



# Social Security Illustration

## Hypothetical Analysis for John and Jane

Prepared by: Joe Advisor  
Financial Advisory Partners, LLC  
1060 W Addison St  
Chicago, IL 60613

(773) 404-2827  
[joe.advisor@finadvpartners.com](mailto:joe.advisor@finadvpartners.com)  
<http://www.finadvpartners.com>

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## Introduction

### Navigating Social Security

Many people think of Social Security as just something the government owes them, and that they should begin receiving benefits as soon as possible. However, this approach could have a negative impact on your plans for retirement. There are many options regarding *when* as well as *how* to file for benefits, and what you choose can mean a significant difference in the Social Security income you receive over your lifetime.

The Social Security Optimizer is a simple tool that can help you and your financial advisor tailor a strategy designed to fit your overall retirement income plan. It starts by giving the filing strategy that estimates the greatest total lifetime benefit based on certain assumptions. It then allows your advisor to change the strategy to more closely match your specific retirement goals and concerns.

### Summary of Approach

This report highlights potential filing strategies for John and Jane, based on the inputs entered by your financial advisor, which are listed in the next section, and described below:

- The date of birth is used to determine the earliest possible benefit date, a client's Full Retirement Age (FRA – the age at which they get their benefit with no deduction for claiming early).
- The initial claim age is the target age at which a client might expect to start receiving benefits. This is used as the starting point for the "Custom" filing strategy, and does not impact the Maximized Strategy which looks across all filing age combinations to arrive at its selected strategy.
- Longevity ages are estimates for each client and determine the timeframe over which Social Security filing strategies are evaluated.
- Full Retirement Age (FRA) benefit is the monthly benefit as estimated by the Social Security Administration which a client could expect upon reaching their Full Retirement Age (67 for John and 67 for Jane).
- The monthly amount of any government pension received from employment with a government agency is used to determine whether a client's Social Security benefits would be reduced.
- The results can be shown adjusted for inflation. When an inflation rate of 0.00% is used, all results are displayed in today's dollars.

The "Maximized" strategy shows the strategy which may lead to the greatest total benefit using certain assumptions. The "Custom" strategy claims benefits at a client's specified target retirement age. By default, the Custom strategy is set up as one of the most common filing strategies in use today: file for benefits immediately upon retirement, when a worker's income is assumed to stop.

In the case of John and Jane, the Maximized filing strategy may provide an additional \$259,764 in lifetime benefits compared to the Custom strategy. Details of the filing strategies and benefit amounts are shown later in this report. (The key assumptions used by the tool in producing these estimated benefits are described at the end of this report and should be reviewed.) Keep in mind that decisions regarding Social Security are highly personal and depend on a number of factors such as your health and family longevity, whether you plan to work in retirement, whether you have other income sources as well as your anticipated future financial needs and obligations, and potential tax consequences.



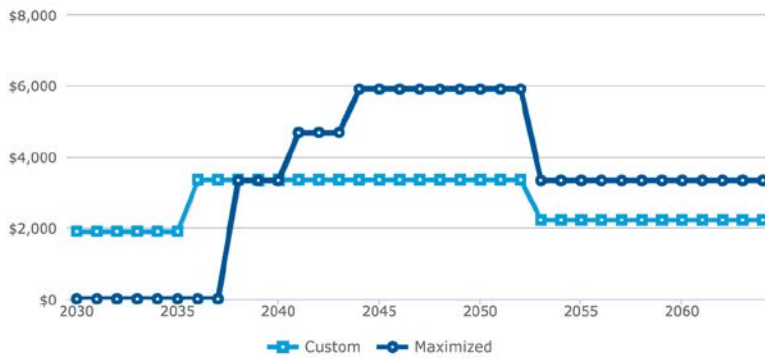
## Summary of Results

This illustration was prepared for you by your financial advisor using the inputs shown below, and an assumed inflation rate of 0.00%.

