STONEGATE
WEALTH MANAGEMENT

STONEGATE WEALTH MANAGEMENT

Registered Investment Advisor
393 Ramapo Valley Road
Oakland, N.J. 07436
(201) 791-0085
www.stonegatewealth.com

Fee FO Only™

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Stonegate Wealth Management

- $125 Million in assets under management.
- Ranked as one of Bloomberg's Top Wealth Managers.
- Named as one of the top advisors in USA by Worth magazine (2008).
- Fee-Only Wealth Management Firm.
- Registered Investment Advisors with the Securities and Exchange Commission.
- Members: **National Association of Personal Financial Advisors (NAPFA),** CFA Institute, Financial Planners Assoc. (FPA), and the New York Society of Securities Analysts (NYSSA).
- Web Site www.stonegatewealth.com.

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National Association of Personal Financial Advisors (NAPFA)

- Requires all members to offer comprehensive planning.
- Must sign oath that no commissions will be received.
- Must have a financial plan reviewed by peers.
- Must take 60 credit hours of continuing education every two years.
- May use the title: “NAPFA Registered Advisor”
- Eastern/Mid-Atlantic Region Chair of NAPFA and Past Region President.
- Web Site: www.napfa.org

Stonegate Wealth Management, LLC

We provide complete Wealth Management Services:

- Financial Planning
- Investment Management
- Defined Contribution Plan Advisory

Stonegate-Value Added Benefits

- Retirement planning
- Risk Planning
- Professional investment management
- Tax planning and advice
- Lowered cost for many investment vehicles including bonds and access to institutional pricing on many mutual funds.
- Multiple strategies to improve the stability of managed portfolios.
- Active rebalancing of portfolio to improve return.
- Active cash management to help those who use their portfolio to support their lifestyle.
- Estate planning with coordination of legal advice.

Today's Discussion

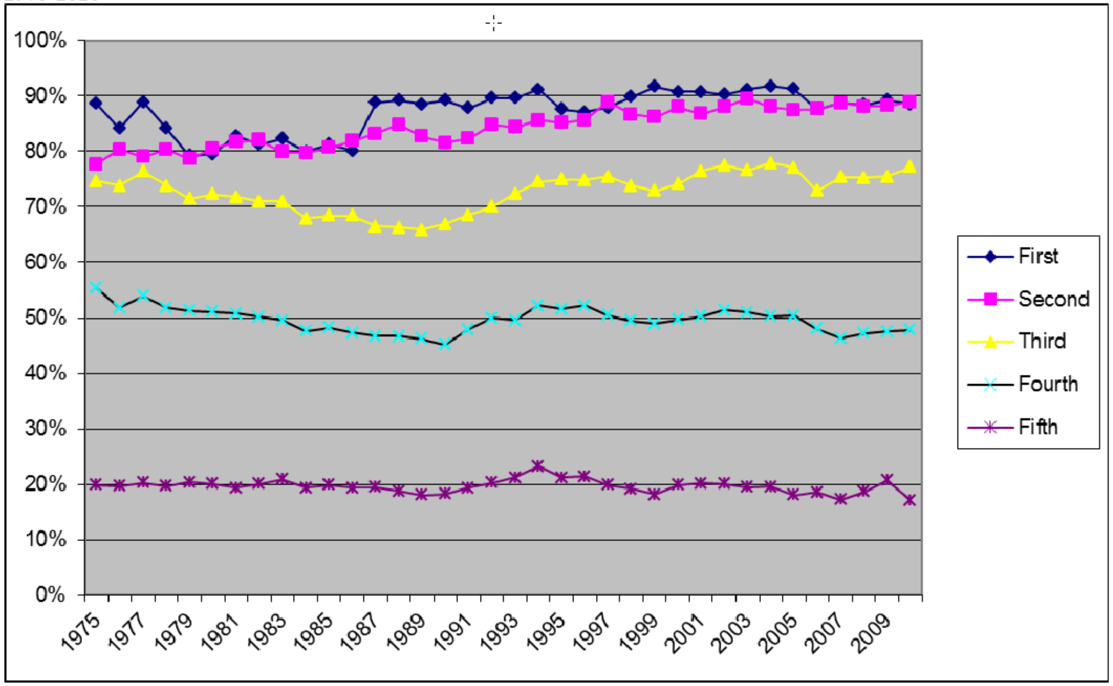
Social Security Strategies:

