The cooperating that gives abundance disappears, and this is where I think faith comes into the marketplace in a very real way, saying we have reason to go to work and to share, and it keeps everything going.

Jason: And to produce, and because that's kind of the DNA, the makeup, it's not like people all across the world are just going to stop producing, even if we have a president who wants to give everything away for free. I can't imagine a world where people wouldn't still want to get up and add value of some sort. Ayn Rand's world view, I don't know that that's going to be reality, where everybody just says, "Well, you're going to tax me to death so I'm going to lay down and not do anything." I don't know that that's going to happen.

Erik: To be fulfilled, people need to work. That was our first command. We're built to love, but our first command was to work so that we could love through work.

Jason: Well, Erik, thank you first of all for bringing those thoughts in and sharing with us. The next thing is, just a reminder to our listeners, this is episode 036, we're going to be talking today about maximizing Social Security. All of the attention right now has been on the president's State of the Union address. Speaking of abundance, the president appears to believe that there is so much abundance, we're just going to start giving it all away.

Erik: Abundance obviously needs to be done responsibly. It's built into the universe, but so is responsibility, so give me some opinions.

Jason: Reality, okay, here's a reality check. Gosh, it's so hard for me to not want to be cynical and skeptical and sarcastic, but I think we have to be prudent. When we have the leader of our country coming out saying hey, this is what our goal is going forward, as a financial professional we have to be thinking okay, if this is the plan, if this is the goal, how is this going to impact people's lives? We need to be considering the implications. First of all, the first one that caught my attention is he wants free childcare. One of the things that bothered me a little bit about this was the emphasis is having two parents at work producing and bringing in income, and that the value system isn't about having the parents actually raise their own kids. The value system is let's try to figure out how to provide free childcare so that more people can get into the workforce. I don't know that that's a value system that I really line up with.

The other thing is, our government doesn't really have a great track record of being able to do things very cost effectively, and we probably need to talk a little bit about the healthcare reform that we've seen and how that's impacted people, but I'm realizing Erik we're at that point where we need to take our next break. Right after this, we'll pick this up, we'll talk just briefly about the president's State of the Union, but then we really want to get into maximizing Social Security. Folks, we'll be right back after this break.

All righty folks, welcome back to another round of Sound Retirement Radio, I'm your host Jason Parker, I've got Erik Ramsey in the studio.

Erik: Hello, hello.

Jason: Erik, it's so good to be back here and talking about this, such an important subject. This is episode 036, we're talking about maximizing Social Security. We have our webinar coming up ...

Erik: On Tuesday the 27th at 4:30.

Jason: Tuesday the 27th at 4:30. People can register for the webinar right from our website, SoundRetirementPlanning.com. The great thing about a webinar is that it allows for the Q&A, the questions and answers, because there's a lot of intricacies, there's a lot of little nuances within Social Security and I'm excited to talk about that, but we got to just, we have to deal with reality here for a minute. The reality is okay, the president wants free childcare for working folks, number one. Number two, he wants free college, junior college, so he wants to give away college. He wants a minimum wage of $15 an hour. He wants everybody to have a certain number of paid sick days.

He wants there to be less disparity between low income earners and high income earners, so we're talking about the fact that we elected Robin Hood here as president. He wants to take from the wealthy and give to the poor, that's what we're talking about doing.

One of the implications of this, and one of the things that kind of bothered me a little bit, and this isn't just with the president, but this is with all of our elected officials, they are masters of spinning the truth. One of the things that I just want to make sure our listeners understand is there is a difference between our national debt and our deficit. Sometimes when we use that phrase, our terminology, a lot of the people out there don't follow this all the time, they don't understand the difference between debt and deficit.

The president made this statement, he said, "You know, our deficit is lower today than it has been in the last several years," which is a true statement, but our deficit points to how much more are we spending every year than we actually bring in in tax revenue. As a family, if we put this into perspective, let's say you're making $50,000 a year as a family and that's your income. A deficit means that you're spending $60,000 a year, so in that kind of a scenario what it means is on an annual basis, you have $50,000 of revenue coming in, but you spend $10,000 more than you actually bring in in income.

