PRAISE FOR
The Little Black Book of Social Security Secrets

“Social Security is the best income stream available to retirees and you want to get as much of this income as possible. But how? To find out, make it a priority to read Jim Lange’s brief but fabulously insightful new book.”

Jonathan Clements, Former Personal-Finance Columnist for The Wall Street Journal

“If you spend 60 minutes with this book, you may be able to increase your lifetime income from Social Security by tens of thousands or even hundreds of thousands of dollars.”

Paul Merriman, Author, Financial Fitness Forever

The author, James Lange, CPA/Attorney has written 5 best-selling books. His recommendations have appeared 36 times in The Wall Street Journal.

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— Jonathan Clements, Author of Jonathan Clements Money Guide
Former Personal-Finance Columnist for The Wall Street Journal

“The number one goal for retiring and retired Baby Boomers is cash flow for what might be 2, 3 or more decades of post-retirement life. This book is a great, understandable and practical introduction to one key component of that later life cash flow, Social Security.”

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— Phyllis Bernstein, CPA/PFS
Former Director of Personal Financial Planning for the American Institute of CPAs

“If you spend 60 minutes with this book, you may be able to increase your lifetime income from Social Security by tens of thousands or even hundreds of thousands of dollars.”

— Paul Merriman, Author, Financial Fitness Forever

“This book is the real deal. It delivers crucial, timely information about the new Social Security rules with clarity and precision and should be required reading for everyone age 62 to 70 who is, or ever was, married.”

— Elaine Floyd, CFP®, Author, Savvy Social Security Planning for Boomers, an advisor training program
The Little Black Book of
Social Security Secrets

James Lange, CPA/Attorney
The Little Black Book of
Social Security Secrets

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Introduction

One of the reasons I wrote this book was to help married taxpayers get the most out of their Social Security benefits. Though estimates vary, as many as 97 percent of married Social Security recipients fail to optimize their benefits. A second reason, very directly related to the first, is that the failure to optimize Social Security benefits frequently imposes significant consequences on the wife who must go on after the death of her husband — statistically the greater probability.

A Brief Scenario

Let’s take a quick look at two couples, the Rushers and the Planners who live next door to each other. They both have $1.1 million, identically invested, and they both spend $75,000 per year. But they differ in their Social Security and Roth IRA conversion strategies.
The Potential Benefits of Using the Right Social Security and Roth IRA Conversion Strategies

Net After-Tax Assets

Age of Social Security Recipients

- Both Collect Social Security at 62, No Roth Conversions
- Optimized Social Security Options and Roth Conversions

Net After-Tax Assets
0 $500,000 $1,000,000 $1,500,000 $2,000,000 $2,500,000
62 67 72 77 82 87 92 97
As you can see, the Rushers’ wealth (depicted by the solid line) is higher while in their 70s, but in their 80s they start worrying about money as they watch their portfolio dwindle knowing they will either have to cut their spending or run out of money if they live too long. The Planners (depicted by the dashed line), notice a reduction in their assets from the time they are age 62 until they turn age 70. But after that, their wealth climbs and they look forward to the future with confidence knowing that they are financially secure. When the Rushers run out of money, the Planners still have $2,013,881 in their portfolio. And remember, they began with identical investments. Why the life-changing difference? The Rushers began taking Social Security based on their respective earnings records at age 62, and they didn’t make any Roth IRA conversions. The Planners followed the advice in this book. Mr. Planner used Social Security’s Apply and Suspend technique, and Mrs. Planner filed a Restricted Application when applying for benefits. They also optimized their Roth IRA conversions.
Now, the Bad News—Good News Call to Action

On November 2, 2015, President Obama signed the Bipartisan Budget Act (BBA) of 2015 into law. What most Americans don’t know is that this law eliminates two of the most effective methods available for maximizing your Social Security benefits: Apply and Suspend, and filing a Restricted Application for benefits, also known as “Claim Now, Claim More Later.” Both of these techniques are explained clearly and in detail in this book. The good news is that, if you are old enough to qualify, the federal government has granted certain Americans a grace period before the Social Security rule changes go into effect.

If you qualify, and you act by April 29, 2016, you may be able to increase your lifetime income from Social Security by tens of thousands or even
hundreds of thousands of dollars by applying the principles in this book.

Don’t fall victim to the new law! Read on to learn strategies to get the most out of your Social Security benefits in light of the new law. If you would like our help, please see the letter at the back of the book.

If you are currently using the Apply and Suspend technique, good for you and you will have grandfathered rights from the changes. If you qualify and if you want to use the strategy, April 29, 2016 will be the last day to apply. To learn more about this strategy, jump to Chapter 4.

The second strategy, filing a Restricted Application for benefits, will be available until December 31, 2019, but only to individuals who were 62 years of age or older as of December 31, 2015. For more information on this technique, jump to Chapter 5.
Remember, if you do not apply for these benefits by their respective deadlines, it will be too late.

Remember These Dates

April 29, 2016 is the last day to file for the Apply and Suspend strategy. If you were at least 62 years old as of December 31, 2015, you will be eligible to file a Restricted Application for benefits, also known as “Claim Now, Claim More Later,” so long as you do so prior to December 31, 2019.
CHAPTER 1
Why Should I Care that the Rules Have Changed?

The changes in the Social Security rules could be costly to uninformed individuals who don’t take action while they can. We have run the numbers for 3 different circumstances, and the graph on page 3 shows how long these couples’ money will last.

At the time of retirement, they all have $1.1 million, identically invested, and they all spend $75,000 every year.

- Couple number 1 (the solid line) takes their Social Security as soon as they can, at age 62. They do not make any Roth IRA conversions.
- Couple number 2 (represented by the dashed line), elected to Apply and Suspend. He (the primary earner) was grandfathered in under the old rules because he was at least age 66, his Full Retirement Age (FRA) and she was at
least age 62 as of December 31, 2015, thus eligible to collect spousal benefits. He also had made a series of Roth IRA conversions (we discuss Roth IRA conversions later in the book): $50,000 annually from ages 62–65, and then $30,000 annually from ages 66–69.

