

DUNHILL FINANCIAL



A GUIDE TO SOCIAL SECURITY

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EXECUTIVE SUMMARY

Social Security is one of the most popular federal insurance programs providing cash benefits to workers and their eligible family members in the event of the worker's retirement, disability, or death. The worker's employment or self-employment is considered covered by Social Security if the services performed in that position result in earnings that are taxable and creditable for program purposes.

To be eligible for Social Security benefits, you must have at least 40 Social Security credits. When you work and pay Social Security taxes, you get credits. The amount of benefits you obtain is unaffected by the number of credits you have. Your credit balance determines your eligibility for retirement or disability benefits, as well as your family's eligibility for survivors benefits if you die. If you don't have enough credits, we won't be able to pay you benefits.

Social Security can act as a hedge against inflation as well. It can act as the only part of your retirement planning which does not get affected by inflation. The Social Security Cost Of Living Adjustments (COLA) is adjusted annually to take inflation into account. However, once you start receiving the benefits, they cannot be altered. The only alterations that can be made are in the COLA.



SOCIAL SECURITY BENEFITS

There are a few Social Security Strategies, which should be taken into account before you apply for it.

Split Strategy for Married Couples: Due to financial issues or a health crisis, many retirees require the cash flow from Social Security to arrive sooner. If you require cash flow sooner, a split method may be appropriate. One family member files a claim early, while the other files a claim late. The higher pay earner continues to postpone, but the lower wage earner claims early in this method to ensure that the couple's surviving member obtains the maximum survivor benefit feasible.

Spousal Benefits: A spouse is entitled to

- the benefit based on their earnings record or 50 percent of the benefit based on the spouse's earnings record, whichever is higher.

- **Divorce Benefits:** Spousal benefits aren't simply for folks who are married right now. They are also available to divorced spouses who meet certain requirements. You must have been married for at least 10 years, and cannot be married right now, and the benefit amount is calculated in the same way as a spousal benefit.

- **Disability:** People with impairments can get help from the Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) programs. Monthly payments are made if you meet the non-medical standards and have a medical condition that is projected to persist for at least one year or result in death.

- **Children:** The Social Security benefits provide basic necessities for family members and aid in the completion of high school for their children. When a parent becomes incapacitated or dies, Social Security benefits to aid in the financial stability of the family.

WHEN TO TAKE SOCIAL SECURITY?

Due to the double taxation and laws varying from country to country, Social Security is a grey area for many Expats,