He says the deficit has shrunk, so here are the numbers. I just want everybody to understand the deficit right now: $478 billion. He says the deficit's lower today than it was in the past, okay, well in 2012 under the president's spending plan, the deficit was $1.2 trillion, so we were spending $1.2 trillion more than we were bringing in, now we're spending $478 billion more than we're bringing in. The other reality, and the thing that people get messed up with is the debt, the national debt. This is how much money we owe. If we look right now today, we owe $18 trillion because we're spending $500 billion more than we're bringing in.

This national debt keeps growing. The thing that he doesn't talk about, if we look back to say even 2012, our national debt was $15 trillion, so we've grown the national debt from $15 trillion to $18 trillion in three short years. If we go back to 2008, our national debt was only $9.8 trillion, so we've doubled the total amount of debt our country has taken on in just a few short years.

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Erik: That's like basically saying, yes, we're in a deep, deep hole, but it's fine, because we're digging slower.

Jason: Yeah, great point. I don't know. If we're going to be all of sudden paying for everybody's college, paying for everybody's childcare, paying everybody $15 an hour, money's got to come from somewhere, and right now we're not bringing in enough tax revenue to cover all of the spending we're currently doing. You've got the healthcare reform, and some people think it was wonderful. My own personal experience with the healthcare reform is my premiums, my health insurance premiums increased 70% in one year, and the coverage that I have is worse in terms of my deductibles and my max out of pocket. I have higher deductibles, more money out of pocket before my insurance kicks in than before, so my question is, if that was the solution, if Obamacare was the solution to healthcare and that increased my costs by 70%, what's going to happen when the government tries to take over childcare?

You think it's bad now what you're paying out of pocket, what if all of a sudden your childcare costs increased 70% because we put the government in charge of it.

Erik: The government is never the most efficient.

Jason: The government is not very efficient at all. My dad used to say, "Look, let's just cut the middle man out of it. If you want me to pay for your childcare, let me just cut you a check for it and we'll leave the government out of it. It'd be a heck of a lot more efficient." Erik, I get so frustrated sometimes when I watch this stuff, because nobody's telling the truth, and you know what else? I think our politicians, our elected leaders, no more scripted speeches, no more teleprompters.

If you don't have the capacity and the ability to stand before people, write your own darn speech without reading somebody else's words, and this goes both to the president of the United States and the Republican response, what was that? You can't even, there was no response to this speech, it was just here's my stumped speech, this is how I got elected for office. Nobody thinks anymore. I just want somebody that's going to be genuine and has an opinion in things. Is that asking too much?

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Erik: It's unlikely to happen in the next few minutes but ...

Jason: Well I get off on these tangents. Take the soapbox away from me, they should never have given me a microphone. We want to encourage people with their retirement planning and here I am.

Erik: There is a god and he built production into the universe, but hold onto that for a little bit.

Jason: There's no scarcity of dollars, we've been printing these things like crazy, so go out and get as many of them as you want America. This is your world, we live in the greatest country in the world, anything is possible. One of the things that I've always thought would be kind of cool is to have a gold plated toilet, wouldn't that be kind of neat? Just to ...

Erik: It sounds very cold to me, I'll just be honest.

Jason: No, you'd have like a heated seat, so you've got gold plated ...

Erik: If it's gold, it may as well be heated I suppose.

Jason: When I run for president, I'm going to promise everybody gold plated toilets. We're going to drive down the street and hand these things out off the back of trucks, so if you guys would like a gold plated toilet that's got a heated seat, join me in my run for presidency.

Erik: All right, you got my vote, why not?

Jason: Gold plated toilets for everybody. All right, let's talk about Social Security, shall we?

Erik: I was kind of getting into that last topic, but all right, if you want to move on, something more responsible. Jason, we know that there's a lot of rules governing how much we get out of Social Security as an individual and as a couple, depending on when we apply for benefits. We know how to set this up so that we can get the absolute most out of a lifetime. The complications are complex, but we have computers that can handle them fairly easily. What that means is we, for any couple that comes in, we can figure out how they can get the most out of Social Security. Does it make sense then that everybody should take that route of getting the absolute most out by waiting a few years?

Jason: That's such a great question, and I want to address it based on two sets of couples that I actually had the opportunity to work with and sit down with. The first couple came in and they were just getting ready to start Social Security or considering starting Social Security. They had just recently retired, and the question became, we have these strategies to show people how to maximize their benefits and get every penny back out of Social Security that they paid into it and then some. In some cases, that can mean an additional $50,000 to $100,000 of lifetime benefits, and in some cases, even more than that.