- SS Rules
- Maximizing Benefits
- Coordinating Benefits with their Circumstance
- Not letting clients leave money on the table
- Case Studies/Examples

Social Security vs. Retiree Income

Income from Social Security

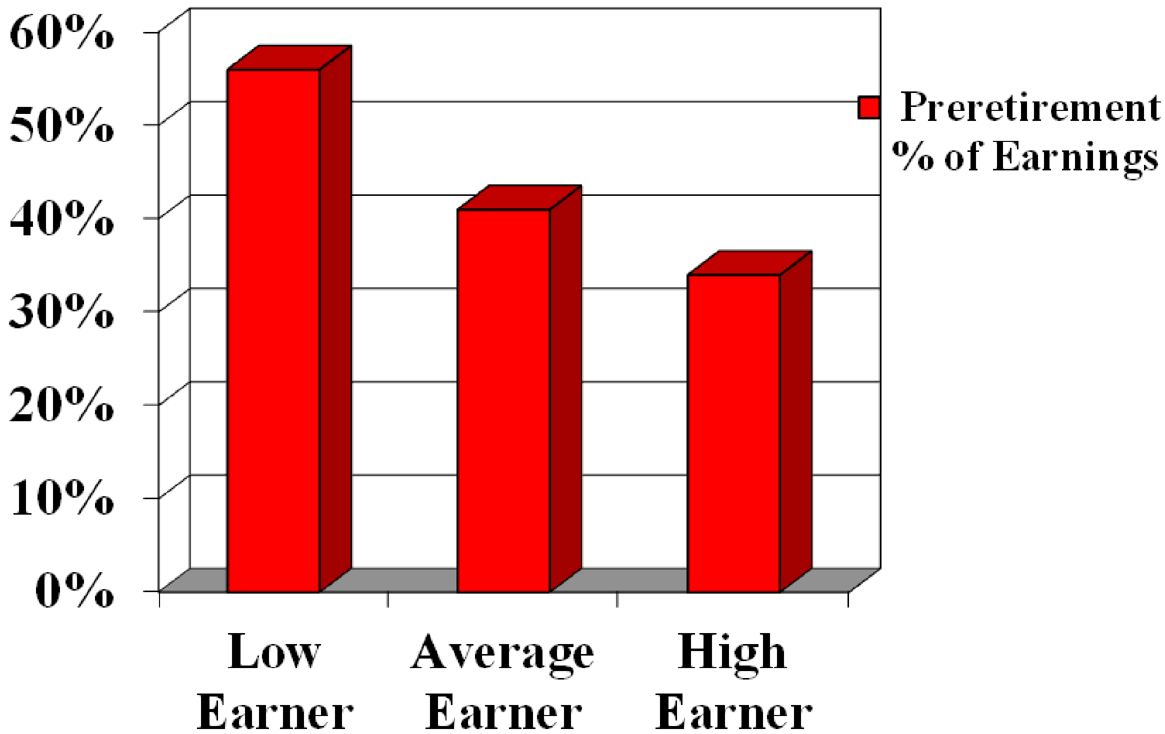
Income from Social Security as a Percentage of Total Income Among Individuals Age 65 and Over, by Income Quintile, 1975-2010



Source: EBRI estimates of data from the Current Population Survey, March 1976-2011 Supplements.

UPDATED NOVEMBER 2010

What to expect:



Thinking About Social Security

- "Bond" Like in Nature[1]
- Inflation Protected
- Has survivor benefits (50% or greater)
- Provides "longevity" insurance
- Equivalent to an IIA
- May be considered as part of a clients "asset allocation."

[1] Annual payments of $50,000 in spousal benefits is the equivalent to a $2M bond with a 2.5% coupon.

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Greatest Risks for Retirees

- "Sequence" risk for portfolio
- Unsustainable withdrawal rate (from Portfolio).
- Health care costs[1]
- Longevity risk (especially for surviving spouse).
- Inflation risk.