- Couple number 3 (represented by the dotted line) was unable to use either strategy. The wife was not age 62 as of December 31, 2015, and the husband was not FRA by April 29, 2016 (the combination of age permutations excludes them from both alternatives — it’s complicated but that’s the bottom line). But, knowing that their reduced Social Security income would affect their standard of living in retirement, they chose to be proactive. They made annual Roth conversions in the amount of $50,000 from the time they were 62 until the time they turned 70.
Assets Available for Retirement Years

- Both Collect Social Security at 62, No Roth Conversions
- Both Optimize Social Security and Roth Conversion Strategies
- Too Young to be Grandfathered but Still Make Roth Conversions
As you can see, the husband and wife who were unaware of our advice and took their Social Security when they turned 62 (depicted by the solid line) temporarily had more money in their early retirement, but regretted their decision in their later years. They agonized as they were forced to cut back on their expenses and then ran out of money. The couple who took our advice regarding Social Security and Roth conversions (depicted by the dashed line) saw their wealth continue to grow. They enjoyed peace of mind through their retirement years and when the other couple ran out of money, they still had $2,013,881. The third couple (depicted by the dotted line) used the best Social Security strategies available to them, but they were ineligible to be grandfathered in for opportunities under the old law. They, however, make the best of their situation through Roth IRA conversions — a subject not explored in-depth in this book.  

1 See our other books, *The Roth Revolution* and *Retire Secure!* for more information on Roth IRA conversions.
Why Trust Our Analysis?

You can rely on our analysis. We do extensive calculations before we offer advice. And our calculations have withstood the scrutiny of a panel of experts at one of the nation’s most prestigious peer-reviewed magazines, *Trusts & Estates*.

Furthermore, I’ve interviewed some of the nation’s top Social Security experts on my radio show, *The Lange Money Hour*. My guests have included Larry Kotlikoff, who is the author of the number one bestselling book on Social Security: *Get What’s Yours*, Jane Bryant Quinn, who writes financial columns for *Newsweek*, *Bloomberg*, and *AARP*; Jonathan Clements, formerly the top personal finance writer for *The Wall Street Journal* for 18 years; Elaine Floyd, who is a nationally recognized Social Security and Roth IRA expert, and Mary Beth Franklin, who teaches courses on Social Security to financial professionals.

The basic premise of our advice is consistent with what all these financial experts said on my radio show:

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2 The idea is that delaying taking Social Security benefits ensures a guaranteed higher income for the rest of your and your spouse’s life, but doesn’t necessarily compromise what you can spend until the benefits start coming in.
radio show: plan for the long term by implementing smart Social Security strategies. The change in legislation has made things much trickier for individuals who are trying to plan their retirement. Elaine Floyd said this about it: “Each couple’s situation is different with regard to how the legislation will affect them. They need to come and see (us) so (we) can give them personalized guidance.” In my own practice, I’ve found that there is no one-size-fits-all answer to the question about how to maximize Social Security benefits for a married couple. You have to do the math and sometimes consider factors that are difficult to quantify before arriving at the best answer. That said, this book offers a lot of guidance.

Whose Analysis Shouldn’t You Trust?
There are some sources that you should NEVER trust when it comes to getting information about Social Security. This includes your non-expert friends, and also the workers at your local Social Security office. I lead many workshops on retirement planning. I can’t tell you how many workshop participants have told me
that they got and followed the exact opposite advice from what I offer in my workshop. Even worse, they realized that following the advice from the Social Security office had cost them over $100,000. I would also run screaming from any professional advisor who tells you to apply for Social Security when you turn 62, but offers no persuasive argument other than “You can’t trust the government so get it while you can,” which is potentially disastrous advice. That said, even if you have failed to make the best decisions in the past, that doesn’t necessarily mean you can’t make a course correction now. But, let’s start with the basics.
Chapter 2
When Should I Apply?

Deciding when to apply might be one of the most significant decisions you can make. In our financial advisory practice, we review all of the options available to our clients before they file for benefits because this is such an important decision. And, an election to apply for benefits, once made, is often (but not categorically) irrevocable.

When Should I Take My Benefits?
The age at which you can receive full benefits is determined by the year you were born, and is called your Full Retirement Age (FRA). If you were born between 1943 and 1954, your FRA is 66. If you were born earlier, you have already reached your FRA. If you were born later, your FRA will be greater than age 66.

For the purposes of this book, let’s assume that you were born between 1943 and 1954 and that
your FRA is 66. If you wait to apply for benefits at age 66, you will receive what is called your Primary Insurance Amount (PIA). You are allowed to apply for benefits before you turn 66 but if you do, it will cost you. If you apply at age 62 for example, your monthly benefit will be reduced by 25 percent. You will also forego the Cost of Living Adjustment (COLA) that would have been applied to the 25 percent you won’t receive because you applied early. In most instances, it is much, much better to wait until at least age 66 before you apply for benefits.

There’s even better news, though, for those who are willing to wait a little longer to apply for benefits. If you wait beyond age 66 to apply, your monthly benefit will be increased by 8 percent for every year you wait, up to a maximum of 32 percent. The increase in benefit you receive because you waited is called a Delayed Retirement Credit (DRC), and your benefit is also increased for COLAs. For the purposes of this book, we will refer to the DRCs as 8 percent annual “raises” that you can earn if you do not apply for benefits at age 66.
Recognizing the optimal age at which to apply for benefits is a big decision that should not be taken lightly.

**Here is an Example**

I had a 62 year old client, Reluctant Robert, who was weighing the advantages of applying for Social Security at age 62 versus age 70. Reluctant Robert didn’t trust the government and he wanted his Social Security benefits immediately. First, he argued, if he didn’t live until age 70, he’d never receive any money from Social Security — a complete waste of all his dutifully paid deductions. And second, even though he knew he would receive a higher benefit if he waited, he didn’t believe the higher benefit would outpace, over the long term, the deficit engendered by waiting — even if he did live to a ripe old age. But was he correct?

