Episode #192: Increasing Your Social Security Benefit by Leveraging an Annuity

Video Transcription

Hello. My name is Sal Mendoza. Welcome back to, "Money Script Monday." Today we're going to be discussing increasing your social security benefit by leveraging an annuity. We've broken it down into three different sections. The first section is your spending hierarchy. Your next section is social security as a percentage of income. Finally, we're going to be talking about a case design on a couple that we just recently met. When we're designing a case, we're always talking about the spending hierarchy. It always starts with needs, your wants, and your wishes. We kind of focus on the needs section because we're trying to figure out that protected income number.

A protected income number is usually going to be a percentage anywhere from 70% to 100%, if not better. Ultimately it comes from only four different sources. It comes from a max-funded index universal life, from a pension, from an annuity, or finally, from a social security. That will help pay for utilities, mortgage, transportation, health costs, and other things because why is that important? That's the money that you need every month to be guaranteed to come into your mailbox or, today EFT and checking. But it has to be there month in, month out, whether you, you live to, 95 or 125, it needs to be there. Because we've retired, we have no other sources of income coming in.

Then we want to understand social security benefits as a percentage of income. All of us, , are going to be using the social security. Some of us are going to be using it for a great portion of our income. I see them sometimes when they come in that social security is going to make up like 81% of their income. But the majority of what I see is anywhere between 15 and 40%. That's kind of like usually the clients that I'm working with and the advisors that I work with. That's really important as well, too, to be able to help our clients to maximize their social security because it turns out that most people don't even realize that they can maximize their social security benefits by delaying when they actually take it.

This is a perfect example. We're going to finally move into the cases. This was a happily married couple, they're both 62 years old, and they basically said, "That's it. We're retired, we don't want to work no more. We've worked really hard. We've put as much as we could away." So far, they've put away about $1.2 million, in their accounts, and now they're ready to retire at age 62 and they need roughly around

$90,000. So their plan was that they were going to fill out the paperwork to the social security administration and ask for their social security payments. Of course, they started working with our advisor. Our advisor said, "Well, hold on before you do that, why don't I gather the information, and send it to my team, which of course is Life Pro financial and their backend services, including their incredible cases line." After we reviewed the assessment form, we realized that, "Hey, that's not a bad idea, I mean, you can go ahead and do that, but we can do a little bit better and a little bit better is in my opinion, significantly more better."

What we did was we went ahead and we took out $400,000 from their $1.2 million in assets and we put that into an annuity. What we did was we then took 10% free withdrawals for the next 8 years. By doing that, we were able to delay their social security benefits instead of taking it out at 62, we were able to kick that out until age 67. So they didn't have to apply until 67, which is their full retirement age or what we call their FRA. And by doing that simple move by moving $400,000 from their $1.2 million in assets and putting that into an annuity contract and then utilizing the provision in there that allows someone who owns that contract to take 10% out. We took out a specific amount, which is around $40,000 for the next 7 years.

What we're able to do is then delay that income benefit, so when we do the math, here's what it looks like. So by the time they get to 85 years old, if they did it their way, they're getting around $56,000 from social security. If they do it our way, they're getting around $92,000. When you add up everything between 62 and 85, if they had done it their way, what we call the current way, they would've received about $1.15 million, which is a considerable amount of money. But if they would have taken our consideration, our recommendation, I guess you could say, they would have received about $1.4 million.

All together they would have been able to receive about a quarter-million more in social security benefits. I don't know when the last time someone handed you $250,000 is, but if someone could hand you that $250,000, I would assume that everyone watching would say yes. And that's the most incredible thing about our case design and working with the FSRs here at LifePro is we're able to take something that looks like, "Hey, there's not really much we can do here. And we just start to move some of the assets and you can see here, we're able to create an additional $250,000."

The other part, because, we can't show everything on the board, we're also able to leave a larger legacy plan to the family. And it's about close to about $300,000 more and legacy transfer planning as well too. So my name is Sal. I appreciate you today. Thank you very much.