[1]Using life expectancy of 82 for men and 85 for women, an average couple will need $295,000 at age 65 for premiums and out-of-pocket expenses. Were a couple instead to live to age 95, they would need $550,000 to cover premiums and out-of-pocket expenses.

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Social Security “Mistakes” We See

- Taking Social Security too early
- Too concerned with financial “break-even”
- Not considering taxes
- Not being aware of advanced strategies
- Not tapping spousal benefits properly
- Widows and Divorcees that have not remarried unaware of spousal rules
- Not considering in conjunction with remainder of plans
- Not considering life expectancy in planning nor health status.

Full Retirement Age

Year of Birth	Full Retirement Age
1937 or earlier	65
1938	65 & 2 months
1939	65 & 4 months
1940	65 & 6 months
1941	65 & 8 months
1942	65 & 10 months
1943 – 1954	66
1955	66 & 2 months
1956	66 & 4 months
1957	66 & 6 months
1958	66 & 8 months
1959	66 & 10 months
1960 or later	67

Early SS Benefit Reduction

If you were born between 1943 and 1954

Apply at Age	Benefit will be % of PIA	If PIA is $2,000
62	75.0%	$1,500
63	80.0%	$1,600
64	86.7%	$1734
65	93.3%	$1866

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Applying After FRA

You earn delayed retirement credits
If you were born between 1943 and 1954

Apply at Age	Benefit will be % of PIA	If PIA is $2,000
66	100%	$2,000
67	108%	$2,160
68	116%	$2,320
69	124%	$2,480
70	132%	$2,640

Note: Does not include COLA

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Social Security Benefit increases:

- If FRA is 66
  - 25% real reduction at age 62
- Delaying it to 70 (from 66) increases benefit roughly 8% per year (not including inflation which increases it further).
- Result benefit at age 70 is nearly double that at 62 (assuming 3% COLA).

Working while receiving benefits (2013 Figures)

If You Are	**You Can Make Up To**	**If You Make More, Some Benefits Will Be Withheld**
Under Full Retirement Age	$15,120/yr. ($1,260/mo.)	$1 for every $2
The Year Full Retirement Age is Reached	$40,080/yr. ($3,340/mo.)	$1 for every $3
Month of Full Retirement Age and Above	No Limit	No Limit

Those benefits are not truly lost

Consider someone collecting benefits at 62 and they lose 12 months of benefits over 4 years Once they reach FRA SS recalculates their benefit as if it began at age 63 not 62. Resulting in a higher amount going forward.

Taxation of Social Security benefits

Filing status	Provisional income*	Amount of SS subject to tax
Married filing jointly	Under $32,000 $32,000 - $44,000 Over $44,000	0 50% 85%
Single, head of household, qualifying widow(er), married filing separately & living apart from spouse	Under $25,000 $25,000 - $34,000 Over $34,000	0 50% 85%
Married filing separately and living with spouse	Over 0	85%

*Provisional income = AGI + one-half of SS benefit + tax-exempt interest

Taxation

- 50% taxable if total "provisional" income" which includes AGI, tax-exempt interest and 1/2 of SS benefits exceeds 25K for a single person and 32K for married filing joint.
- 85% if those totals exceed 34K for singles and 44K for married filing joint.
- Tax Bomb! $1 IRA income = $1.85 of income ($1 + {$1 * .85})
- 46.25% marginal, federal tax rate ($1.85 * .25)

Spouse's Benefit Computation

- Benefit is 50% of workers FRA. The spouse does not receive DRC's
- If the spouse's own benefit is less than 50% of the primary workers the benefits are combined.
- Benefit amount is reduced if the spouse is under FRA.

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Widow Benefit/Divorced Spouse

Widow:

- at FRA 100% of deceased workers benefit
- at 60 71.5% of deceased workers benefit

Ex-Spouse:

- Marriage at least 10 years
- Ex-spouse must be 62 or older and unmarried
- Have to be divorced at least 2 years and can claim benefit even if ex-spouse is not retired
- Does not affect current spouse.