We took Reluctant Robert through our paces. We showed him that if he applied for benefits at age 62 and deposited every check he received into an account that earned 4 percent, he would have almost $288,524 in the bank on his 70th birthday. On the other hand, if he waited until
age 70 to apply, he’d have received no money at all from Social Security. Money vs. no money. It’s a no-brainer, right?

But, we went on. I reminded Robert that, if he applied at age 62, his benefits would be permanently reduced by 25 percent, plus COLAs, compared to what he would receive at his FRA of 66. And, if he waited until age 70 to apply, his benefits would permanently increase by the 8 percent DRC every year from 66 until 70, plus COLAs. He asked me, “Is a permanent raise in my benefit amount better than receiving a lower benefit for a longer period of time?”

I showed him this peer-reviewed graph, which demonstrates that, if he applies for the higher benefit at age 70 and banks it, he’ll have more money at age 83 than if he had started to bank the lower benefit at age 62.
Chart 3

Starting Social Security Benefits at Age 62 vs. 70

- **Age 70 - Total Assets at age 95:** $1,165,998
- **Age 62 - Total Assets at age 95:** $952,020

**Breakeven Point:** Age 82
So, to compare apples-to-apples, let’s assume Reluctant Robert invested his Social Security proceeds in an account that earned a 4 percent rate of return. We are actually being generous in assuming that Reluctant Robert could find a safe investment at 4 percent. If the investment is closer to 1 or 2 percent, the advantage of waiting would be considerably greater and the breakeven point considerably earlier. It wouldn’t be an apples-to-apples comparison to look at Reluctant Robert receiving more than 4 percent because the Social Security increases are guaranteed and I don’t think any legitimate advisor would say you could get better than 4 percent guaranteed these days.

But Reluctant Robert is still grumbling. The early years still look bad. He’s paid in to the system for years and until the day he turns 70, he will not have gotten a dime out of it. His golfing buddies are laughing at him because they have been collecting checks for years.

But, when he turns 70 and he does get his first check, it’s a lot higher than the one he’d have gotten if he’d signed up at age 62. This is in no small part because: 1) he wasn’t penal-
ized for taking his benefits early, 2) he earned his annual COLAs, and 3) when he turned age 66 he began accruing the 8 percent raises for each year between ages 66 and 70. If Reluctant Robert went with his gut instinct, and started taking benefits at age 62, he would receive monthly payments of $2,790 at age 62 and $3,480 at the age of 70. If he listens to our advice and waits until age 70, he will receive $5,635 per month. The difference is a monthly increase of $2,155, or an annual increase in benefits of $25,860, plus COLAs, for the rest of his life.

His buddies are impressed at the size of his check, and are now wondering if they made the right decision about their own elections.

But still, Reluctant Robert was skeptical. He told me that both of his parents had died at age 80, and that he wasn’t sure he would live long enough to make the strategy pay off. Well, if he dies before age 82, then yes, only looking at the numbers it would have been a bad decision. But, Larry Kotlikoff, a Boston University economist, and one of the country’s leading experts on Social Security, exposed the weakness in Rob-
ert’s thinking, and in his opinion, the misguided priorities.

If you (and your spouse, if you are married) die early, you will have no financial problems because you will be dead (maybe a bit harsh, but true). Your financial fear should be that you or your spouse might live a long time, and have to suffer a diminished lifestyle. Your decision about when to apply for Social Security benefits should not be made based on the fear that you will die at a young age, but rather on the possibility that you and/or your spouse will outlive your savings. If Reluctant Robert lives beyond age 82, he will be very, very happy that he has a large government-guaranteed check coming in each month for the rest of his life.

Another thing Larry taught me was that, if you hold off on applying for Social Security, while you are waiting to collect, you can still spend the same amount of money as if you were collecting benefits.

Let me explain. Let’s assume your benefit at age 66 is $3,000/month, but you elect to wait until age 70 because it will have increased to $4,528/month. You can still spend $3,000 every month,
but you will have to dip into your portfolio — an idea that seems anathema to most people! They think they should hang on to their portfolios for as long as possible because they want to have a nest egg they can spend in their later years. The fear of dipping into the portfolio increases if the entire portfolio is IRA and retirement plan money that will trigger taxes upon withdrawal. But those are false fears that could cause you to make the wrong decision with your Social Security strategy.

The additional income you will receive by waiting will more than compensate for dipping into your portfolio, even if your portfolio consists of nothing but IRAs. We don’t want you to live like a pauper by holding up on your Social Security and live it up at 70. The idea is to be able to spend as much or more now, and still be guaranteed a higher income for the rest of your and your spouse’s lives.

For a thorough discussion of this point, we recommend Larry Kotlikoff’s book, *Spend ’til The End*. 
Married Couples Need to Think About Social Security as a Team

As I am about to show you, the elections you make when applying for Social Security also affect the benefits that your spouse will receive while you are alive, and after your death. There are options available to you through Social Security that can provide a significantly higher guaranteed benefit for the rest of your life — if you know how to take advantage of them. And it’s important that you act quickly, because some of these options will no longer be available after April 29, 2016.

What If I Have Already Made a Bad Decision?

If you have been collecting benefits for less than a year, you might be able to fix or at least limit the damage. Social Security will allow you to withdraw your application for benefits, but you will have to return all the money you have received. You can only do this once, but, if you do it, it will be as if you never applied.

In addition to the possibility of returning a year’s worth of benefits, for some recipients it
might be possible to stop (technically suspend) receiving Social Security even though you have already begun collecting. For example, let’s assume you started collecting benefits at age 62. You are now age 67 reading this book, wishing you had not started collecting at age 62. By stopping your Social Security now, you will earn an additional 8 percent per year plus COLAs, until you are 70. These raises, plus the COLAs you will receive after you turn 70, will result in a higher benefit amount for both you and your spouse, for the rest of your lives. If your spouse is eligible to collect spousal benefits, and you suspend before April 29, 2016, your spouse will be able to collect spousal benefits even though you have suspended your benefits. (More on that later).