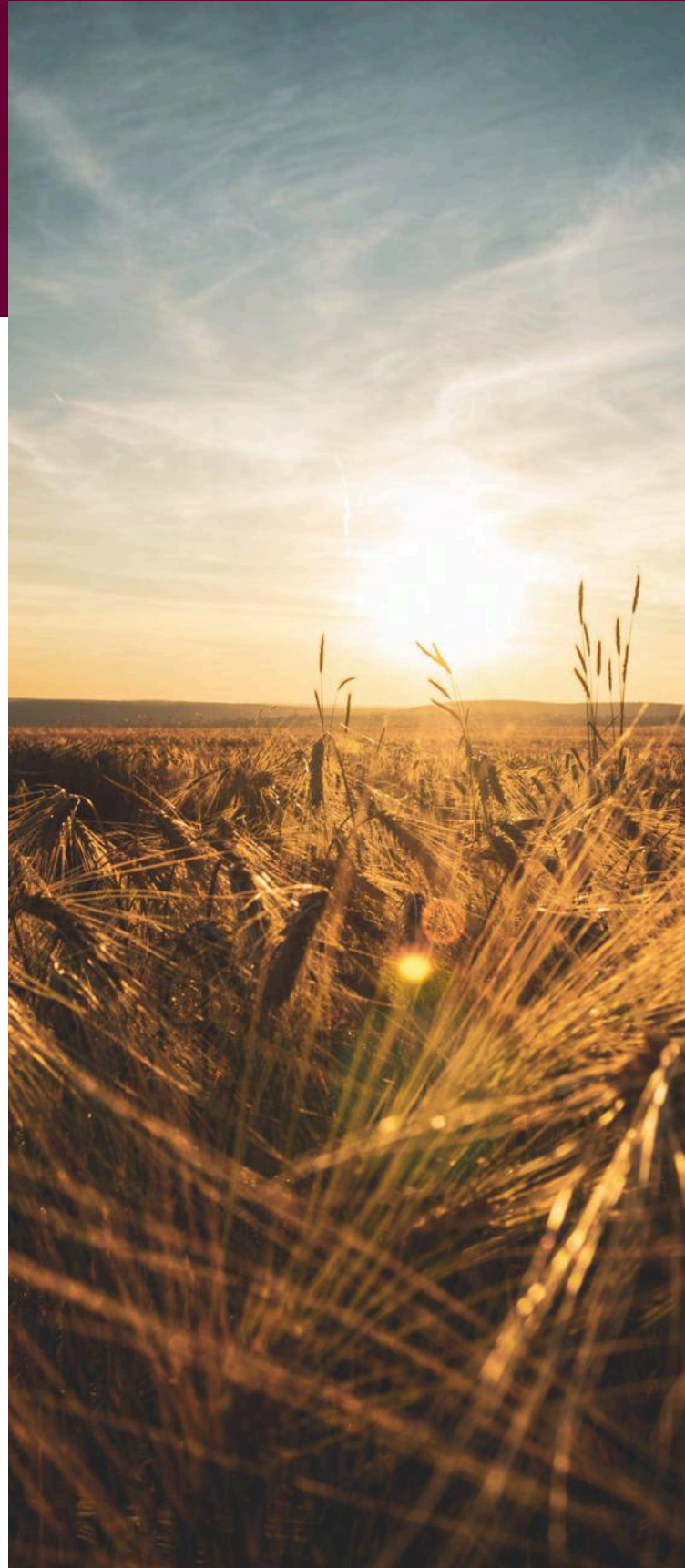
In general, US Expats are eligible to receive Social Security while they are living abroad. However, a few factors such as their citizenship, residency status, and the agreements between the US and the country in which they reside affect the Social Security payments.

The earliest an individual can start receiving Security benefits is age 62. However, in order to attain full benefits, an individual must reach their full retirement age which is age 67 for those born after 1960.

The longer you delay starting your Social Security benefits, the higher your benefit will be. Generally, your benefit increases by 8% for every year you wait. Any further delays past age 70 will not increase your benefits.

Of course, it is also crucial to consider the health and expected longevity of you and your family when determining the right age to begin receiving these benefits.

In the split-filing strategy, the lower-earning spouse would take their Social Security benefit as early as age 62, while the higher-earning spouse would wait until age 70 to maximize their benefits.



WHERE TO RECEIVE SOCIAL SECURITY?

US Expats have different options to receive Social Security benefits. These include the following:

Electronic Payments

This is the most commonly used way to receive Social Security benefits. These can be made to a U.S. bank or a foreign bank account in 69 countries across the world.

The U.S. Department of the Treasury prohibits making payments to persons residing in Cuba or North Korea. A US citizen will not receive any payments during their stay in these countries but will receive all withheld payments once they move to a country where payments can be sent.

Social Security payments cannot be made to persons in Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, and Uzbekistan. However, the Social Security Administration can make exceptions for certain eligible persons in these countries.

It would always be easier to receive the benefits in a local bank account. However, certain foreign banks may not accept these benefits. It is important to confirm your local bank accepts these benefits.

In the case of direct deposits to the local bank, Social Security benefits would be converted to the local currency unless you have a USD account with that institution. The local foreign bank account would have to be reported to the IRS.

