THE COMPLETE CARDINAL GUIDE
TO PLANNING FOR AND LIVING IN RETIREMENT

The financial complexities we face in retirement can be daunting. The landscape of Social Security, Medicare, insurance, benefits, investments, and planning for long-term care presents many choices, challenges, and opportunities. The Complete Cardinal Guide gives you the tools you need to understand how to make informed decisions that are right for you.

The purpose of this book is to guide you through the major retirement options that retirees face. It explains simple and effective strategies you can put in place now, with the help of professionals, to make your retirement financially successful.

Author and founder of Cardinal Retirement Planning Hans "John" Scheil, a Certified Financial Planner™ (CFP®) and Chartered Advisor for Senior Living (CASL®), calls upon his 40 years of experience in the business to answer the following questions in depth, and he illustrates each with real-life stories:

- At what age should I start receiving my Social Security check?
- What's the best way to supplement my Medicare coverage?
- Can I receive long-term care and stay at home? How do I afford it?
- How should I handle my IRA and/or 401k accounts?
- What's a smart investment strategy for financing my retirement years?
- How do my income taxes change after I retire?
- What if I live longer than my retirement savings last?
- What's the best way to transfer my life insurance and other assets to my children and grandchildren?
- How do I ensure my survivors are OK after I die?
- How should I approach choosing financial and legal professionals to help me plan my retirement?

Hans "John" Scheil is a Chartered Financial Consultant (ChFC®), Chartered Life Underwriter (CLU®), Certified Financial Planner™ (CFP®), and Chartered Advisor for Senior Living (CASL®) with 40 years of experience. He can be reached at 919-535-8261, or via email at Hans@PlanWithCardinal.com.
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Scheil

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RETIREMENT

Navigating Social Security,
Medicare and Supplemental Insurance,
Long Term Care, IRA,
Life Insurance,
Post-Retirement investment
and Income Taxes

Hans Scheil

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MEDICARE AND SUPPLEMENTAL INSURANCE,
LONG-TERM CARE, IRA, LIFE INSURANCE,
POST-RETIREMENT INVESTMENT AND INCOME TAXES

Cardinal, an adjective—"of the greatest importance; fundamental"
Synonyms: fundamental, basic, main, chief, primary, crucial, pivotal, prime, principal, paramount, preeminent, highest, key, essential.

- When do I start my Social Security check?
- How do I supplement Medicare?
- Should I purchase Long-Term Care Insurance?
- What should I do with my IRA or 401(k)?
- Am I investing and creating enough income in retirement?
- What about income taxes after age 65?
- How do I handle life insurance and transferring assets to children and grandchildren?
- How do I choose financial and legal professionals to help me?

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Hans Scheil

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CHAPTER 2

STRATEGIZING YOUR SOCIAL SECURITY BENEFITS

Social Security was created 80 years ago as a system of government support for Americans in retirement. Here is what President Franklin D. Roosevelt said about Social Security when the program was enacted into law on August 14, 1935:

> We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life. But we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age. This law, too, represents a cornerstone in a structure which is being built, but is by no means complete.... It is... a law that will take care of human needs and at the same time provide for the United States an economic structure of vastly greater soundness.

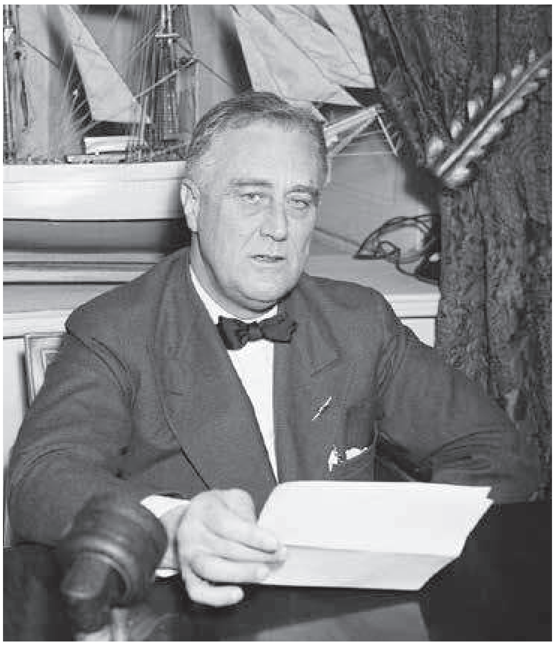
Social Security has expanded over the years to include other programs, but for the purposes of this book we are concerned with retirement benefits.