Please note: returning benefits or changing benefit options are complicated topics beyond the scope of this book. But, please don’t give up just because you did something in the past you regret now.
Chapter 3
How Much Can I Expect to Receive?

My Own Benefit
The amount of Social Security that you can expect to receive will depend on a number of factors. These include how much you have earned over your working career, the age at which you apply for benefits, and the strategy (or strategies) that you use. The Social Security Administration sends a statement annually that estimates your retirement benefit, but it is also available at ssa.gov/mystatement. The Social Security website, ssa.gov, has some other interesting features that you can also use. You can click on the button that says “Estimate Your Retirement Benefit.” You can also access their planning calculators by using this link: ssa.gov/planners/benefitcalculators.htm. Larry Kotlikoff offers an excellent free calculator at
basic.esplanner.com. You can also upgrade to a paid version that provides more options.

**Spousal Benefits**

Now we are getting to the fun part. Spousal benefits, in their simplest form, allow you to apply for benefits based on your spouse’s earnings record. If you apply for spousal benefits at FRA (66), you will receive one-half (50 percent) of your spouse’s PIA. If you apply for spousal benefits at age 62, you will receive 35 percent of your spouse’s PIA. Let’s look at an example.

Over the course of their lives, John and Jane have both worked, but Jane took time off to raise their children. They’ve received statements from Social Security that tell them that John’s PIA is $3,000 and Jane’s PIA is $1,400. Jane has the option to apply for spousal benefits based on John’s earnings record rather than her own. If she applies at FRA, her spousal benefit will be $1,500 (50 percent of John’s PIA).

Of course there are new rules about spousal benefits, but these basic rules did not change with the new legislation. The first rule is that the primary worker must have filed for benefits
in order for the spouse to be eligible for spousal benefits. So, in the example above, if John had not applied for Social Security, Jane could not receive a spousal benefit based on his record. Second, the spouse must be at least age 62 to receive a spousal benefit and, if she claims the benefit at that age, it will not be 50 percent of her husband’s PIA. She has to be 66 in order to receive the full benefit. Third, the spouses must have been married for at least 1 year.

Divorced individuals need to understand the spousal benefit rules too. Under the current rules, as long as you were married for at least 10 years, are at least 62 years old, and are currently unmarried, you are eligible to apply for spousal benefits based on your ex-spouse’s earnings history. Your ex-spouse also has to be at least 62 years old and eligible to receive Social Security benefits. If your ex-spouse is eligible for benefits but has not yet applied — presumably because he or she is trying to earn DRCs — you can still receive spousal benefits if you have been divorced for at least 2 years. During one of my workshops, after a woman realized she could collect benefits from her divorced spouse’s work
record, she spontaneously (if a little uncensored) blurted out “Finally, the no–good S.O.B. is good for something!”

**Survivor Benefits**

What happens if one spouse dies? Social Security provides survivor benefits too. Let’s go back to the example of John and Jane. John receives a benefit of $3,000 and Jane receives a spousal benefit of $1,500. If John dies, Jane will receive the higher benefit of $3,000 instead of the lower benefit. The survivor benefit will depend on the age at which the deceased spouse originally claimed his benefit, and the age at which the surviving spouse claims the survivor benefit.

Suppose John took my advice and didn’t collect his benefits until age 70, but then dies at age 71. The benefit that will be available to Jane after John’s death, assuming that she is also at least 66, will be equivalent to the benefit that was paid to John while he was alive. This includes the 8 percent annual raises that John earned because he waited until he turned 70 to collect his benefit. The reason I say that John’s benefit is “available” to Jane, rather than “paid” to Jane, is this: when
she applies for survivor benefits, Social Security will compare the benefit that is available to Jane based on her own record, to the benefit that is available to her because her spouse died, and supplement her benefit to equal the higher benefit.

Receiving the Higher of Two Benefits

Understanding that the surviving spouse will receive the higher of the two benefits is extremely important. If the spouse with the stronger earnings record waits until at least age 66, or better yet age 70, to collect benefits, the survivor benefit will be enhanced. This is a crucial bit of knowledge when considering strategies to maximize your income from Social Security. Since the financial goal for most couples is to guarantee the highest income for both spouses’ lives, it is a good strategy to ensure that at least one of the spouses receives a Social Security benefit that is as high as possible.

Let’s look at an example.

Bill, the primary worker of a married couple, is 66, but he suffers from a heart condition and estimates his life expectancy is 5 years. His wife,
also 66, is in excellent health and expects to live well into her 90s. She never worked outside of the home. Bill should not collect Social Security benefits when he is 66. He should wait until he is 70 so that his benefit will be increased by the 8 percent raises (DRC) every year for the 4 years between age 66 and 70. Even though he does not anticipate living to enjoy the advantage of this strategy, after his death his wife will receive a survivor’s benefit that will be 32 percent (plus the COLAs) higher for the rest of her life.

Even if Bill’s health prognosis was better, just knowing the survivor benefit will be the higher of the two benefits should influence his decision. We all know that on average women live longer than men. If the husband is older than his wife, she has an even longer life expectancy than him based on the fact she is a woman and is younger. In that case, planning for survivor benefits becomes even more important. Men who were the primary earners during their marriages who take their Social Security benefits early are not only hurting themselves, but to a greater degree, are really hurting their wives.
Chapter 4
The Apply and Suspend Strategy

This strategy is only available to qualified couples until April 29, 2016.

The Apply and Suspend strategy (also known as File and Suspend) can make a huge difference in the amount of money received from Social Security over your lifetime. But if you are going to try to take advantage of it, you must act quickly. Here’s how it works.

