Demonstrate a Life Insurance Need Using Social Security+

By Jeff Quigley & Alyson Dorosky, CSSCS

Age 50 is a milestone when most people pause to take stock of their financial goals, retirement savings, and the need to provide for loved ones. Wondering where to start, many couples begin by getting a baseline on their potential Social Security income.

SEI LifeYield Social Security+ is the most widely used Social Security software available, helping advisors and clients determine the best time to file for Social Security benefits. The software clearly and visually shows advisors and clients the impact to overall retirement income by filing at different times.

The software can reveal a potential income gap for a survivor when one spouse dies, illustrating the benefits of survivorship life insurance. In this brief case study, we'll show you how.

Get Started with Social Security+

All that you need to run a report from a couple are their:

- Dates of birth
- Life expectancy
- Social Security benefits at full retirement age (FRA) or current salary
- Any pension income that might off-set benefits

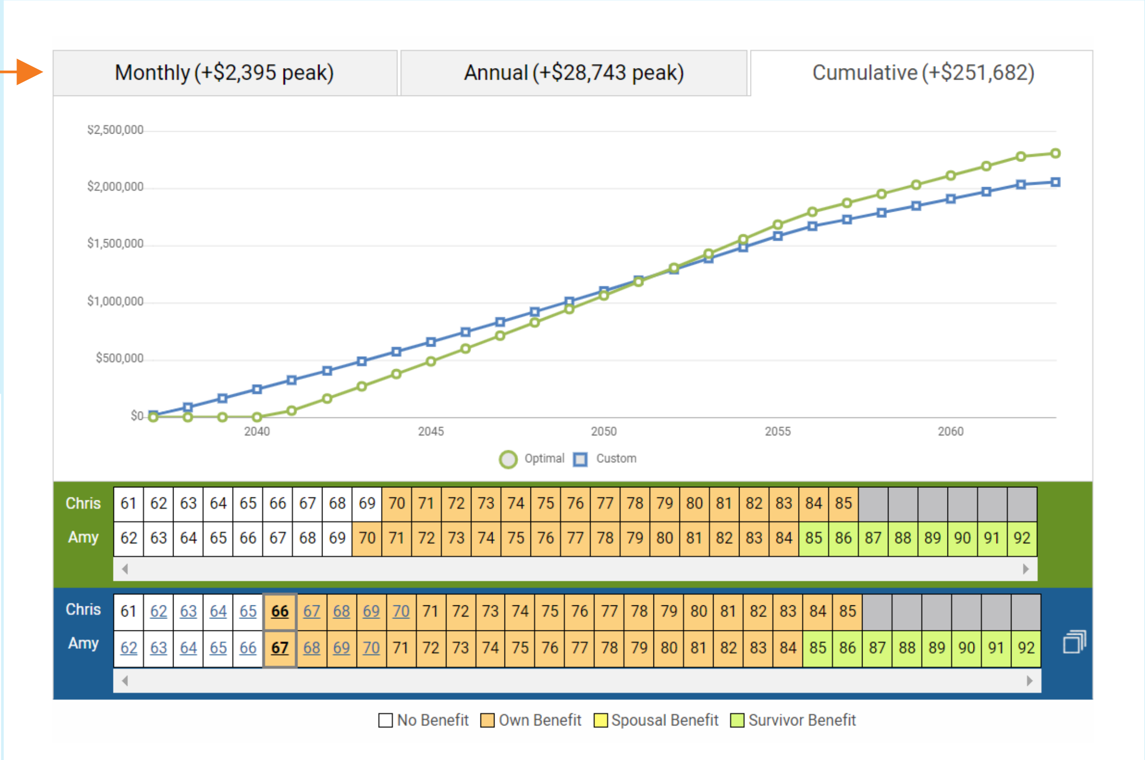
The software uses that information to produce two reports:

- The "custom" scenario – monthly and cumulative (lifetime) income based on when they were thinking of filing for Social Security benefits.
- The "optimal" scenario for filing that would produce the most income over their expected lifetimes.