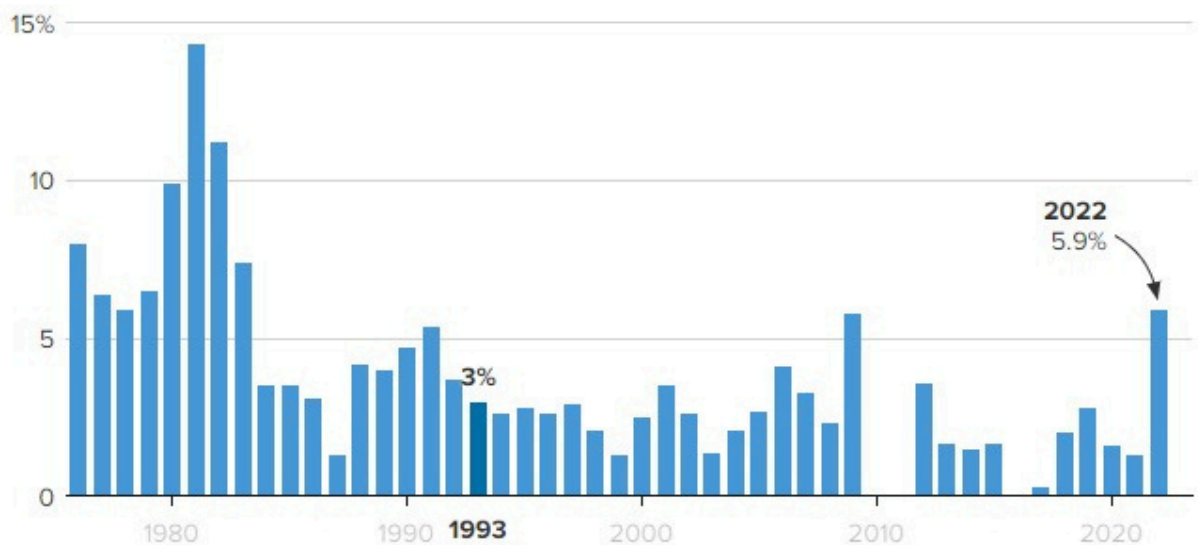
DirectExpress Card

The DirectExpress Card is specifically used for receiving Federal benefits. Social Security benefits can be directly paid to a Direct Express Card and can be used by Expats abroad. However, there is no provision yet to transfer the funds to another bank or account.

CURRENCY OF SOCIAL SECURITY DISTRIBUTIONS

Direct Deposits of Social Security benefits to the local foreign bank accounts are faster than receiving checks. Checks take approximately 1-3 weeks longer than direct deposits. If you take the benefits in the local currency, it would avoid any extra currency conversion and cashing fees.

Annual Social Security cost-of-living adjustments



Source: Social Security Administration



The Social Security Cost Of Living Adjustments (COLA) for 2022 is 5.9%, the highest since 1982. In 2021, the cost-of-living adjustment was 1.3%

WHAT IF YOU DIDN'T WORK YOUR ENTIRE CAREER IN THE US?

Not every ex-pat spends their entire life working abroad, and some that do can make use of totalization agreements in their host country which allows them to pay into Social Security under particular circumstances. This could place an ex-pat in a situation where they have multiple pensions from different countries with gaps in their coverage that may not necessarily overlap.

To account for this issue, the Windfall Elimination Provision (WEP) is a provision in the United States which changes the way Social Security is calculated. It is a modified benefit formula designed to remove the unintended advantage of contributing to an overseas or federal pension as well as Social Security, referred to as a "windfall".

The reduction in initial benefits caused by the WEP is designed to place affected workers in approximately the same position they would have been in had all of their earnings been covered by Social Security.

For example, if someone worked in Belgium for 20 years and the US for 20 years, they would have their monthly Social Security benefits reduced by roughly \$300-400 per month to account for them receiving their overseas pension.



WHEN TO APPLY FOR SOCIAL SECURITY

You must be at least age 62 for the entire month to be eligible to receive benefits. If you were born on the first or second day of the month, you meet this requirement in the month of your 62nd birthday. If you were born on any other day of the month, you do not meet this requirement until the following month.