John		Jane	
Date of Birth	4/15/1968	Date of Birth	8/20/1974
Initial Claim	62	Initial Claim	62
Longevity	85	Longevity	90
FRA Benefit	\$2,685.00	FRA Benefit	\$2,065.00
Govt. Pension	\$0.00	Govt. Pension	\$0.00
Marital Status	Married		

## Monthly Benefit

What would the monthly benefits look like? Consider how your chosen strategy could impact your overall retirement income plan.

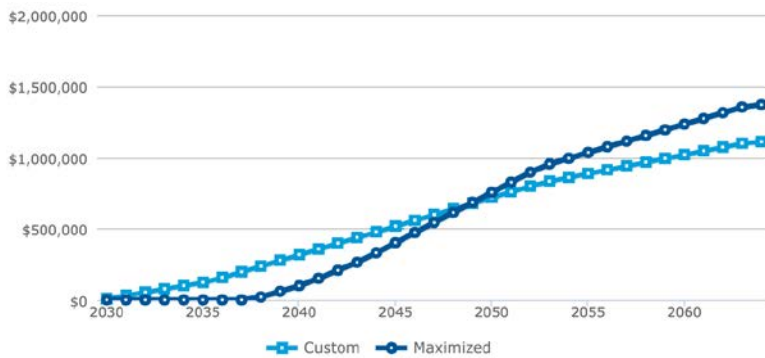


The Maximized Strategy results in an average increase in monthly benefits up to

**\$2,545**

## Cumulative Benefit

What would the cumulative benefits look like over time?



The Maximized Strategy results in an increase in lifetime benefits of

**\$259,764**



## Maximized Strategy

### Filing Assumptions

The filing assumptions for the Maximized filing strategy are:

- John files for own benefits at age 70 in July 2038.
- Jane files a restricted application for spousal benefits at age 67 in April 2041.
- Jane files for own benefits at age 70 in April 2044.
- Jane switches to survivor benefits at age 79 in August 2053.

### Breakdown of Benefits

The monthly benefits, annual totals and cumulative benefits for the Maximized filing strategy are shown in the table below.

Year	John	Jane	John's Monthly Benefit	Jane's Monthly Benefit	Annual Benefit	Cumulative Benefit
2038	70	64	\$3,329		\$19,976	\$19,976
2039	71	65	\$3,329		\$39,953	\$59,929
2040	72	66	\$3,329		\$39,953	\$99,882
2041	73	67	\$3,329	\$1,343	\$52,036	\$151,918
2042	74	68	\$3,329	\$1,343	\$56,063	\$207,981
2043	75	69	\$3,329	\$1,343	\$56,063	\$264,043
2044	76	70	\$3,329	\$2,561	\$67,026	\$331,068
2045	77	71	\$3,329	\$2,561	\$70,680	\$401,749
2046	78	72	\$3,329	\$2,561	\$70,680	\$472,429
2047	79	73	\$3,329	\$2,561	\$70,680	\$543,109
2048	80	74	\$3,329	\$2,561	\$70,680	\$613,788
2049	81	75	\$3,329	\$2,561	\$70,680	\$684,468
2050	82	76	\$3,329	\$2,561	\$70,680	\$755,149
2051	83	77	\$3,329	\$2,561	\$70,680	\$825,829
2052	84	78	\$3,329	\$2,561	\$70,680	\$896,509
2053	85	79		\$3,329	\$57,877	\$954,385
2054		80		\$3,329	\$39,953	\$994,338
2055		81		\$3,329	\$39,953	\$1,034,291
2056		82		\$3,329	\$39,953	\$1,074,244
2057		83		\$3,329	\$39,953	\$1,114,196
2058		84		\$3,329	\$39,953	\$1,154,149
2059		85		\$3,329	\$39,953	\$1,194,102
2060		86		\$3,329	\$39,953	\$1,234,055
2061		87		\$3,329	\$39,953	\$1,274,008
2062		88		\$3,329	\$39,953	\$1,313,960
2063		89		\$3,329	\$39,953	\$1,353,913
2064		90		\$3,329	\$16,647	\$1,370,560



## Custom Strategy

### Filing Assumptions

The filing assumptions for the Custom filing strategy are:

- John files for benefits at age 62 in August 2030.
- Jane files for benefits at age 62 in May 2036.
- Jane switches to survivor benefits at age 79 in August 2053.