At FRA, or 66 for our purposes, the higher-earning spouse applies for and then “suspends” his benefits. In other words, he tells the people at the Social Security office not to send him any checks. The fact that he has applied, though, allows his spouse to apply for and collect spousal benefits (as long as she is age 62 or older, but it is best if she is FRA, age 66, as well).

When the higher-earning spouse turns 70, he can “un–suspend” his benefits. Why would any-
one do this? The answer is that, while the benefit is “suspended,” it earns the 8 percent/year raises (DRC) for 4 years. So, if he waits until he is 70 to receive the checks, they will be 32 percent (plus COLAs) higher than if he had taken them when he was age 66. There is no point in waiting to collect after age 70 because there are no 8 percent raises (DRCs) after you reach 70.

Let’s look at an example.

Phil and Barbara are both age 66. Phil’s PIA is $2,500; Barbara’s is $900. If Phil applies for and then “suspects” his benefit at age 66, Barbara is eligible to collect a spousal benefit of $1,250. When Phil finally does collect his benefit at age 70, it will be about $3,651 every month. Please note: Phil has to have reached FRA to Apply and Suspend his benefit.

The fact that Barbara was collecting spousal benefits on Phil’s record did not hurt him by one dime — in fact, as a couple, they benefit from the extra cash. His own benefit continued to grow by 8 percent (plus COLAs) every year also. Note, this would also be true if Phil had a former spouse (or, for that matter, several former spouses) who were collecting on his record.
Imagine how this strategy could improve your own income in retirement. Even though Barbara’s spousal benefit is only one-half of Phil’s benefit (PIA) at 66, the couple still receives some cash from Social Security while Phil’s individual benefit continues to grow. Another advantage to Phil holding off on collecting his benefit is that he is increasing the higher of the two benefits — consistent with what I recommended in the survivor benefit section. No matter who dies first, the survivor of the couple will get the higher benefit for the rest of his or her life.

Is it worth giving up benefits from age 66 — 70, in order to get more for the rest of your life? The following graph shows what happens if Phil and Barbara both take their Social Security at age 62, as compared to what happens if they use the Apply and Suspend technique.
Social Security Breakeven Analysis
Higher Earner Uses Apply and Suspend Strategy

Total Accumulated Assets from Social Security

- Apply & Suspend with Spousal Benefit at 66
- Both Collect Social Security at 62

Breakeven Point: Age 77
A Closer Look at the Details of the Breakeven Analysis Graph

In the early years, the solid line in the Breakeven graph (above) shows that Phil is not collecting anything until age 70 and Barbara is collecting a spousal benefit when she is 66. Those checks are coming in at a higher amount than if they had applied at age 62, which is the dashed line. When the couple are 77, they will have received as much using the Apply and Suspend strategy as they would have if they had started collecting at age 62. After they turn 78, though, the Apply and Suspend strategy is clearly superior. By the time they are 95, they will have collected $1,169,356 more in benefits.

The Elimination of Apply and Suspend

Unless you are grandfathered under the transition rules, the new law says that after April 29, 2016, the Apply and Suspend rules are eliminated. You can still apply for a spousal benefit, but only if the other spouse is currently receiving a benefit. This will hurt couples whose ages do not qualify them by April 29, 2016, and who want
to get the 8 percent raises (DRC) but also want to receive spousal benefits.

**Transition Rules**

The good news is that, if you have already applied and suspended, you are grandfathered in under the more favorable laws. Your spouse will be able to collect spousal benefits while your own benefits are suspended, even if she applies after April 29, 2016.

There is also a transition period for those who want to take advantage of the strategy, but have not yet applied and suspended. If you were born before April 29, 1950 (meaning that you will be at FRA by April 29, 2016), and you apply and suspend by that date, you will be grandfathered in under the old rules. Your own benefit will continue to earn 8 percent raises (DRCs) until you actually collect, and your spouse, when eligible, can collect a spousal benefit while your own benefit is suspended.

Unfortunately, if you were born after April 29, 1950, your spouse will not be able to collect spousal benefits unless you are collecting your own benefits.
CHAPTER 5
Restricted Applications

Claim Now, Claim More Later

This is a different strategy to maximize your Social Security benefits and the good news is that this particular strategy is not being eliminated until the end of 2019. It involves filing a Restricted Application for benefits. It is also known as the “Claim Now, Claim More Later” strategy.

Let’s review the rules about basic spousal benefits. If both you and your spouse have worked over the years, and if both of you have applied, Social Security will look at both of your earnings histories before they pay a benefit to you. If it is more advantageous for you to receive your own benefit based on your own earnings record, that’s the benefit they’ll pay you. If it is more advantageous for you to receive a spousal benefit, that is 50 percent of what your spouse
receives, then they will increase your benefit to equal that amount. Simple, right?

Well, clever guys like me put two and two together and realized that there was nothing in those rules that prevented someone from applying for benefits, but restricting their application to the spousal benefit. What is the point of doing that? By telling Social Security that the claimant is specifically applying only for a spousal benefit, it allows the claimants’ own benefit to grow by the 8 percent raises (DRCs) while at the same time collecting up to $60,000 in extra benefits from Social Security!

**Making the Strategy Work**

All of the pieces have to fall exactly into place in order for this to work. At FRA, which is 66 for our purposes, the spouse wishing to use the strategy must apply for benefits and specify that he is restricting his application to spousal benefits. In order for him to receive spousal benefits, his spouse must have filed for benefits based on her own record. The spousal benefit can be collected until he reaches age 70, at which point he
can switch to his own benefit. Let’s look at an example.

Mike and Mary are both 66 (FRA). Mike’s PIA is $2,000 and Mary’s PIA is $800. Mary files for her own benefit of $800 at age 66. Mike files for benefits, but restricts his application to spousal benefits. He begins collecting $400 (half of Mary’s PIA) every month. Together they are collecting $1200 a month. When Mike turns 70, he switches to his benefit. His benefit has grown by the 8 percent raises (DRCs) and COLAs and is now $2,920 each month. Once Mike begins to collect on his own record presumably at age 70, Mary can switch from her benefit to a spousal benefit based on Mike’s record. Her new benefit amount is $1,000, half of Mike’s PIA at his FRA. (The spouse does not get the benefit of the primary earner’s 8 percent DRC raises). Total income is $3,920/month instead of $2,800/month.