We ran a report with Social Security+ for a couple – Chris and Amy, both born in 1970. Chris and Amy asked what they'd earn from Social Security if they filed on the birthdays when they turn 66 in 2036.

The illustration below shows a screenshot from Social Security+ illustrating two scenarios.

- The **blue line** is the filing strategy that Chris and Amy had before exploring their options.
- The **green line** represents the optimal filing strategy – one that would produce $2.3 million in Social Security income, $251,682 more than the estimate based on their original filing strategy.



The dollar figures at the top of the graphic quantify the value of the discussion and, more importantly, the value of the advice you provide. They represent the increase in Social Security income realized by choosing the optimal filing strategies.

Unfortunately, without guidance that allows investors to explore filing options, many investors will make critical mistakes, costing them thousands of dollars throughout retirement.

Between full retirement age and age 70, the Social Security Administration (SSA) credits additional benefits called delayed retirement credits (DRCs) at the rate of 0.66% per month or 8% per year.

Restoring Income When a Spouse Dies

A second illustration from the software shows Chris and Amy their Social Security income year by year. Amy pointed to the chart's drop toward the plan's end. "What is that?" she said.

Their advisor explained that Amy was referring to the Social Security survivors' benefits she'd receive after Chris's death. "Don't I receive both benefits?" she replied.

The answer is: No. But her question is a common one. It also opens a comprehensive discussion about retirement income and legacy planning.

Take Chris and Amy again.

- In the last year they're both living, their income from Social Security is $127,588.
- The year after Chris dies, Amy's Social Security income is $77,574. That's $50,014 less, or about a 40% reduction.

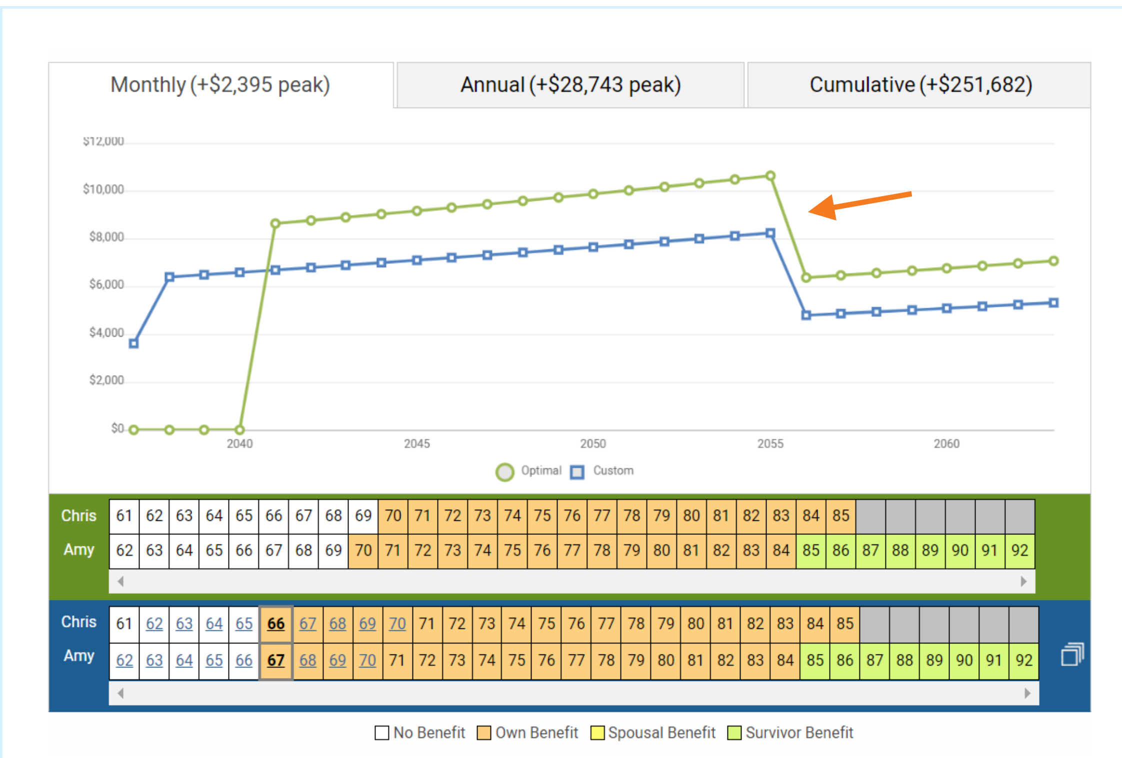
At this point, the discussion may turn to how spouses can ensure the financial security of each other after one dies. Life insurance – a new policy or keeping one in force – may be a solution to providing lifetime financial security for a widowed spouse.