You can apply up to four months before you want your retirement benefits to start. Social Security benefits are paid in the month following the month they are due. If you are due benefits for the month of December, you will receive your first check in January or December.

Once you decide on the best age for you to actually retire, remember to complete your application three months before the month in which you want retirement benefits to begin.

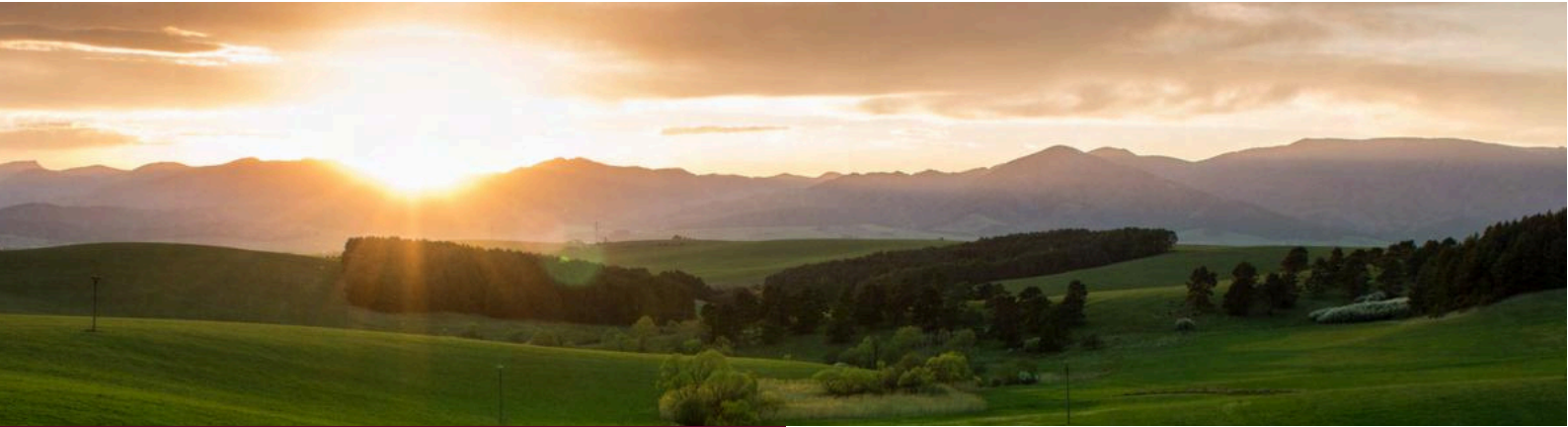
For example, if an individual turns 62 on December 2, they can start their benefits as early as December.

If they want their benefits to start in December, they can apply in August.

If they turn 62 on any day after December 2, they are not considered age 62 for the entire month of December. They can therefore start their benefits as early as January, as they would have been 62 for the entire month.

If they want their benefits to start in January, they can apply in September.

WILL SOCIAL SECURITY STILL BE AROUND WHEN I TAKE IT?



According to the 2021 annual report of the Social Security Board of Trustees, the surplus in the trust funds that disburse retirement, disability, and other Social Security benefits will be depleted by 2034, one year earlier than the trustees projected in their 2020 report.

That does not mean Social Security will no longer be around; it means the system will exhaust its cash reserves and will be able to pay out only what it takes year-to-year in Social Security taxes. If this comes to pass, Social Security would be able to pay about 78% of the benefits to which retired and disabled workers are entitled.

The coronavirus pandemic has also had an impact on the system's long-term finances, as large-scale job losses cut into the payroll tax revenue that largely funds Social Security.

The trust funds had \$2.9 trillion in reserves at the end of 2020, but benefit payments going out are increasingly outpacing income, due to the demographic and actuarial trends. While the boomers are swelling the ranks of retirees (and living, and collecting benefits, longer), lower birth rates in subsequent generations mean there are fewer workers paying into Social Security.