The person who is filing the Restricted Application must be 66 (FRA) or older. You cannot collect spousal benefits with this technique when you are younger than 66.
How the Strategy Will Work in 2020
When the new law takes effect, you will not be allowed to choose to receive lesser benefits when you apply. So, if your own benefit is higher, that is the amount you will receive. If you were born before 12/31/53 (meaning that you were 62 by 12/31/15), you will be allowed to file a Restricted Application when you reach FRA. If you were born after December 31, 1953, like me, you must resign yourself to knowing that you are plumb out of luck. You should plan on using other strategies to maximize your Social Security benefits, even if that includes just plain spousal benefits and 8 percent raises (DRCs).
CHAPTER 6
Combining Strategies

The two Social Security strategies, Apply and Suspend and filing a Restricted Application go together like peas and carrots. One strategy by itself is great. Put both of them together and they can be powerful tools to use when applying for your Social Security benefits. If you read the previous two chapters and realized that you and your spouse qualify for both strategies, you are in luck.

In our experience, it is usually best for the higher earning spouse to Apply and Suspend benefits at age 66. As soon as the other spouse turns 66, she can then file a Restricted Application and immediately begin collecting spousal benefits of 50 percent of her husband’s PIA. Then, when each spouse reaches age 70, the higher earner can un–suspend his benefits and collect his PIA, plus his 8 percent annual raises,
plus COLAs. His wife can then file for her own benefit which has also had the opportunity to increase by the 8 percent annual raises and COLAs. Remember, you must apply within the filing deadlines mentioned earlier to take advantage of either of these strategies. The spouse who chooses to Apply and Suspend must be age 66 by April 29, 2016, and the spouse who wants to file a Restricted Application must be 62 by December 31, 2015.

Let’s look at an example.

Ed and Carolyn are both age 66. Ed’s Primary Insurance Amount (PIA) is $2,500; Carolyn’s is $1,400. If Ed applies for and then “suspends” his benefit at age 66, Carolyn can file an application that specifically says she is restricting her request for Social Security, and only wants to receive her spousal benefit of $1,250 which is half her husband’s benefit at age 66. Because she restricted her application, the benefit that she is eligible to receive based on her own earnings record continues to grow by those 8 percent raises until she is 70.

From age 66 to age 70, the only income the couple receives from Social Security is Carolyn’s
spousal benefit of $1,250. But consider what happens when they turn 70. When Ed finally “un-suspends” his benefit at age 70 and starts to receive his monthly check, it will be about $3,651 every month. When Carolyn turns 70, she has the option to continue to receive her spousal benefit of $1,250, or switch to the benefit she is eligible to receive based on her own earnings record. Her PIA was $1,400 but her own benefit amount was increased by 8 percent, plus COLAs, every year that she didn’t take it. The monthly benefit amount that she is entitled to receive based on her own record is $2,044, so she switches. (Just a reminder: Ed has to be at least his FRA in order to Apply and Suspend, and there are no 8 percent raises paid beyond age 70).

Is it worth giving up benefits from age 66 to 70, in order to get more for the rest of your life? The following graph shows what happens if Ed and Carolyn both take their Social Security at age 62, as compared to what happens if they follow my advice and use both the Apply and Suspend and the file a Restricted Application techniques.
Social Security Breakeven Analysis
Married Couple Using Both Apply & Suspend and Restricted Application Techniques

Total Accumulated Assets from Social Security

- **Both Collect Social Security at 62**
- **Apply & Suspend with Spouse Filing**
  - Restricted Application at 66

Breakeven Point: Age 77

Age of Social Security Recipients

<table>
<thead>
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<th>Age</th>
<th>Total Accumulated Assets from Social Security</th>
</tr>
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<td>95</td>
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Remember, even though Carolyn is collecting a spousal benefit from the time she is 66 until she turns 70, she still earns the 8 percent raises on her own benefit. This means that her own benefit, which at this point she isn’t even collecting because she is collecting a spousal benefit, will continue to grow by 8 percent per year plus COLAs from the time she is 66 to age 70. Then, when she is 70, she can compare the benefits; (her spousal benefit or her own benefit that has grown 32 percent plus COLAs over the last 4 years), and collect the larger of the two. By combining these two very effective strategies, this couple was able to collect an additional $1,444,231 in benefits throughout their lifetimes.

Is there anything else that couples can do to maximize their spendable assets while preparing for their retirement years? What about the couples who are too young to qualify for the strategies that we just described? Another great strategy that I use on a regular basis in my practice is to combine all available Social Security strategies with Roth Conversions. Move on to the next chapter to find out if this option makes sense for you.
Chapter 7
The Synergy of Roth Conversions and Timing Social Security Benefits

My basic premise is that the best financial strategies take both Social Security and Roth IRA conversions into consideration and they aren’t two independent calculations. When the “number crunchers” in our office are trying to figure out the best strategies, they must consider the impact of Social Security on Roth conversion calculations, and the impact of Roth conversions on Social Security calculations. There is a synergy in optimizing plans for Roth conversions and timing Social Security benefits, all the while minimizing income taxes.

So, what follows is a brief discussion of Roth IRA conversions followed by a discussion of why the best results come from combining optimal
Social Security strategies and a Roth IRA conversion strategy.

I am a strong proponent of Roth IRA conversions and, in fact, I authored the first peer-reviewed article on the topic that was published in *The Tax Adviser* (May, 1998). I also published a detailed analysis of Roth IRA conversions in my book, *The Roth Revolution, Pay Taxes Once and Never Again* and I’d be happy to send you a copy of it if you contact my office (see the back of the book for contact information). You would be hard pressed to find an IRA expert who couldn’t come up with a situation where a Roth IRA conversion would be a good idea. And I have radio shows with 11 different IRA experts to prove it. (See www.paytaxeslater.com).