Survivor Benefits: Key Facts

A widowed spouse can receive survivors' benefits at age 60 and not before. And there's a full retirement age (FRA) for survivor benefits that's different from an individual's FRA. Find your clients' survivor FRAs here.

Critical factors in Social Security's computation of survivors' benefits are:

- The age at which the deceased spouse started collecting Social Security
- Social Security credits accumulated by each spouse
- The widowed spouse's age and employment history at the spouse's death.

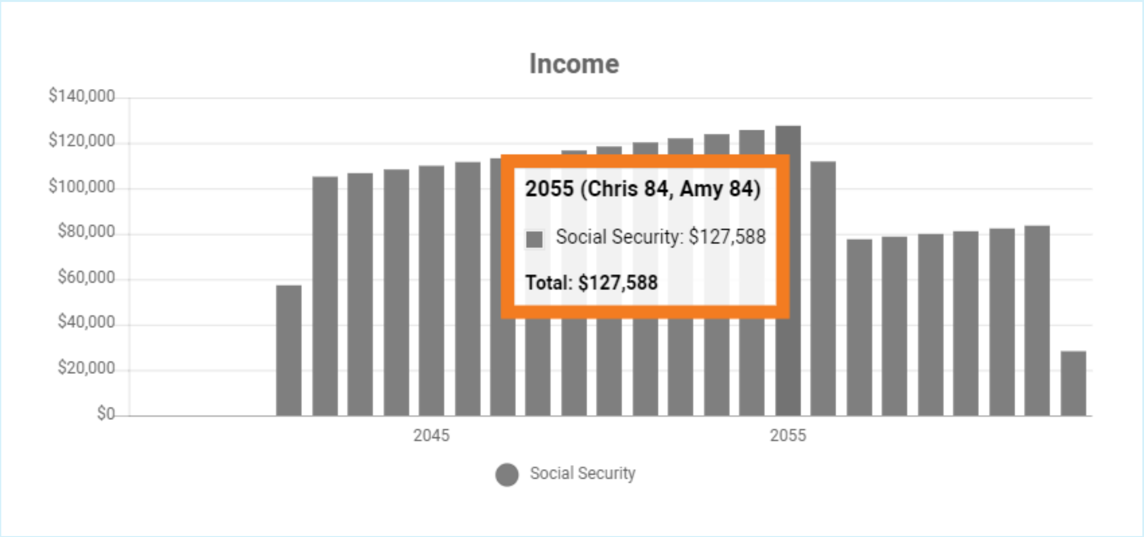


Next Step: Income Layers