Lump Sum Payments:

- Will pay up to 6 months after full retirement.
- You may want to forgo it and opt in for larger payments going forward based on the effective later retirement age.
- If you “file and suspend” and then later decide you want your benefit you can receive a lump sum for back payments from FRA. (Though you will not earn DRC’s).

Strategies/Case Studies

- File and suspend
- Strategies for Couples 4 Years Apart
- Combined Strategy
- Claim Now and Claim Some Later
- Effect of Life Expectancy
- Do-Over
- Failed Do-Over
- Plan for those in Need.

File and Suspend (Four Year Age Difference or less)

- Primary worker must be at FRA
- Files for benefits and suspends. Earns DRC's since no payments made
- Spouse can collect up to 50% of worker's FRA amount
- Spouse must be at least age 62
- Eligible children can collect also.

File and Suspend

Worker at 66 (FRA), Spouse at 66 also:

Workers PIA (2,000), Spouse (1800)

- Worker files for benefit and suspends it at FRA
- Spouse files for spousal benefit and receives $1,000/month
- Worker delays benefit until 70 then receives $2,800/month
- Spouse claims own benefit at 70 and receives $2520/month

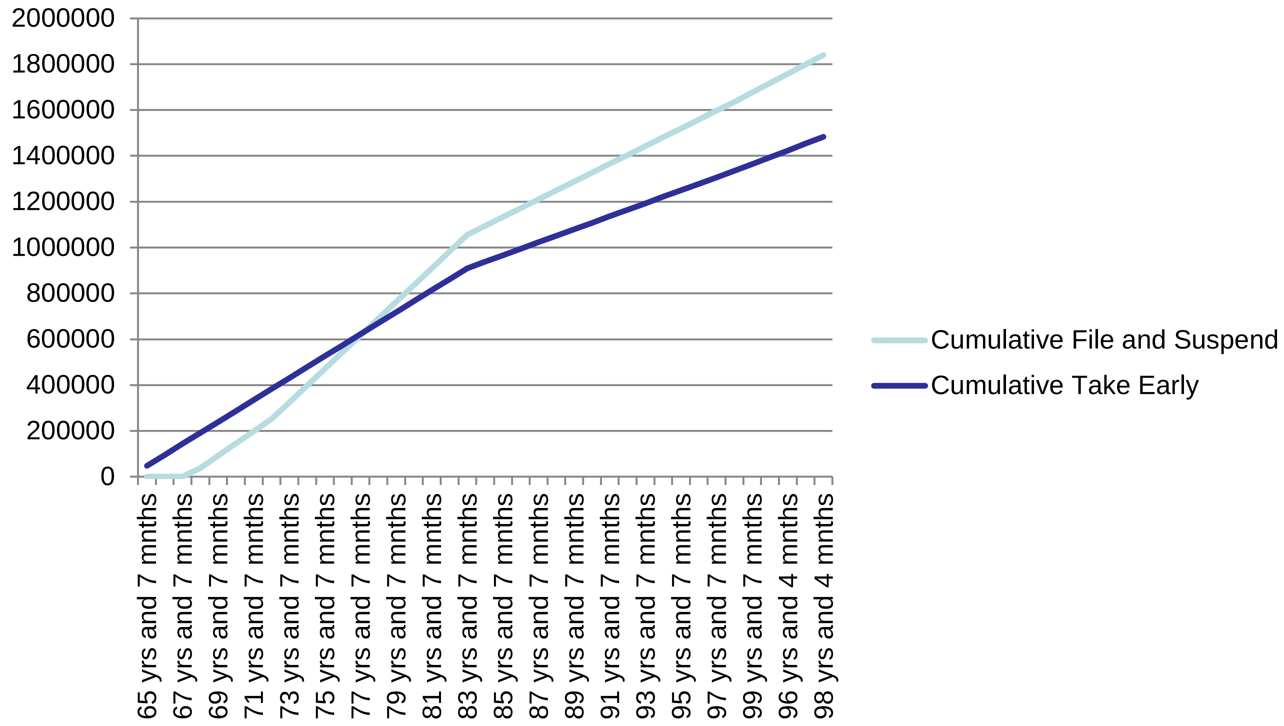
Results:

- Spouse receives and additional benefit of 48,000 while earning DRC's
- Worker earns DRC's
- If one spouse dies the survivor now receives the larger of 2 payments that is much larger than if they had taken it early

Rules for Spousal Benefits

- Primary Worker must have filed for benefits – but can suspend to build delayed credits if over FRA
- Spouse must be at least 62 for reduced benefit or 66 for full benefit
- No delayed credits for spousal benefits after 66.