But, perhaps I am getting a little bit ahead of myself. Some readers might like a simple explanation of what a Roth IRA conversion is.

**What is a Roth Conversion?**

A Roth conversion involves transferring money from a tax-deferred traditional IRA account to a tax-free Roth IRA. There are no income limitations on who is eligible to make a Roth conver-
The amount that you transfer to the Roth IRA will be taxed at the time of transfer, but all of the future growth on the money will be tax-free. And a series of well-timed Roth conversions, as you will see, can make a significant difference not only to your lifestyle during your retirement, but also in the amount of wealth that is left to your heirs.

**Should You Convert?**

I will show you one piece of information that shows whether or not it can make sense to do a Roth IRA conversion.
Should You Convert?

Net IRA & After-Tax Amount (Total Purchasing Power)

- Convert to Roth IRA
- Keep in Regular IRA

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Chapter Seven
For this client, the Roth conversion gave him 18.5 percent more purchasing power in retirement. Under existing law, the children will get an even bigger benefit. The point is that for many, if not most, retirees between the ages of 62 and 70, Roth conversions can substantially increase your and your children’s wealth.

Everyone’s situation is different, and the decision about when and how much to convert must be analyzed on an individual basis. The best solution is to “run the numbers” for your own situation. Please see the back of the book for details on how we can help “run your numbers.”

**Why There is a Synergy between Optimizing Social Security and Roth IRA Conversions**

Social Security benefits, for most people reading this book, are subject to federal income tax. The IRS considers your income from all sources, including but not limited to wages, interest (including tax-exempt interest), dividends, and pensions. To that income they add one half of your Social Security benefit amount, and the total of those numbers is called your “combined
income.” If you are married and you file jointly, and the combined income on your tax return is greater than $32,000, then part of your Social Security will be taxed. How much will be taxed? That depends on your total income, but, as you might expect, the higher your income, the more of your Social Security will be taxed. Generously, though, the IRS will not tax more than 85 percent of your benefit amount. The rate of tax, of course, depends on your own tax rate as well as a number of other factors.

Even if you are not eligible to take advantage of the Apply and Suspend or Restricted Application techniques, you can still improve your retirement picture significantly by making a series of Roth IRA conversions in the years after you stop working, but before you begin to collect your full Social Security benefits. During this period, your income will be lower, and you can optimally execute higher Roth conversions while you are in a lower tax bracket. (I say full benefits because if you and your spouse are 66 and she is taking a spousal benefit, you are getting some benefit, but not a full benefit).
Converting to a Roth While in Your Lowest Tax Bracket

Executing a series of Roth conversions after you have stopped working, but before you begin to receive Social Security benefits and RMDs, will typically allow you to pay income taxes on the conversions at a lower rate. If you do them either while you are working, or after age 70, you will have your highest Social Security income and the income from your RMDs from your IRA, making conversions less favorable.

A favorable course of action for Peter and Brenda who are both 66 would be for Peter to apply and suspend, and for Brenda to apply for a spousal benefit. Then, they make a series of Roth IRA conversions starting at age 66 and continuing until age 69. Their taxable income will be low because there are no wages, only a small Social Security check, and no RMDs from their IRAs. The low tax rate will be favorable for Roth IRA conversions. Then, at age 70, when Peter un-suspends his benefits and both spouses are collecting Social Security and receiving RMDs from their traditional IRA, they stop converting because they will be in a higher income tax
bracket and it won’t be as favorable to make a Roth IRA conversion.

As shown in the first graph on page ii, maximizing Roth IRA conversions and Social Security was the difference between worrying about money in your older years and dying broke versus living with financial security and dying with $2,013,881.

What If I Am Already Receiving Social Security but I Like the Idea of a Roth Conversion?

What if you would like to consider a Roth conversion, but are already receiving benefits and are concerned that the increased income will cause your benefits to be taxed? That means you’ve understood what I’ve said in this chapter, which makes me happy. But there is actually a little-known strategy that might be able to help you here. Even if you are already receiving benefits, Social Security allows you to suspend them if you are age 66 or older. You can tell them to not send your money, and there is no penalty for doing so.
By deferring your Social Security benefits, you might be able to create your own perfect window of opportunity to do a Roth conversion!

And, bear with me here, if we revisit the issue of someone who began taking Social Security before age 66, and who has been receiving Social Security for less than a year, and regrets the decision, I can offer this idea. An advanced strategy would be to return up to one year of Social Security benefits, get a tax deduction for the return and make a Roth IRA conversion the same year. That way, you could get your Social Security strategy right, or at least better, and get a low tax cost Roth IRA conversion.

Finally, even though it might be better to make strategic Roth IRA conversions in your 60s when your income is at its lowest, Roth IRA conversions are often still extremely advantageous for people in their 70s or older.

The big picture, however, is that you must consider Roth IRA conversions and Social Security strategies to optimize your financial picture. They are not two independent calculations.
Conclusion

Here are some key points to remember about Social Security.

- If you apply at age 62, or as soon as you are eligible, your benefit starts lower and stays lower for the rest of your life.
- COLAs magnify the impact of early or delayed claiming.
- Delaying taking benefits becomes more advantageous the longer you live, but it is frequently a game changer for the surviving spouse.
- The Apply and Suspend strategy adds significant value for married couples.
- The Apply and Suspend technique is being phased out and qualified couples must apply by April 29, 2016 to take advantage of this strategy.
- The Restricted Application or the “Claim Now, Claim More Later” strategy is another way married couples can get more from Social Security.
- Since the survivor gets the higher of the two Social Security benefits, a good strategy is to
plan for at least one benefit to be as high as possible.

- A series of Roth IRA conversions along with the best Social Security strategies is a powerful combination.