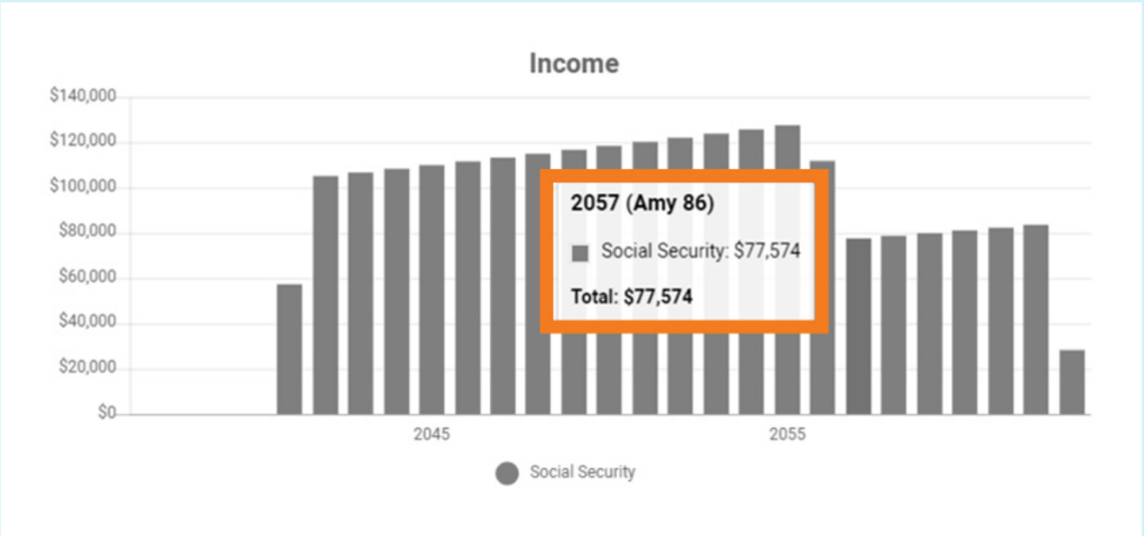
The Income Layers module of Social Security+ gives you a valuable and convincing tool to demonstrate the reduction in Social Security benefits after one spouse dies and options for filling the gap.

1 Review the Social Security income effect of Chris's death.

Before...



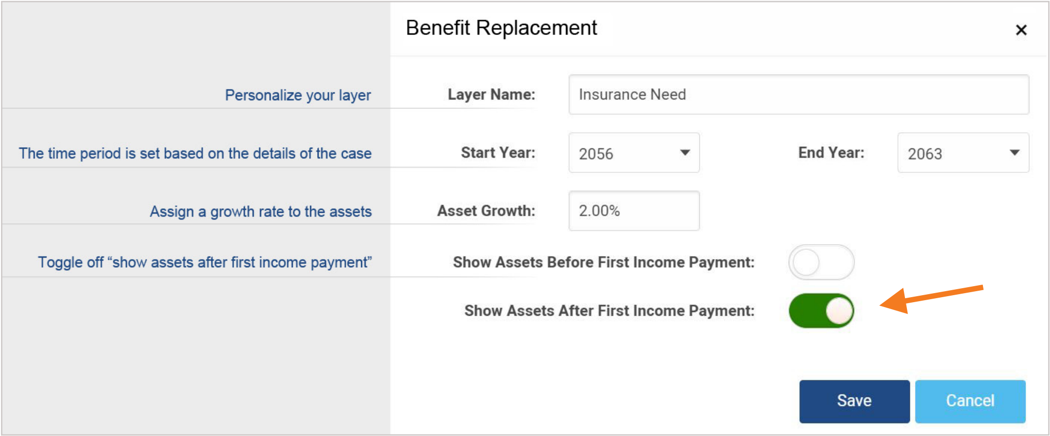
And after...



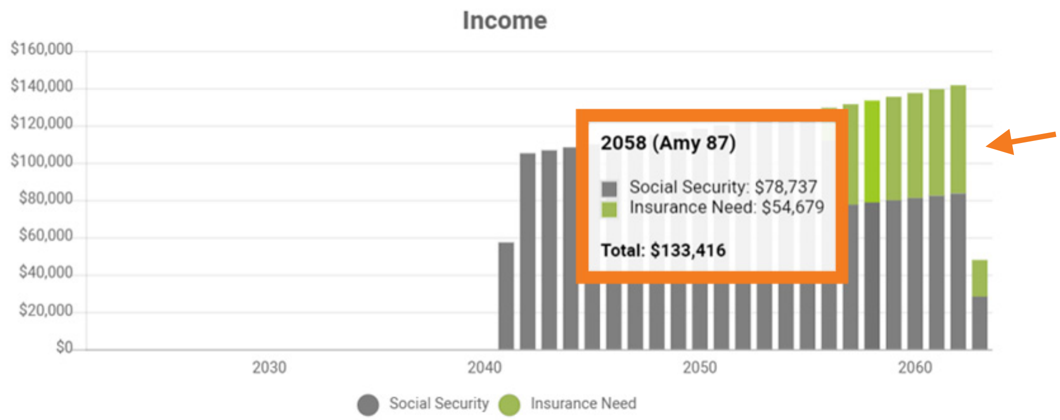
If an individual was collecting Social Security benefits, a surviving spouse needs to contact SSA directly – by calling or visiting a Social Security office – to arrange for survivors benefits. This cannot be done online.