### Breakdown of Benefits

The monthly benefits, annual totals and cumulative benefits for the Custom filing strategy are shown in the table below.

Year	John	Jane	John's Monthly Benefit	Jane's Monthly Benefit	Annual Benefit	Cumulative Benefit
2030	62	56	\$1,891		\$9,453	\$9,453
2031	63	57	\$1,891		\$22,688	\$32,142
2032	64	58	\$1,891		\$22,688	\$54,830
2033	65	59	\$1,891		\$22,688	\$77,518
2034	66	60	\$1,891		\$22,688	\$100,206
2035	67	61	\$1,891		\$22,688	\$122,895
2036	68	62	\$1,891	\$1,454	\$34,321	\$157,216
2037	69	63	\$1,891	\$1,454	\$40,138	\$197,353
2038	70	64	\$1,891	\$1,454	\$40,138	\$237,490
2039	71	65	\$1,891	\$1,454	\$40,138	\$277,629
2040	72	66	\$1,891	\$1,454	\$40,138	\$317,766
2041	73	67	\$1,891	\$1,454	\$40,138	\$357,903
2042	74	68	\$1,891	\$1,454	\$40,138	\$398,040
2043	75	69	\$1,891	\$1,454	\$40,138	\$438,179
2044	76	70	\$1,891	\$1,454	\$40,138	\$478,316
2045	77	71	\$1,891	\$1,454	\$40,138	\$518,453
2046	78	72	\$1,891	\$1,454	\$40,138	\$558,590
2047	79	73	\$1,891	\$1,454	\$40,138	\$598,729
2048	80	74	\$1,891	\$1,454	\$40,138	\$638,866
2049	81	75	\$1,891	\$1,454	\$40,138	\$679,003
2050	82	76	\$1,891	\$1,454	\$40,138	\$719,140
2051	83	77	\$1,891	\$1,454	\$40,138	\$759,279
2052	84	78	\$1,891	\$1,454	\$40,138	\$799,416
2053	85	79		\$2,215	\$34,489	\$833,904
2054		80		\$2,215	\$26,582	\$860,486
2055		81		\$2,215	\$26,582	\$887,068
2056		82		\$2,215	\$26,582	\$913,649
2057		83		\$2,215	\$26,582	\$940,231
2058		84		\$2,215	\$26,582	\$966,812
2059		85		\$2,215	\$26,582	\$993,394
2060		86		\$2,215	\$26,582	\$1,019,975
2061		87		\$2,215	\$26,582	\$1,046,557
2062		88		\$2,215	\$26,582	\$1,073,138
2063		89		\$2,215	\$26,582	\$1,099,720
2064		90		\$2,215	\$11,076	\$1,110,796



## Next Steps

Use this checklist to help you take the next steps.

- Work with your advisor to select the right strategy for collecting your Social Security benefits, and integrate your chosen strategy into your retirement income plan. If you decide to delay claiming Social Security benefits after your Full Retirement Age, your advisor can help to determine ways to supplement your income before you begin receiving benefits.
- If your filing date is still a long way off, keep this illustration (and any updates) in your files and review it with your advisor regularly to make sure this strategy and key assumptions are still right for you. Keep in mind that decisions regarding Social Security are highly personal and depend on a number of factors.
- If you have any life changes (such as job, income, or marital status) these may impact the results of this illustration. Talk to your advisor to have the report re-run, and discuss the various strategies open to you.

## FAQ

- ? Why do these results differ from the Social Security website?
  - o This tool is intended to provide meaningful estimates, based on inputs from you and your financial advisor. However it does not replace the information specific to you provided by the Social Security Administration.
- ? What happens if my situation changes? For example my spouse dies.
  - o Meet with your advisor, discuss the changes in your situation and have the report run again.
- ? Once I determine my strategy or once I file, can I change it?
  - o It depends upon your age and potentially how long you've been receiving benefits. Talk to your advisor or refer to information available at the Social Security Administration's website – [www.ssa.gov](http://www.ssa.gov).
- ? How do I find out by how much my benefit will go up each year? How do I find out if my benefit is going to increase each year?
  - o Typically, by the end of every October, the Social Security Administration will publish what, if any, percentage increase will be given to Social Security beneficiaries, based on changes in the Cost of Living Index. Changes usually take effect the following January.