If no changes are made, the system will run through its reserve assets by 2034, if not sooner. For years, lawmakers and policy experts have been debating proposals to shore up Social Security's finances, with most falling into two broad categories: changing tax policies to steer more money into the trust funds or adjusting the formula to reduce costs or some combination of both.

TOTALIZATION AGREEMENTS

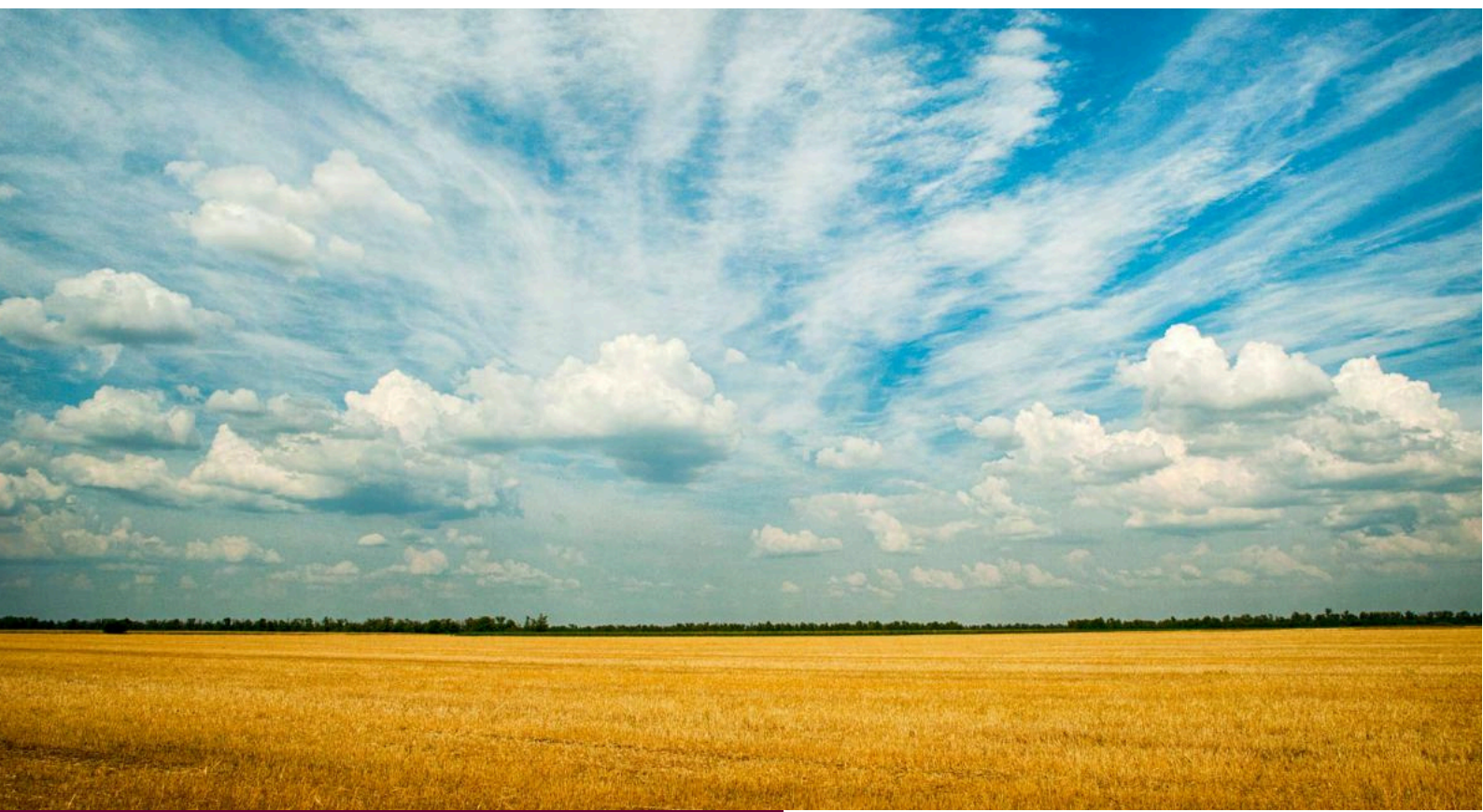
Totalization Agreements are international agreements that the United States has entered into with 30 countries.