2 Use “life insurance need” in the Benefit Replacement screen of Income Layers to personalize the illustration.

- The period is set based on the details of the case.
- Assign a growth rate to the assets.
- Toggle off “show assets after first income payment.”

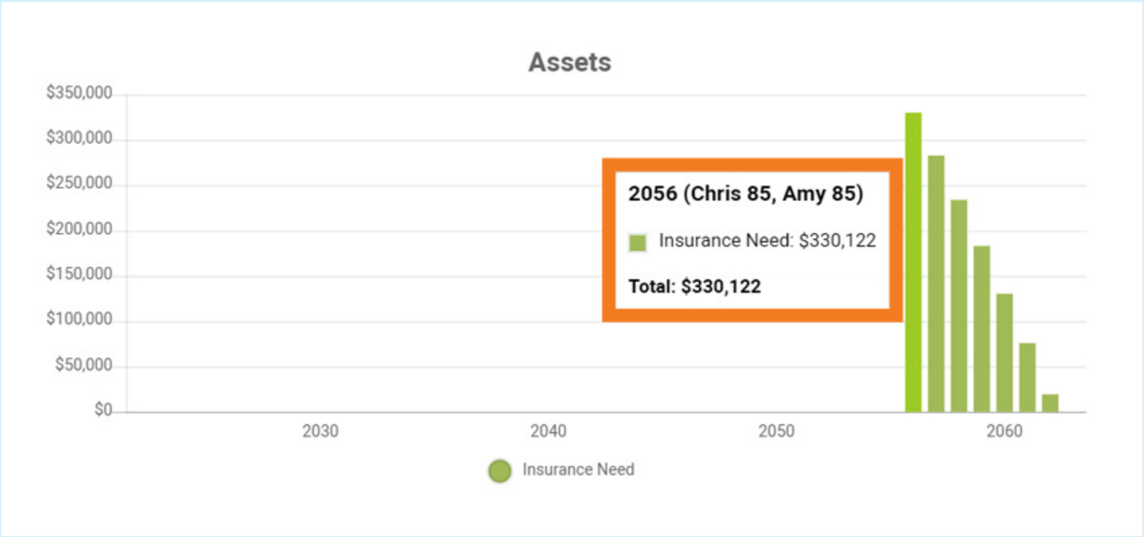


3 Show the life insurance payout and how it replaces the Social Security benefits lost due to one spouse’s death.



An eligible widowed spouse can take a survivors benefit and switch to their retirement benefit later, such as after they’ve accumulated delayed retirement credits (DRCs).

4 **Identify the necessary insurance to supplement the reduction in Social Security benefits.**



A survivor benefit from a life insurance policy and can protect the income and lifestyle of a widowed spouse. Use Social Security+ with Income Layers to address a client's concerns about protecting their spouse after death.

In Conclusion

Social Security+ and your advice can fill a significant gap in people's retirement planning. Surveys show that although many people know they can optimize their Social Security benefits by waiting to claim, the majority do not. And with more than 2,700 rules guiding Social Security benefits, deciding to file without consulting an advisor equipped with Social Security+ is foolhardy.

By exploring Social Security benefits with your clients in advance – maybe years before – of when they'll need them, you can help them make wiser choices for retirement income and the protection of survivors.

It's never too early to start planning. In fact, in a case like Chris and Amy's, it was crucial. At 50, this couple could afford life insurance premiums.