## Glossary

Term	Definition
Employment record, work record, account	When filing for Social Security benefits, a person may have a choice of filing on their own account with the Social Security Administration (SSA) - i.e. filing based on their own work history as linked to their Social Security Number - or filing on someone else's account (e.g. a husband might file for spousal benefits based on his wife's account).
Full Retirement Age (FRA)	The age at which a worker, spouse or survivor receives their full retirement benefit amount. Claiming benefits before FRA results in a reduced benefit, and claiming certain benefits after FRA can lead to an increased benefit. A worker's FRA varies based on their year of birth, and can be as high as 67 for younger clients.
Worker benefits, retirement benefits, Retirement Insurance Benefits (RIB)	The benefits received by a person filing for benefits on their own SSA account. A summary of the rules around worker benefits, spousal benefits and many other aspects of Social Security can be found at <a href="http://www.ssa.gov/pubs/EN-05-10035.pdf">http://www.ssa.gov/pubs/EN-05-10035.pdf</a> .
Spousal benefits	The benefits received by the spouse (and/or in some cases the ex-spouse) of a worker, when filing for spousal benefits on the worker's account.
Survivor benefits	The benefits a widow or widower (also, in some cases, children and even dependent parents) is eligible to receive based on their deceased family member's work record. LifeYield's Social Security Optimizer currently only considers benefits for a surviving spouse, and not other family members.
Full Retirement Age (FRA) Benefit	An amount determined by the SSA which represents a worker's anticipated monthly benefit if they claim at their FRA. This monthly benefit amount is used as the basis for all benefit calculations based on the worker's record: the worker's own benefit, plus any dependent benefits such as those for a spouse or widow(er). Also known as Primary Insurance Amount (PIA).
Initial eligibility	The earliest age at which a person is able to receive a benefit: typically age 62 for worker or spousal benefits, and age 60 for survivor benefits.
Delayed Retirement Credits	A worker claiming their own benefits after FRA receives increased benefits for each month they delay up to age 70. These increases are referred to as Delayed Retirement Credits, and while they don't affect spousal benefits based on the worker's account, they do improve survivor benefits.
Suspended payments, "file and suspend"	After reaching FRA, a worker is able to file for Social Security benefits but then suspend payments (i.e. ask to receive no payments). While their benefits are suspended, they earn Delayed Retirement Credits in just the same way as they would had they not filed. This often happens in conjunction with the worker's spouse filing for spousal benefits (often referred to as "file and suspend"); in order for a spouse to claim spousal benefits against the worker's account, the account must have been established (by the worker filing for benefits). This strategy can be advantageous since it allows spousal benefits to be claimed earlier than they would be if the spouse waited for the worker to start receiving benefits, and with no adverse effect on the worker's own benefits.
Restricted application	The type of application a spouse files in order to claim spousal benefits when they're eligible for either their own benefit or a spousal benefit at FRA or later. Their application for benefits is "restricted" to only the spousal benefit from their spouse's record.
Windfall Elimination Provision (WEP)	For a worker who receives a pension from government employment, reached initial eligibility in 1985 or later, and worked fewer than 30 years in a job where Social Security taxes were paid, a reduction in their FRA benefit of up to half their monthly government pension amount may apply. This adjustment also impacts dependent benefits such as spousal benefits, but does not impact survivor benefits. More details on the WEP and the rules surrounding it (including some exemptions) are available at <a href="http://www.ssa.gov/pubs/EN-05-10045.pdf">http://www.ssa.gov/pubs/EN-05-10045.pdf</a> .
Government Pension Offset (GPO)	For a spouse or widow(er) receiving spousal or survivor benefits on another worker's record, and who receives a pension from government employment, their benefit is typically reduced by 2/3 of the monthly pension amount, and may even be eliminated completely. More details on the rules regarding the GPO can be found at <a href="http://www.ssa.gov/pubs/EN-05-10007.pdf">http://www.ssa.gov/pubs/EN-05-10007.pdf</a> .
Widow(er)'s Limit	A limit to the maximum amount of survivor benefits a surviving spouse is able to receive. This limit only takes effect when the deceased worker filed for benefits before reaching their FRA.
Cost of Living Allowance (COLA)	Social Security benefits are subject to an annual increase linked to inflation. In recent years COLA increases have taken effect in December.