File and Suspend vs. Early



File and Suspend Example 2

Wife's PIA $800

Husband's PIA 2,000

(Same age assumptions 66 & 66)

Actions

Wife files for spousal benefit (husband must have applied but can suspend for DRC's, she must be at FRA)

- Wife receives $1,000 and delays her own benefit till age 70 for DRC';s
- At age 70 she files for her own benefit and receives $1056 instead of her Spousal (all inflated).

Do Over

- Can withdraw application within 12 months
- Must pay back 12 Months of benefits
- Only one withdrawal per life
- At FRC can request benefit suspension to earn DRC's even if payments started.

Married Couple's Is it better early?

Examples

One

- Two couples with similar PIA both decide to take their own benefits at 62
- One dies at the projected breakeven point (of delaying the SS)
- The benefit to the remaining spouse is just 1/2 of the total they both received

Two

- One starts at 62 the other delays until age 70.
- Same scenario one spouse dies at the breakeven point 77.
- Second spouse receives a benefit roughly 75% greater (assuming a 3% COLA).

This could mean the different from keeping their house to being forced to sell it. Therefore the traditional "break-even" analysis from finance is not necessarily the primary factor to consider! The potential life benefits might invalidate the breakeven analysis.

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Couples 4 years or more apart

Example 66 year old husband, with PIA of 2000 and 62 year old wife with PIA of 800:

- File and Suspend does not make sense
- Wife would receive only 35% of his PIA (700) rather than half (at her FRA).
- Since she is also eligible for her own benefits SS would pay her benefits first and top it off with any difference to meet the spousal benefit. ($600 on own record plus $100 from his = 700).
- She would also be subject to earnings cap restrictions.
- She will have been "deemed" to have collected on her own benefit no longer allowing it to be delayed till age 70 due to the SS rule that says that anyone that collects before FRA you must accept the largest benefit to which you are entitled. Individuals can restrict their claim to spousal only if they wait to 66 to claim.
- She may take her own early and Husband earns DRC’s till age70. At 66 she claims the spousal.

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Double File and Suspend? (Crisscross!)

- One member files and suspends while other files for spousal only (both over FRA).
- Each spouse does this.
- Some benefits are paid while both earn DRC's
- But if married both cannot receive just spousal benefits simultaneously
- Divorced couples can do that if divorce was finalized 2 years previously.

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Claim some now and more later

- Wife claims early at 62.
- Husband files only for spousal at 66, and collects up to 50% of workers FRA amount while earning DRC's (Wife must have filed for benefits).
- Husband must be at or over FRA. Prior to FRA spouse cannot restrict scope of app and is "deemed" to file for own benefit first.
- Wife may switch to spousal when Husband claims at 70.
- Does this make sense? Depends on entire picture.

Age Related Case Study

Married couple, Husband's PIA is $2440, wife $2176, husband born 1948 (65), life expectancy 100, wife born 1953 (60). Wife in poor health and may have reduced lifespan:

If her estimated life expectancy is 80 the following strategy is recommended:

- Husband begins benefits on own record at age 70 (benefit 3221)
- Wife files restricted application for spousal benefits only at age 66 (benefit 1220)
- Wife switches to benefits based on her earnings record at age 70 (benefit 2872)
- Total benefit over lifetime estimated to be $1.445M vs. $1.331M if they each waited until age 70 to claim based on their own PIA

Age Related Case Study (cont.)