This particular couple comes in and we run the analysis to show them how to maximize their Social Security benefits. In their case, if they follow the advice that we could show them actuarially based on some conservative assumption, how to get the very most back out of Social Security, it meant an additional $50,000 of lifetime benefits for that particular married couple. Here's where everything kind of fell apart, see, and this is one of the biggest mistakes I think people make: they make a decision on social security in a bubble without taking into context the entire retirement plan.

When we actually looked at their retirement plan with the advanced Social Security claiming strategy, even though they would end up with more Social Security over their lifetime, they actually depleted their resources faster and they ended up running out of money sooner rather than later.

Erik: How can that happen? It makes more sense if they're getting more money from Social Security they should have more money.

Jason: The more money that they're going to get is later in life, and in their case, it meant that we were going to have to put more of a strain and stress on the assets to provide for income those first several years of retirement. What we did is we said okay, well that's one scenario, but what if instead of waiting to take Social Security we actually went through and said let's take the lower benefits earlier instead of getting more money from Social Security and not tax their retirement assets so hard. I shouldn't say tax them but stress them so much. What

ended up happening is they were able to survive for about four to five more years by not maximizing their Social Security, so that was one example.

That's not the typical scenario. I would say for most people it does make sense to maximize Social Security, but not for everybody. There were some other folks that came in, and they were higher net worth. They said they had a really great pension, several pensions actually from different sources. They were young, 62, and they said, "Jason, I know that based on this academic actuarial work that you're doing that we could get about $100,000 more of benefits over our last time if we follow your strategy," but they said, "The reality of that is in our case, we probably wouldn't get that additional income until much later in life," and so by not getting the money until later in life, while they would get an extra $100,000, they said, "I would rather take the money early at 62 while we have our health, we're vibrant, we can spend time with the grandkids."

In their situation, even though we could show them how to actuarially maximize their benefits by $100,000, they chose to start their benefits early because it was a quality versus quantity. They wanted to take the income while they had quality of life so they could really go out and enjoy it. It all gets back to that retirement plan that we build from in the first place. Those folks, because they were higher net worth and they had really great guaranteed income sources, they had a little bit more flexibility in terms of how they were going to structure their plan. Everybody's situation is different, it really depends on your own retirement plan, what does that look like, and when we come back from break, we're going to start getting into the nuts and bolts, the nitty gritty, of the different things people need to be considering as they're building their retirement plan and creating the strategy for maximizing Social Security.

Folks, we have to take a commercial break, we'll be right back after this.

Announcer: Are you 50 years or older and have at least $500,000 of investible assets? If so, this message may be beneficial for you. Are you confident that you'll be able to retire and not run out of money? Are you concerned about higher inflation, higher taxes and what market volatility will do to your portfolio? If you answered yes to any of these questions, then I encourage you to take advantage of this offer. Jason

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Parker, the author of Sound Retirement Planning and president of Parker Financial is offering a free report titled 10 Things to Know About Planning Your Retirement Income that may provide you answers to the above questions and much more. Call his office at 1-800-514-5046 to receive your report free of charge. Again, call now at 1-800-514-5046.

Erik: Welcome back, we're going to talk about maximizing Social Security, but we come up with a problem. We have the capacity to look at a couple, at a person, and say, "This is how you can get the most out of Social Security in your lifetime," which sounds fantastic. It sounds like a very simple answer, but life isn't always that simple. There are times when people actually want to get less out of Social Security or that serves their life better. I guess the point is claiming Social Security needs to be done in the context of a whole plan that takes our goals in mind, our assets in mind, taxes, everything needs to be looked at as a whole and then integrated together. Isn't that right?

Jason: Absolutely, so let's cover some of the foundational, some of the basics of this, Erik. The couple things I want to say, first of all, in my book A Sound Retirement Planning, we have a chapter on how to maximize Social Security benefits, so that's a great resource for people that are still learning and they're trying to figure this out. We have our webinar coming up on Tuesday, January 27th at 4:30 in afternoon. You can register for that webinar at SoundRetirementPlanning.com. On the right hand side of the screen you'll see a bright green box, just click that box to register for the webinar, and that's kind of great because have the Q&A that we have available. Let's talk about some of the foundation, fundamentals about maximizing Social Security.