## Assumptions

Every person's situation is unique, so in an effort to keep the tool simple, yet useful, we've made some assumptions in the benefit estimates we provide. While not all inclusive, some of the key assumptions are:

If using annual income to estimate a worker's Full Retirement Age (FRA) benefit, it is assumed that the current year's FRA benefit formula are appropriate to use, and also that the monthly income is a suitable substitute for the indexed monthly income used by the Social Security Administration (SSA). This allows for a quick estimate with minimal information required, but will not be as precise as a obtaining a FRA benefit estimate from the SSA. Where possible, using a FRA benefit amount provided by the SSA is recommended as it will yield the most accurate results.

Any pension amount from employment outside the Social Security system is assumed to be from a government pension, so that it applies both to FRA benefit adjustments made due to the Windfall Elimination Provision (WEP) and also dependent benefit adjustments made due to the Government Pension Offset (GPO) provision. In the case of the WEP it is assumed that 20 or fewer years were worked within the Social Security system, so that the maximum deduction (a 40% factor instead of the usual 90%) up to the first bend point of the WEP-adjusted FRA benefit formula is used. It is also assumed that the WEP applies whenever a pension amount is provided; the user should check with the SSA if they feel the client may be exempt from the WEP due an exception such as only having worked outside of Social Security prior to 1957, or having a pension from railroad employment only. A full list of exceptions to the WEP is available from the SSA.

All analysis of cumulative benefits of a filing strategy is performed on a pre-tax basis in present day dollars, even when an inflation rate is provided. The assumed discount rate is equal to the specified inflation rate, which could be 0% or some amount between 0% and 10%.

The age of initial eligibility for benefits is assumed to be 62 for worker or spousal benefits, and age 60 for survivor benefits.

If a marital status of Divorced is specified, it is assumed that the marriage lasted at least 10 years and that the couple has been divorced for at least 2 years by the time a spousal benefit claim is filed. For the purposes of survivor benefits, the ex-spouse is assumed to have filed for their own benefits at their full retirement age (FRA).

The Cost of Living Adjustment (COLA) amounts published by the Social Security Administration each year are used only when deriving a WEP-adjusted FRA benefit from the FRA benefit entered by the user for a client who has already passed their age of initial eligibility for benefits (typically age 62). No projections of future COLA increases are made by the tool.

A client's date of death is assumed to fall at the end of the month of their birthday.

Survivor benefits are assumed to take effect in the month after the deceased client's death.

A date of death is provided for a deceased spouse when marital status is set to Widowed. The deceased spouse is assumed to have not filed for benefits at their date of death, meaning survivor benefits are calculated based on filing at the deceased's FRA if death occurred prior to their reaching that age, and that benefits are calculated based on entitlement at their date of death otherwise (i.e. any delayed retirement credits will be included in the benefit estimates).

It is assumed that any earnings after a client's date of entitlement to benefits but prior to their FRA do not exceed the applicable annual earnings limit, and therefore are not sufficiently high to impact benefits.

All filing scenarios are based on clients who have earned 40 work credits and have not filed for benefits prior to the current date.

Benefits estimates do not take into account any federal, state, local or foreign income or other taxes that may be due. Taxes depend on your individual financial circumstances and will vary each year. Special rules apply to nonresidents.

Not all Social Security benefits (such as certain family-related benefits) are considered by the tool.



## Disclaimers

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Franklin Templeton Distributors, Inc.  
One Franklin Parkway  
San Mateo, CA 94403-1906  
[franklintempleton.com](http://franklintempleton.com)