

**RETIREMENT PLANNING & EMPLOYEE BENEFITS FOR FINANCIAL PLANNERS  
4TH EDITION UPDATES**

**CHAPTER 11**

*Example 11.1, page 524*

If an employee earns a salary of \$104,500 in 2008, the first \$102,000 of the employee's salary will be subject to a tax of 7.65 (6.2 + 1.45) percent while the remaining \$2,500 will be subject to a tax of only 1.45 percent. The employer pays the same amount as the employee.

	<u>Taxable Amount</u>	x	<u>Tax Rate</u>	<u>Total Tax</u>
<b>Employee - Social Security</b>	<u>\$102,000</u>		6.20%	<u>\$6,324.00</u>
<b>Employee - Medicare</b>	<u>\$104,500</u>		1.45%	<u>\$1,515.25</u>
<b>Total Tax</b>				<u>\$7,839.25</u>

*Example 11.6, page 532*

For a worker age 62 in 2008, the indexing factor for the year 1970 is determined by dividing the national average wage for 2006 (when the worker attained age 60), which was \$38,651.41, by the national average wage for 1970 (the year being indexed), which was \$6,186.24, yielding a factor of 6.2480.



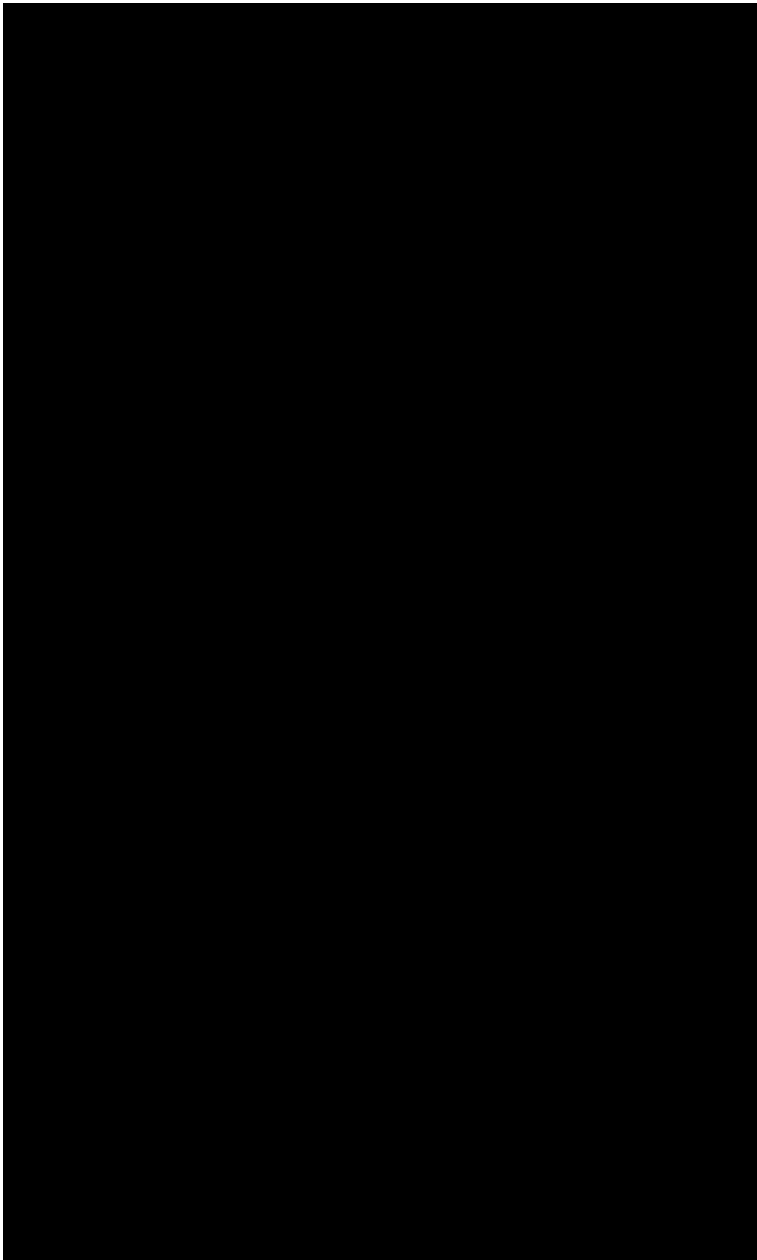
**Example 11.7, page 533**

Assume you have two clients, Ronnie and Karen. Both clients retire in 2008. Ronnie, born in 1946, retires at age 62. Karen, born in 1943, retires at her normal (or full) retirement age. In each case, we assume the worker has covered earnings from 1966 through 2006, as shown in columns labeled “nominal earnings.”

Indexing brings nominal earnings up to near-current wage levels. For each case, the table shows columns of earnings before and after indexing. Between these columns is a column showing the indexing factors. A factor will always equal one for the year in which the person attains age 60 and all later years. The indexing factor for a prior year Y is the result of dividing the average wage index for the year in which the person attains age 60 by the average wage index for year Y. For example, Ronnie’s indexing factor for 1966 is the average wage for 2006 (\$38,651.41) divided by the average wage for 1966 (\$4,938.36).