First of all, Social Security, remember it's tax advantaged income. In a worst case scenario, the way that it stands right now, only 85 cents of every dollar is going to be taxed if you're in the highest income tax bracket based on provisional income roles. That means that if you get a dollar from Social Security, only 85 cents of that's going to be potentially taxable to you.

Erik: Now that doesn't mean that 85% of that dollar will be taken away, does it?

Jason: No, exactly, it just means that it's going to be included in your taxable income, so then we have to look at whatever your effective tax rate

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is, your marginal income tax rate, but it's tax efficient income, unlike pulling money out of an IRA or a 401k or a TSP or a 403b, that's all what I consider tax hostile money because every dollar's taxed. Looks like taxes are probably going to have to go in the future with all of the stuff that we want to spend.

Erik: But we get daycare.

Jason: We will have childcare, yes. It's tax efficient income, it's inflation adjusted income. Since 1973, Congress voted back then to make Social Security increase every year based on the Consumer Price Index. The good news is that it's not static income, it's actually going to increase with you over time. The third thing that really makes Social Security powerful is that it has a survivor benefit. What people miss out on when understanding this is that it's not just your own benefit your concerned with, this is especially important for married couples, because you're looking at your own benefit based on your own earnings record, and then also your spouse will benefit based on your spouse's earnings record. Then your survivor benefit based on who's going to live the longest, so there's some calculations that have to go into this.

I had Kirk Larson on, Erik, we've been talking about how to maximize Social Security for over five years now on this radio show. Before it was all over the headlines, we were leading the charge to teach people these strategies. It's changed a little bit over time, but those are some of the foundation fundamentals of just things that people need to be thinking about, but there's more to it.

Erik: Can you tell me, okay, so it's tax advantaged, it has that survivor benefit, it increases over time, so it protects the buying power, how does this integrate with the plan?

Jason: Yeah, so here's the next piece to this. If you were born between 1943 and 1954, that doesn't represent all the Baby Boomers, but it represents a lot of them, you are eligible to begin taking your benefits as early as age 62, but if you start benefits at 62, you end up with a permanent reduction of 25%. In other words, at full retirement age, if you were born in that time period, full retirement age is 66, so at 66 you're eligible for your full benefit. Let's say at 66, if you had waited until 66, you'd get $1,000 a month. If you start at 62, you take a permanent reduction of 25%, so you only end up with $750 at 62 instead of $1,000 at age 66. The other component there is, and most people know this, is you earned delayed retirement credits for every year that you wait to take benefits. In other words, and you can take these 8% delayed retirement credits up to age 70, so if you start, if your full benefit is $1,000 at 66, and you choose to delay taking those benefits up to age 70, it's possible that you would receive, you would receive if you are earning those 8% delayed retirement credits, 132% of what your full benefit would have been.

Instead of $1,000 at age 66, now it's $1,320, and it's actually more than that if you take into consideration the cost of living increases that are happening. That 132% is not looking at the cost of living increases that are happening every year, so we have to take that into consideration as well. That's kind of the next piece is when to start, the 62, 66 or 70, that's kind of a fundamental question.

Erik: Right, that's huge, and that plays deeply into the whole strategy, but things get more complicated than that. There's more nuances to the Social Security rules than that.

Jason: Yes, so here's the first strategy, and I just ran into this just recently. First of all, if for a married couple, in most instances it's going to make sense for probably one of them to delay taking their benefits to a future date to earn those delayed retirement credits, especially with people living to 80, 90. My friend Dean's mom just passed away, she was 102. I'm hearing those stories more and more all the time, so if you have a history of longevity in your family ...

Erik: This becomes important.

Jason: Yeah, and Social Security, the actuaries, they don't know individuals life expectancies, so you have a little bit of a leg up as an individual because you can look at your family, you know what your health is, and if you're going to live longer than average, I mean none of us really know when we're checking out of this place, but if the numbers look pretty good and you're healthy, we should be making projections for a long lifetime, it helps with this analysis.

A great free calculator on our website, SoundRetirementPlanning.com, under the resources page, I have a link to a life expectancy calculator. It's actually my favorite, it's called LivingTo100.com. It was developed by a physician, and people can actually go put some information about

their lifestyle and their health and their family heritage and actually get kind of an idea of what they might be looking at as life expectancy.