The first Baby Boomers (people born between 1945 and 1964) started collecting Social Security checks in January 2008 and became eligible for Medicare in January 2011 (Medicare, covered in detail in the next chapter, is our government-sponsored health insurance system for people in retirement; it was created fifty years ago, in

SUMMARY: STRATEGIZING YOUR SOCIAL SECURITY BENEFITS

- **You can start collecting reduced Social Security benefits as early as age 62. Full Retirement Age, when you are entitled to full Social Security benefits, is currently age 66. (It will be increasing to 67 for people born in 1960 or after.) But you can delay starting Social Security until age 70. The longer you hold off, the larger your monthly payments will be.**
- **Spousal benefits and spousal survivor benefits are affected by the age at which the primary earner starts receiving benefits.**
- **You will pay income taxes on your Social Security check if your other income exceeds certain levels.**
- **If your household relies on two Social Security checks, when the first one of you dies, the survivor will continue receiving the larger of the two checks, and the smaller payment goes away. You can plan to compensate for this income reduction with investments, annuities, or life insurance.**
- **Social Security planning has long-term care implications. Social Security is the base income used to pay the long-term care bill, and any remaining balance must be made up from other income if you are paying the bill yourself.**
- **Seek help from a financial planner regarding your Social Security decisions. Don't rely on your local Social Security office to guide your decisions. Hire a professional.**

1966.) These two programs are a big part of the federal budget, and for that reason they generate political rhetoric that makes headlines and both scares retirees and makes them very mad. I stay out of politics and just try to help my clients make good decisions about when to start receiving Social Security and when and how to sign up for Medicare. I will say this: Don't pay attention to the inflammatory headlines. Medicare and Social Security are too well established and our country is too invested in them for our political and legislative leaders to put an end to either program. No politician wants to be on the wrong side of the powerful lobby of America's retired people.



Franklin D. Roosevelt.

Many people think you start collecting Social Security benefits when you turn 65, but you can actually start at 62 if you're willing to take a smaller amount, and even much earlier than 62 if you become disabled and you have enough quarter-years in your work history. While for most people Medicare starts at age 65, it can be awarded earlier after someone qualifies for Social Security disability, depending on the illness. Most people hire an attorney specializing in Social Security claims when they think they might qualify. I am not an expert on Social Security disability, so this book will focus on your choice of a date to start receiving Social Security. The answer lies somewhere between age 62 and age 70. If both you and your spouse are already collecting Social Security, you might want to skip ahead to the next chapter about Medicare.

I have included a copy of my personal Social Security earnings report in appendix A. You can get your own report online at www.socialsecurity.gov. At Cardinal, we gather the personal Social Security report for all new clients. My report tells me I can draw $1,842 monthly at age 62, $2,570 monthly if I wait until my full retirement age of 66 and 8 months, and $3,255 if I wait until age 70 (the longest I can delay). For me, drawing Social Security before 66 + 8 months has a catch: I have to be retired. If I draw early and earn more than $14,000 of work income in a year, I have to start giving back some or even all of the $1,842 I am collecting monthly. If I am earning less than $14,000 from a job and my chances of living a long time are diminished by my health, it would probably make financial sense to file early and take the money. In that case, there is $81,048 on the table: $1,842 x 44 months (the time between age 62 and age 66 + 8 months). Not until I am somewhere in my late 70s would starting Social Security early cost me money. These alternative scenarios can be very confusing and it is important that you get it right. Don't use my situation to drive your decision—get professional help.