The highest 35 years of indexed earnings are used in the benefit computation. The selected indexed amounts are bold. Below the indexed earnings are the sums for the highest 35 years of indexed earnings and the corresponding average monthly amounts of such earnings. (The average is the result of dividing the sum of the 35 highest amounts by the number of months in 35 years.) Such an average is called the “Average Indexed Monthly Earnings” (AIME).

As you can see from the following chart, Ronnie’s AIME is \$3,077 and Karen’s AIME is \$3,851.



**Example 11.8, page 536**

Recall from the previous example Ronnie retired in 2008, 2008 is the year in which he is first eligible for benefits and his AIME is \$3,077. Ronnie's PIA is \$1,397.02 (rounded down to \$1,397.00) which is calculated below.

90% x <u>\$711</u>	<u>\$639.90</u>
32% x ( <u>\$3,077</u> - <u>\$711</u> )	<u>\$757.12</u>
15% x \$0	\$0.00
<b>PIA</b>	<u><u>\$1,397.02</u></u>

Recall that Karen's AIME is \$3,851. Since she was first eligible for benefits in 2005 (the year Karen reached age 62), the bend points for 2005 must be used. In addition, her PIA must be increased by cost-of-living adjustments, or COLAs, for 2005 through 2007. These COLAs are 4.1 percent, 3.3 percent, and 2.3 percent respectively. The resulting PIA is \$1,742.20.

90% x <u>\$627</u>	<u>\$564.30</u>
32% x ( <u>\$3,779</u> - <u>\$627</u> )	<u>\$1,008.64</u>
15% x ( <u>\$3,851</u> - <u>\$3,779</u> )	<u>\$10.80</u>
PIA	<u>\$1,583.74</u>
<u>2005</u> adjustment	<u>x 1.041</u>
<u>2006</u> adjustment	<u>x 1.033</u>
<u>2007</u> adjustment	<u>x 1.023</u>
<b>Resulting PIA</b>	<b><u>\$1,742.20*</u></b>

\*Adjusted for rounding.

**Example 11.9, page #537**

Assume Ronnie begins receiving benefits at the earliest possible age, which is age 62. Then the benefit amount for Ronnie is reduced for 48 months of retirement before Ronnie's normal retirement age, which is 66 years. The \$1,397.00 PIA is thus reduced to a monthly benefit of \$1,047.75.

PIA	<u>\$1,397.00</u>
5/9 x 1% x 36 months	Less 20% reduction
5/12 x 1% x 12 months	Less 5% reduction
Monthly Benefit	<u>\$1,047.75</u>

The benefit amount for Karen, assuming that benefits begin exactly at her normal retirement age of 65 years and 10 months, is not reduced except for rounding down to the next lower tenth of a dollar.