Erik: We do not enforce those life spans, so if you come up with a number, we're not going to come in and say, "Nope, you can't carry on, sorry." Just keep that in mind.

Jason: That's a good point. Here's the scenario I ran into recently with a gal. If you wait until 66 to begin taking benefits, I recommend everybody when you hit 66, if you don't start your benefits, go ahead and file for them, but suspend them, file and put them into suspense. The advantage of doing that is for a number of reasons. First of all, when you file for your benefits at age 60, now a lot of these switch strategies that are available, and this is really where Social Security can get a little bit complicated. I don't know that a radio show is really the best way to explain all of the nuances.

Erik: If only we had a webinar. We should have a webinar like next week.

Jason: Then we could create a visual for people and show them this.

Erik: On Tuesday, the 27th at 4:30, let's do something.

Jason: Sign up, would you? Email me your questions ahead of time, that way we can really make it interactive. This gal, she's at 66. We put together a retirement plan for them, we put together a Social Security claiming strategy. She was following the Social Security to the T. At 66, she followed for her benefits, but she put them into suspense. The time came now for her to actually activate her benefits and start receiving money. The Social Security Administration, they got her brain a little jumbled up, and they recommended to her because she had filed at 66, she is entitled to all of those back payments that she didn't receive. Instead of taking the higher benefit amount, which was what we were planning on doing, she ended up taking a lump sum of about $20,000 and then she turned on her income, but she turned on her income at the lower level because you have two options. You either get the higher payment for the rest of your life, or you get the back payments and the lower payment.

We don't want her to take a lower payment, she doesn't need the $20,000, so there's a little known secret within the Social Security

Administration that say 12 months, within the first 12 months of when you claim your benefits, you can actually go back and repay all of your benefits and do a do over. In an instance like this, the person that I'm talking about, that makes a lot of sense. That's the best thing for her to do, because we're looking at how much they're going to receive over their lifetime, they don't need a big lump sum.

One of the nice things about doing the file and suspend at 66 is you're earning those 8% delayed retirement credits, and you do have access to that lump sum of money, so in the event that you ever need it, let's say you wait until age 69 and then all of a sudden a great real estate opportunity comes about, you can go back and claim all of those back credits because you had filed for your benefits but put them into suspense. Even if you're not going to start your benefit at 66, the big takeaway is ...

Erik: This money's available if there's an opportunity or a super need, it's there.

Jason: As long as you know the rules and you use the file and suspend, that's a good piece that people need to know about as they're planning for retirement. The other magic thing that happens there at file and suspend is when you activate your benefit, now spousal benefits become available. This is a piece that so many people are missing out on because they don't understand how the system works. The reality is, when you claim benefits, you don't have to claim your own benefit, you can claim a spousal benefit based on your spouse's earnings record.

I want to go into this in more detail, but I know we're approaching that time where we're going to need to take a break. A couple things I want to make our listeners aware of before the break, on SoundRetirementPlanning.com, we have a calculator people can use to help them determine how much money is potentially at risk if they do this the wrong way, but it also gives them some claiming strategies and advice to show them some ways they may want to maximize their Social Security. If you go to SoundRetirementPlanning.com, on the right hand side there's a little box that they can check that says, "Try our free Social Security calculator."

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Erik: Right, and that gives a pretty good idea of is a more advanced strategy going to help me or not.

Jason: The danger there, of course, is it doesn't take into context the retirement plan, and I'm telling you, that's the number one mistake people make when they're figuring this out. The other thing is, just to emphasize, we do have our webinar coming up, and we want people to register for this. If you're getting ready for Social Security, this is something you need to know about. Erik, with that, maybe you could, well, as soon as we get back from break, let's just remind people when that webinar's going to be taking place.

All righty folks, Seattle, Tacoma, Olympia, Gig Harbor, all the good folks here in Kitsap County, and those of you tuning in from around the world, thank you so much for making Sound Retirement Planning Radio your place for expert retirement advice. I'm Jason Parker, and I have Erik Ramsey.

Erik: Hello, hello. I want to remind everybody, Social Security is a tricky thing, and it is such an important part of a strong retirement plan. We have a free webinar coming up on January 27th at 4:30 Pacific Time, I suppose we should point that out. Go to soundretirementplanning.com, and then you can get the link, you can get an invite. Just so you know, you might need to install some things on your computer. We had a lady come in here, and she actually had an Amazon Kindle, and she downloaded the app and watched it and worked on it on an Amazon Kindle, which to me is the not the easiest platform, but she managed it and she was not the youngest lady ever. She worked it, I was very, very impressed.