If her estimated life expectancy is 75 the following strategy is recommended:

- Wife begins benefits based on her earning record at age 62 (benefit 1632)
- Husband files a restricted application for spousal benefits only at age 67 (benefit 1088)
- Husband switches to benefits based on own earnings record at age 70 (benefit 3221)
- Total benefit over lifetime estimated to be $1.562M vs. $1.504M if they each waited until age 70 to claim based on their own PIA

Failed Do-Over Strategy

Scenario: Person started at age 62 , believed they could undo the benefit by paying back all proceeds then cause benefit to restart at age desired (up to 70 with DRC's). Law changed only allowing the strategy to start <12 months now after start.

Solution:

- Voluntary suspend but do not repay benefits suspended benefits earn DRC's worth 8% per year for each year postponed from FRA to 70.
- Say individual has a PIA of 2,000 and takes early at age 62. They will collect 75% of 2,000 or 1,500/month. At age 66 they can voluntarily suspend benefits until 70 boosting their benefits to 99% of what they would have received at age 66. (75% * 1.32 =99%).

Planning for those in need

Divorced Spouses: (Makes sense if spouses own benefit exceeds 1/2 the ex spouses).

- Take the spousal at FRA delay own worker's benefit
  - Example, un-married, ex husband age 66 with ex wife age 62.
    - Husband files for spousal at 66 and delays own benefit to age 70

Planning for those in need (cont)

Widowed before age 60:

- Option 1
  - Survivor at 60
  - Delay own worker benefit to 70
- Option 2
  - Own worker benefit at 62
  - Delay survivor to FRA

Lessons (1 of 2)

- Plan as a couple if you are married
- For married couples consider the technique that creates the largest possible benefit for surviving spouse.
- Age 66 is the "key" age: Can collect full benefit, Minimum age to use some of these strategies, no earnings cap.
- Higher Earning Spouse generally should delay benefits to age 70
- Higher Earning spouse may apply for spousal benefits on lower earning spouses record at FRA
- Lower Earning Spouse may:
  - Apply for own reduced benefit at 62 then add spousal at 66 then switch to survivor after spouse dies
  - Wait until FRA to claim her own or spousal.
  - Wait until 70 to claim own benefit

Lessons (2 of 2)

- Trigger "hidden" spousal benefits whenever possible.
- If a person applies prior to FRA the reduction is permanent
- Look for unique maximization strategies for divorcees and widows.
- Same Sex couples now have the same rules as traditional married couples in those states where they can marry.
- Under earnings cap benefits are not gone forever they are deferred.
- If a client really needs the money collecting early may be the best answer.
- If a person applies prior to FRA the reduction is permanent

Rules

- If a single individual lives to age 80, the cumulative lifetime benefits will be approximately the same whether benefits begin at 62, 63, 64, or any age through 70.
- The relevant life expectancy for the decision of when the spouse with the higher PIA should begin benefits based on his earnings record is the lifetime of the second spouse to die, while the relevant life expectancy for the decision as to when the spouse with the lower PIA should begin benefits based on her record is the lifetime of the first spouse to die.
- If at least one spouse lives well beyond the age that the higher earner turns 80, the couple's cumulative lifetime benefits will usually be highest if he delays benefits based on his record until age 70.

These Rules help guide the claiming strategy

Importance of SS (to clients and advisors)

- If a couple receives $60,000 per year in SS that is the equivalent of a bond portfolio of $3M*.
- Today SS represents 38% of all income for those over 65.
- Interestingly 73% of people surveyed were not aware of advanced strategies like "file and suspend."
- 57% were willing to hire a different advisor if theirs could not help them with SS.

* Assuming a 2% interest rate.

SS and the Advisor

- Nearly all leading financial planning and tax planning software packages do not provide the ability to test claiming strategies.
- Once developed claiming strategies should also be tested in comprehensive planning software.
- The SSA administration is not in a position to provide adequate advice.
- An optimal claiming strategy can increase a couples income dramatically anywhere from $50,000 to $250,000 or more!

How to Choose Strategy?

- Life expectancy
- Age differences
- Divorcee/Widower spouses benefit vs. their own.
- Income needs in retirement
- Discount rate
- Other assets
- Tax Rates

Social Security Report

- Step by step: recommended approach to claiming maximum benefit.
- Side by side financial comparison of 2 strategies (can choose any to compare).
- Affect on portfolio longevity.

We offer to run this for free for anyone in the room!

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Questions?