The three main purposes of having Totalization Agreements are:

- To eliminate double social security taxation, which occurs if a worker and his or her employer are required to pay social security taxes to two countries on the same earnings.
- To help fill gaps in coverage records of people who have divided their careers between two countries by combining, or totalizing, the periods of coverage earned in each country
- To permit unrestricted payment of benefits to residents of the two countries

In the case of employed ex-pats in a foreign country, if the country has a Totalization Agreement with the US, the credits earned can be transferred to the other party of the agreement if a dual resident has an insufficient number of credits in one of the countries to qualify for the benefits.

Once transferred to the other country's Social Security system, those credits do not reduce the number of credits accumulated in the other country—so you may be eligible to collect social security benefits from both systems once you reach the retirement age.



Any credits accumulated in a country which is not a party to the agreement may not be transferred. However, contributions made to another country without a totalization agreements may be applied instead of the foreign tax credit, and thus reduce their U.S. income tax bill.

Self-employed expats are also exempt from double taxation from two Social Security systems. However, the country to which contributions have to be made is defined differently depending on the source of Social Security income as well as the length of self-employment activity.

To be sure of the country to which the expat will make their contributions, they should check with the agreement that is in place (if any) between the United States and the foreign country in which they are living and working.

HOW DOES AN EMPLOYER SUBSTANTIATE THE CLAIM?

Substantiation of a claim of exemption under the terms of a Totalization Agreement can be obtained by an American citizen or resident alien or his or her employer through a request for a Certificate of Coverage from either the country in which the employee is employed or the country of residence. This certificate should be presented to your local social security equivalent in your country of residence.

SOCIAL SECURITY: FACT CHECK

There are a few facts about Social Security that you would like to check out before taking the distributions:

1. Social Security consists of two separate entities namely 'Old-Age and Survivors Insurance' program and the 'Disability Insurance' program. The finances for both are handled by separate trust funds.
2. Generally, in order to qualify for old-age benefits, you must have worked for ten years while earning at least \$5,880 annually (2021).
3. Americans aged 65 years and above will be receiving about \$57 million in 2021 and approximately \$76 million in 2035.
4. Social Security forms the main source of income for more than 60% of beneficiaries who are aged more than 55.
5. As of June 30th, 2020, about 64.7 million people, i.e., 20% of the US population received monthly Social Security benefits.
6. Social Security is, and will always be an inter-generational transfer of funds.
7. Every time the Social Security loans money to the US Government, the Government can use these funds to pay the debt it owes to other entities.
However, the total debt still stays unchanged as the government needs to pay the amount to Social Security. This is often referred to as 'putting Social Security in a lockbox'.
8. The annual COLA is not guaranteed. Inflation is the only factor that decides whether the annual COLA is required or not. It has happened for 3 years - 2010, 2011, and 2016, when there was no change in the COLA due to no inflation.
9. Up to about 85% of your Social Security benefits can be taxed if half of your Social Security benefits added to your modified Adjusted Gross Income are above a certain threshold limit.
10. The money paid by you in the taxes is not being saved in an account for your use later on. Instead, it is being used by the Social Security trust funds to pay the people who are getting the benefits.

CALL OF ACTION

- Contact us at info@dunhillfinancial.com

Visit Social Security website to find out contact information for your specific

- country at <https://www.ssa.gov/foreign/foreign.htm>

Contact at 410-965-0160 (9:00am and 4:00pm Eastern U.S time) to discuss

- about your Social Security benefits



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TAKING THE NEXT STEP

GET IN TOUCH WITH US



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