Jason: That's a good point. The software that we use these to do this webinar service who are called GoToWebinar. If you're just on a computer, most computers it just pops right up, but if you're on a tablet, we did hear from one gentleman who was trying to login from his iPad. He wished he would have known that he needed to download the GoToWebinar app ahead of time, which is I think a free app, but you still need to have it. Some little things you need to be getting thinking about.

Erik: Do it a few minute beforehand, it's a very easy install but, yeah.

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Jason: Bottom line is we've got a great webinar coming up. We're talking today about how to maximize your Social Security benefits. I think one of the realities we all need to be thinking about is when you get your Social Security statement, when I get my Social Security statement, right on the front page of that statement there is a blurb that's put out by the Social Security trustees, and they look at the sustainability of Social Security. Right now, the most recent statement that I received says that in the year 2032, Social Security only going to be able to pay about 77 cents on the dollar. One of the things we need to be thinking about Erik, is if the people that are managing the fund are telling us that the funds going broke, we've got two options.

Either Congress needs to step up to the plate and figure out how we're going to continue to fund this for future generations or we just need to be conservatively saying okay, my income may drop in the year 2032, what's my backup plan? That gets back into the having a retirement plan as your foundation, not just a Social Security claiming strategy. When we left off, we were talking about some of these nuances within Social Security. One of them is the file and suspend. Again, you can't do this until full retirement age so that's a really important component. You have to be at your full retirement age before you can activate these switch strategies, but it's the switch strategies for married couples that really help you get the most out of it.

If you're a single person, it really comes down to life expectancy and doing more of a breakeven analysis which we can help people with that as well, that's a good thing to consider. If you're widowed, there are unique circumstances where if you're widowed, you can actually begin taking Social Security as early as age 60, however, there are still earnings limitations and as a widow, you have the ability to file on your spouse's benefit and delay taking your own benefit if you're full retirement age. There's some nuances there.

If you've been divorced, it's possible you could file for spousal benefits on your ex-spouse's earnings records, so even though you're not married anymore, maybe it makes most sense to restrict taking your own benefit, let it earn those 8% delayed retirement credits, start taking a benefit based on your ex-spouse's earnings record. There's just so many little nuances, but one of the other big ones, Erik, is on the restricted application. Here's a quick example of what this could look like. Let's say we've got a married couple ...

Erik: Jim and Vi Ramsay. Let's just call ...

Jason: Jim and Vi, okay.

Erik: Let's say Jim's about to retire.

Jason: Jim's about to retire, okay. Jim is 66, and we'll say Vi is also 66.

Erik: She might get upset with you, but for the sake of the example.

Jason: They're both 66 years old, they come in and they say, "Jason, what should we do?" We always start with the retirement plan, but when it comes to Social Security, what I find out is Jim says, "Jason, I love my work and I'm not ready to retire, I'm not ready to start my Social Security yet. I want to keep working all the way until age 70." Vi on the other hand, she says, "Jason, I've been working hard and I am ready to retire and I'm just ready to do that." What we find is that first of all, the first thing we're going to have due is Jim file for his benefits and put them into suspense. Because he's going to continue working, he doesn't really need the income from Social Security, so by delaying his benefits, he's going to earn 8% delayed retirement credits on that.

That's pretty nice. 8% in today's economic environment, I don't know how sustainable that is in the long run, but that's the way the system works now so we might as well take advantage of it and letting that income grow. For him, we're going to have him file his benefits, suspend taking them all the way to age 70. Hypothetically speaking, let's say at age 66 his benefit would be $2,000 per month, but he chooses not to take it, so he's going to let those benefits until age 70 at 8% per year. For his wife Vi, she's 66, and because her husband filed for benefits but put them into suspense, she has more options available, because she's also full retirement age.