**Example 11.13, page 542**

Matthew is 64 years old and despite being retired from his occupation as an attorney, earned \$20,000 in 2008 while working as a golf instructor at a local golf course. Matthew's monthly retirement benefit from Social Security is normally \$1,200, which totals \$14,400 for the entire year. Because Matthew exceeded the retirement earnings limitation, how much money will be reduced from Matthew's Social Security retirement benefit for 2008?

Matthew's total earnings in <u>2008</u>	\$20,000
Earnings limitation	<u>(\$13,560)</u>
Remainder excess	<u>\$6,440</u>
One-half deduction	÷ 2
<b>Benefits reduced by:</b>	<b><u>\$3,220</u></b>

The Social Security Administration will reduce Matthew's benefits for the year by \$3,220. Matthew will receive \$11,180 in retirement benefits (\$14,400 annual retirement benefit less \$3,220 reduction). Matthew's total income for 2008 will be \$31,180, instead of \$34,400.

**Example 11.23, page 552**

If an individual has the maximum PIA for 2008, \$2,185 per month, this would provide a maximum family benefit of \$3,823.80 per month as shown by the calculation below:

<u>\$909</u> x 1.50 =	<u>\$1,363.50</u>
( <u>\$1,312</u> - <u>\$909</u> ) x 2.72 =	<u>1096.16</u>
( <u>\$1,711</u> - <u>\$1,312</u> ) x 1.34 =	<u>534.66</u>
( <u>\$2,185</u> - <u>\$1,711</u> ) x 1.75 =	<u>829.50</u>
	<u>\$3,823.82</u> ~ <u>\$3,823.80</u>

**Example 11.24, page 552**

Natalie and Brian, both age 50, are married and have two children, Ashley (age 15) and Kayli (age 5). Brian is disabled and has a PIA amount equal to the maximum PIA (\$2,185). As seen in the example above, the maximum family benefit is \$3,823.80. Because Brian is disabled, Natalie, Ashley, and Kayli are each entitled to receive a benefit equal to 50% of Brian's PIA, subject to the maximum family benefit limit, because the two children are under 18 and Natalie is a spouse/caretaker of a child under 18. Without regard to the maximum family benefit, they would each receive:

Brian	<u>\$2,185</u>	100% of PIA
Natalie	<u>\$1,092.50</u>	50% of Brian's PIA
Ashley	<u>\$1,092.50</u>	50% of Brian's PIA
Kayli	<u>\$1,092.50</u>	50% of Brian's PIA
Total	<u>\$5,432.50</u>	

Because the benefit exceeds the maximum family benefit, the amounts for Natalie, Ashley, and Kayli must be prorated. Therefore, they will each receive \$546.26 [(\\$3,823.80 - \\$2,185)/3]

Brian	<u>\$2,185</u>	100% of PIA
Natalie	<u>\$546.26</u>	50% of Brian's PIA subject to maximum family benefit
Ashley	<u>\$546.26</u>	50% of Brian's PIA subject to maximum family benefit
Kayli	<u>\$546.26</u>	50% of Brian's PIA subject to maximum family benefit
Total	<u>\$3,823.80</u>	

Assume instead that Ashley is 19 and no longer eligible to receive benefits under Brian. The maximum family benefit would be calculated as follows:

Brian	<u>\$2,185</u>	100% of PIA
Natalie	<u>\$819.40</u>	50% of Brian's PIA subject to maximum family benefit
Ashley	\$0.00	Not eligible
Kayli	<u>\$819.40</u>	50% of Brian's PIA subject to maximum family benefit
Total	<u>\$3,823.80</u>	

Now assume Ashley is 19 and Kayli is 17. In this case, Natalie is no longer eligible because she is not caring for a child under 16. The family benefit would be calculated as follows:

Brian	<u>\$2,185</u>	100% of PIA
Natalie	\$0.00	Not eligible
Ashley	\$0.00	Not eligible
Kayli	<u>\$1,092.50</u>	50% of Brian's PIA
Total	<u>\$3,277.50</u>	

Notice that Kayli is limited to 50% of Brian's PIA, thus they do not reach the maximum family benefit.