I hope I have convinced you that there is no one-size-fits-all answer when it comes to claiming Social Security benefits, and as such, you need to bring your full attention to your decision making; it could cost your family hundreds of thousands of dollars, and should not be taken lightly. Please review all of your options with a qualified professional (not at your local Social Security office) before signing on the dotted line, because your financial future depends on it.

If you would like help from our staff of experienced professionals, please continue reading.
Everyone Needs a Good Financial Game Plan. Let’s Find Yours…

*Our team of CPAs, estate attorneys, and money managers help clients retire securely, cut taxes, and get the most out of what they’ve got. Then, we help them pass on whatever is left using strategies to minimize tax losses for their heirs.*

Working as a team, our CPAs, estate attorneys, and money managers optimize individualized plans and strategies for the benefit of our clients. We support all four corners of your financial house; integrating comprehensive legal and estate planning, strategic tax planning, financial planning, and investments. It’s very rare for a client with less than $10 million to enjoy a comprehensive arrangement such as this. Our CPA firm “runs the numbers,” our law firm prepares wills and trusts\(^3\), and we work closely with a low-cost

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\(^3\) Preparing wills, trusts, and IRA beneficiary designations is only available for Pennsylvania residents. Investment advisory services are available to clients in Pennsylvania, Florida, New York, Ohio, Virginia and California.
index fund advisor who manages the money. “Running the numbers” provides an in-depth analysis of a client’s options and possibilities: How much money can you afford to spend without worrying about running out of money? How much and when should you convert your IRAs to Roth IRAs? Does gifting make sense and if so, in what form, how much, and when? Additionally, we will recommend the best Social Security strategy for you.

You will benefit by receiving a big-picture perspective. For instance, we may discover that a client who assumed he had to work an additional five years actually has sufficient funds to retire tomorrow. Or perhaps, he will choose to continue working, but on his own terms. Should you sell the family home and move to Florida or is it financially feasible to become snowbirds and get the best of both worlds? We can run the numbers and find out. Observations like these can and have been life-changing and liberating.

We do not manage investments internally at Lange Financial Group, LLC because we recognize that managing money is beyond the scope of our expertise. We looked for an investment
advisory firm who brought the same kind of dedication and concentration to their field as we do to ours.

Happily, we found our primary collaborator, DiNuzzo Index Advisors, Inc., right in our backyard. They are a first class organization that uses what we believe are the best low-cost index funds on the planet: Dimensional Fund Advisors. Individual investors can only access Dimensional’s strategies through a select group of financial advisory firms, and DiNuzzo Index Advisors, Inc. is included in that select group. They have become our main resource when it comes to professionally managed portfolios for new clients. For clients who prefer an active money management style, we have a similar arrangement with our long-standing collaborators at Fort Pitt Capital Group, Inc.

P.J. DiNuzzo has put together a superb team of CFPs, ChFCs, CPAs, MBAs, and financial advisors, who have been serving their clients brilliantly since 1989. P.J. and his team spend a lot of time with every client. Their process is in-depth and impressively client focused. It includes two to three meetings before they even agree to man-
age a client’s money. An example of one of the strategies P.J. and his team use with our mutual clients is the DiNuzzo Money Bucket Stack Analysis™ (DMBSA). With this strategy, P.J. separates the client’s investible assets into different accounts or “buckets” based on the time periods and purposes for which the client anticipates using those assets. They prepare detailed cash flow statements as well as personalized balance sheets for all of our mutual clients. This process provides enormous value and allows them to get the “buckets” just right. No two clients are the same; our plans focus on the individual (and his or her family).

After P.J. and his team develop an investment plan, and our team develops a comprehensive retirement and estate plan, we help our mutual client implement the overarching plan. But our involvement doesn’t end there. All good plans need to be modified and adjusted due to changing circumstances — portfolios increase and decrease because of market conditions, tax laws change, children marry, grandchildren are born, and divorces happen. That’s why clients meet with someone from our firm at least once
on an annual basis to update their numbers, and with P.J.’s team on a semi-annual or annual basis to review portfolio performance. The DiNuzzo team also manages a client’s portfolio using a best practice in the industry called “regular rebalancing.”

Communication is critical. We maintain regular channels of communication among all the advisors and the client. When you become a client of Lange Financial Group, LLC, you benefit from the integrated experience of our financial professionals — all of whom have different but complementary expertise. In essence, you are getting what we think are the best retirement and estate planning strategies along with the best money management services that I am aware of. We support all four corners of your financial house for a combined fee of between 50 basis points (one-half of one percent of the money we actually manage) and 1 percent* depending on how much money is invested.

We think this multidisciplinary approach is a win/win/win. It is a win for us because we get to do what we do best: implement our tax and estate planning strategies, help people retire
securely, and wisely pass assets on. It is a win for DiNuzzo Index Advisors, Inc. because they get to do what they do best: manage money. The biggest win, however, is for the client. You get our number crunching analysis, as well as comprehensive retirement and estate planning, and integrated money management using low-cost index funds all for one low fee.

We recognize that we aren’t a perfect fit for everyone, but we enjoy a 98 percent client retention rate with the mutual Lange/DiNuzzo clients, and our feedback indicates that our clients find excellent value in our combined services. It has been an interesting and rewarding journey for us, and we’re working every day to make that journey even better for our clients.

We are proud of this success and would be happy to tell you more in person, should you qualify for a free consultation.
To inquire about a *Free Second Opinion** please:

Call 412–521–2732  
Or visit: paytaxeslater.com/ss

*Please see the Lange Financial Group, LLC Form ADV Part 2 for a full discussion of advisory fees and expenses.

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The Little Black Book of Social Security Secrets


James Lange, CPA/Attorney

PRAISE FOR
The Little Black Book of Social Security Secrets

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Jonathan Clements, Former Personal-Finance Columnist for The Wall Street Journal

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Paul Merriman, Author, Financial Fitness Forever

The author, James Lange, CPA/Attorney has written 5 best-selling books. His recommendations have appeared 36 times in The Wall Street Journal.

Source: paytaxeslater.com