What she can do is she can say, "I want to only take my spousal benefit," so her spousal benefit is 50% of what her husband's full retirement would have been, so in this case his benefit was $2,000, so she would get $1,000 per month, and she can file what's called a restriction application, restrict taking her own benefit, file for only her spousal benefit. She gets $1,000 a month from age 66 until 70, and

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then at 70, her own benefit has been earning 8% delayed retirement credits, so at age 70, she can then switch from her spousal benefit to her own benefit, which is 132% higher with cost of living increases. Like I say, we've run these analysis. In most instances, $50,000 of additional lifetime income if you maximize benefits. We've seen it as high as $200,000, $300,000 of additional lifetime benefits depending on life expectancy.

Erik: Jim and Vi, very tough people. Those Ramsey's, we're expecting long lifetimes out of them. It comes down to the plan, Jason. These things cannot be done without the plan. Can you tell me anymore about what the plan does? It focuses retirement like your Social Security and makes it the most efficient that it can be. What else does it do?

Jason: I think that's a great question, what should a plan look like? When you're building a retirement plan, of course retirement's all about cash flow. It's your income that determines your lifestyle, so we want to account for what is your pension going to look like if you have a pension, what's your Social Security going to look like if you have Social Security, if you have rental properties, what is that rental income going to produce for you? The first thing we want to do is understand your income sources. The second thing we want to do is understand your budget, so how much money are you spending every month.

There's a really great tool out there that's free that I used for helping me understand how much money's going out, and it's called Mint.com. I think it's owned by Intuit. If you commit to only using your debit card for say 90 days before you retire, you and your wife, you and your spouse, you only use that, you really can start to get a feel, because Mint gathers all this data where all of your money's going and they break it down. It's really fascinating. That's not my favorite, when you're actually budgeting it's not my favorite tool for keeping track of where your money goes after the fact. I'm actually more of a fan of just the old fashioned envelope system for spending money, but figuring out where it's going, using technology for that is much more efficient, because sometimes when you're trying to keep paper receipts things get lost and things slip through the cracks.

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I think Benjamin Franklin said, "A small hole will sink a great ship," and sometimes it's those small little expenses, the Starbucks coffee that's happening every morning that you're forgetting to write down.

Erik: The monthly charges on the service you forgot you're getting. It's so much easier to track when it's on a debit card.

Jason: Yep. Number two is understand your budget. Number three is understand your cash flow items. There's going to be a couple of things that most people seem to tell me. "Jason, as soon as I retire for the next 10 years, I'm going to spend an extra $5,000 to $10,000 on travel. We're going to need a new roof in five years, we're going to need a new car in 10 years." We need to be planning for those expected what-ifs going forward. We take all this data, we put it all together, and then we look at your life on a year by year cash flow basis. We say okay, here is Jim and Vi at 66, these are the income sources coming in, this is the expenses going out, we're making some conservative assumptions about inflation, we're making some conservative assumptions about rates of return on your money. Folks, notice I said conservative assumptions.

Erik: The alternative is really aggressive, excited, "We're going to make 30,000,000% on your investments in retirement." What is that going to do to a plan?

Jason: I like to say let's hope for the best, but plan for the worst. Hope for the best, hope for the best, but plan for the worst. If we use a really low expected rate of return on your money, I feel more comfortable making conservative assumptions about how that's going to work in the future than to make very liberal, exaggerated, false assumptions about future rates of return. It's one of the things that I see people make that mistake a lot. They aim too high.

Erik: Because if the plan doesn't actually work, then the plan isn't worth very much, and retirement without a plan, that's dangerous stuff.

Jason: I met some folks, they came in, this is so important, it's so serious. These folks came in, when they retired, they had, and I didn't know them when they first retired. They had about $500,000 that they had saved for retirement. 12 years later, they were back in my office and guess what? The $500,000 was gone. They didn't have a plan, they spent too aggressively, and now they're trying to pick up the pieces

and they're selling property, they're downsizing. I can just tell you that if you want to have a greater sense of clarity, more confidence in terms of what your financial life looks like, you really need a plan.

Erik: A plan can give you so much. It can give you that confidence, clarity and freedom that you want. It's fairly easy to put together.

Jason: That's what we want for our listeners, clarity, confidence and freedom. That's awesome. With that, just one more reminder: SoundRetirementPlanner.com. Sign up for our upcoming webinar, I encourage you to be there. Last time it was a big hit and we'll be sure, for those of you on our email list, we'll get that out to you. Also you might want to try the calculator. Folks, until next week this is Jason Parker and ...

Erik: Erik Ramsey.

Jason: Signing out.

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