A further complication is that the example above ignores the fact that my wife Ronda's Social Security income is connected to mine. Ignoring Ronda is not a good idea if you are a husband or a financial planner—and I'm both. Ronda's occupation during her prime income-earning years was "Mother." Because she spent the child-rearing years taking care of our two sons, she will be filing under my Social Security account. If I take Social Security early at age 62, I will forever diminish her benefit. But she

FILING STRATEGIES YOU MAY NOT HAVE HEARD ABOUT

$$$$$ **File and Suspend:** Under this strategy, an individual who is at least at full retirement age (66 if born between 1943 and 1954, 66 + 8 months if born after 1954) files for his or her own retirement benefits and then immediately suspends receipt of them. This sets a filing date for the individual, and initiates the payment of dependent or auxiliary benefits (such as spousal or children's benefits) that are based upon that individual's record. In addition, since the receipt of benefits has been suspended, this individual's future benefit is allowed to grow at the rate of 8% per year, up to his or her age 70.

$$$$$ **Restricted Application:** Under this strategy, an individual who is at least full retirement age, has not filed for any benefits previously, and whose spouse has established a filing date (and could have suspended), files for ONLY the spousal benefit that is based upon the spouse's record. If the individual doesn't specifically file a Restricted Application, he or she will be filing for all benefits currently available to him or her. "File and suspend" and "restricted application" are potentially being eliminated by the federal budget bill of 2015.

"File and Suspend" and "Restricted Application" are changing as this book is being published. Check with PlanWithCardinal.com for updates.

is the one who is more likely to live into her 90s. While I am alive, she will draw an amount equal to 50% of my benefit. When I die, she will start drawing 100% of my check, foregoing hers. However, if your spouse has a full earning record and a benefit similar or close to yours, then depending on when you retire, spousal benefits are not an issue. None of us knows when we are going to die; we can only plan for what we expect. Life insurance—which can replace lost Social Security income when a spouse dies—is a great planning tool in case things don't work out as expected.

It gets even more complicated. Remember the George Strait song, "All My Ex's Live in Texas"? Well, one's spousal situation, either current and/or former, affects the choice of when is the best time to file. If you were married for ten years or more, no matter how long ago, you can collect on your ex-spouse's Social Security if it will benefit you (unless you remarry). There is no cost to her or him. For example, my client Nick has three women each drawing 50% of his benefit. His current wife plus two ex-wives are all collecting. When Nick dies, two ex-wives and one widow will share his full benefit.

You also need to know about a strategy called "file and suspend." They don't tell you about the "file and suspend" or "restricted application" options down at the Social Security office. But this is the choice that Ronda and I will most likely make. I will still be working at 66 + 8 months. At that point I will file and suspend my benefit, thereby enabling Ronda to start collecting 50% of it, or $1,285 monthly. (Ronda has a small amount of her own Social Security because she has worked some over the years. She can only take my 50% benefit if it's larger than her own benefit.) Meanwhile, my benefit will keep increasing to $3,255 while I am still serving clients

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and writing books. I'll start collecting the $3,255 at age 70, and when I die, Ronda will collect the $3,255 for the rest of her life. See, this stuff is confusing—that's why I strongly suggest that you seek professional help.

Pay Attention to the Details!

Robert is 68 and just retired from a long career as a software executive. He and his wife, Sarah, age 61, have two children: a 17-year-old daughter who is a rising senior in high school, and a 22-year-old son with a serious disability and an uncertain future who lives at home and attends college part time. Robert and Sarah are concerned about paying for college for both children and possibly supporting their son long term. Robert deferred his Social Security past age 66 because he didn't need the money while still working and he knew the amount would increase. Sarah is not currently working, but at 61 she is too young to collect Social Security, and if she starts it at 62 her lifetime benefit will diminish. Robert planned to wait until age 70 to start drawing his Social Security—until he hired us to do a financial plan for him.

Our plan showed that Robert is eligible for $3,000 per month from Social Security right now. Once he files for that, he qualifies for one year of $1,300 monthly payments for his daughter. He also possibly qualifies for a benefit for his 22-year-old disabled son, but because of the cap on dependent benefits, we will wait to apply for that until his daughter graduates from high school. When Sarah turns 62, she will file for 50% of Robert's benefit and allow hers to keep growing in the background. Robert and Sarah will be collecting $54,000 or more in Social Security benefits, with only half of it subject to income tax. Had Robert found us two years ago, he could have collected Social Security at his normal retirement age and collected two additional years for his daughter. That $31,000 of lost Social Security for his daughter can never be made up. Even so, Robert's not complaining.

Because much of the generic advice you can find on your own isn't comprehensive, it's all too easy to focus on one decision—like delaying your benefits until you turn 70—but miss something else important. **Don't try Social Security planning at home—get professional help!** Cardinal subscribes to software that runs all the numbers. A full Social Security analysis plus recommendations is just one part of a package of services we provide for a $500 fee.