# MAXIMIZING SOCIAL SECURITY RETIREMENT BENEFITS

UPDATED FOR 2020

Guidance on how future retirees can make the most of their retirement benefits

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# TABLE OF CONTENTS

# INTRODUCTION

Deciding when and how to claim Social Security benefits is one of the most important decisions that retirees will ever make. And more and more of us will be making these decisions.

In 2020, the 73-million-strong baby boomer generation will range in age from 56 to 74 and will continue to march toward retirement at a rate of 10,000 people per day for the next decade. 2020 marks the beginning of a new era in Social Security planning. Many of the creative claiming strategies that allowed married couples and eligible divorced spouses to maximize their lifetime benefits in the past have disappeared for new retirees. But the decision about when to claim Social Security benefits is still a critical piece of the retirement income puzzle. And, widows and widowers will continue to have flexible claiming options regardless of when they were born.

Even for the typically more affluent clients of financial advisers, an informed decision about how and when to claim Social Security benefits can mean thousands of dollars of extra income each year in retirement and tens of thousands of extra dollars over a lifetime, including survivor benefits. Meanwhile, Medicare premiums, which are usually deducted directly from Social Security benefits, continue to rise, particularly for higher-income beneficiaries.

In March 2020, the world changed. The stock market tanked in response to the global coronavirus pandemic and the U.S. economy screeched to a halt. As the lockdowns continued and unemployment spiked to more than 17 million people in early April, many Americans wondered if they would ever be able to retire and whether they should rethink their Social Security claiming strategies.

Certainly, the idea of earning a guaranteed 8% per year in delayed retirement credits for every year one postponed claiming Social Security beyond full retirement age up to age 70 is compelling, particularly when other risk-free alternatives, such as interest on bank deposits, are paying less than 1% and investment portfolios are posting comfortable returns.

But dramatic stock market losses in early 2020 prompted some advisers and their clients to worry about taking withdrawals from shrinking nest eggs, particularly during the early years of retirement, because it could threaten their long-term financial security. In other cases, older workers saw their jobs disappear as a result of the pandemic-induced economic shutdown.

Suddenly, claiming Social Security earlier rather than later looked like a good way for some to navigate the new economic uncertainty. But there are consequences. Social Security benefits are permanently reduced if claimed before full retirement age and are subject to income restrictions for beneficiaries who have earnings from a job or self-employment.

However, Social Security's many rules also provide escape clauses detailed in this book. People who claim their benefits early have a right to change their mind later by suspending their benefit at full retirement age to allow them to continue to grow up until age 70 as explained in Chapter 9: The Do-Over Strategy. And older workers whose earnings have already exceeded the annual limit for 2020 may be able to take advantage of special first-year-in-retirement rule that applies a monthly earnings limit detailed on page 8-9.

We often forget how important Social Security benefits are. Nearly nine out of 10 individuals age 65 and older receive Social Security benefits. They represent the single largest source of income for the majority of older Americans, accounting for half or more of total income for 50% of married couples and 70% of unmarried individuals, according to the Social Security Administration. For most American retirees, Social Security is one of the only sources of guaranteed income that retirees can count on for the rest of their lives. Cost-of living adjustments in most years help them maintain their buying power during a retirement that can span decades. In an era of disappearing pensions, historically low interest rates and erratic stock market returns, Social Security's guaranteed income for life is more appealing than ever.

But Social Security isn't static. In late 2015, Congress voted to eliminate two key Social Security claiming strategies for future retirees. The Bipartisan Budget Act of 2015, which authorized those changes, took effect in 2016. We review those two claiming strategies in detail: how they changed, and who's affected by the changes in Chapter 2. One strategy known as "file and suspend" has been eliminated, but individuals who exercised this claiming option before the April 29, 2016 deadline are grandfathered under the old rules. The other strategy, known as "filing a restricted claim for spousal benefits," is still available to people who turned age 66 or older by the end of 2019. Eligible individuals can exercise this claiming strategy anytime up to age 70, but it is no longer available to people who were born after the Jan.1, 1954, cutoff date.

Even with these claiming strategies essentially gone, married couples still have the most flexibility when it comes to maximizing their Social Security benefits. But single individuals, divorced and surviving spouses, same-sex couples and families with minor dependent children also can all gain from a well-designed claiming decision.

In the following pages, I outline the new rules governing who can still use these strategies under existing rules and offer guidance to future retirees about what they should do when it comes time for them to file for Social Security.

I also review a lot of the basics of Social Security (which sometimes aren't so basic) and discuss a variety of situations based on questions about Social Security benefits that I have received from financial advisers and consumers in my role as contributing editor at InvestmentNews, the leading source of news and information for financial advisers.

As the topic of Social Security-claiming strategies has gained wider attention, there unfortunately has been a simultaneous uptick in the amount of misinformation spread about this crucial retirement income program. My goals for this book are to help financial advisers deliver the best possible information to their clients, and to arm consumers with critical information about how Social Security works and how it fits into an overall retirement income plan.

# CHAPTER 1: THE ABCs OF SOCIAL SECURITY

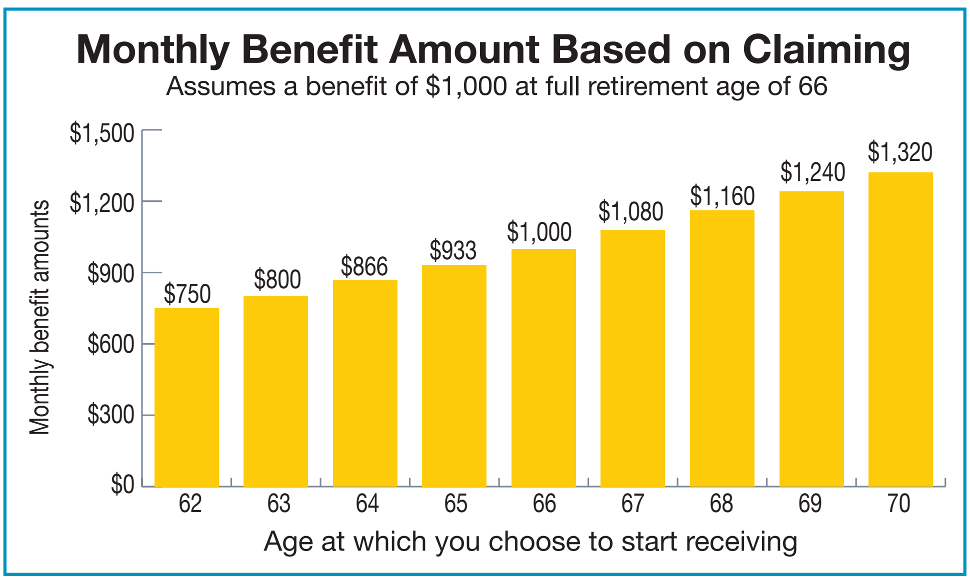
When you work and pay Social Security taxes, you earn up to a maximum of four "credits" per year. Credits are based on your total wages and self-employment income reported during the year, no matter when you did the actual work. In 2020, you must earn $1,410 in wages or through self-employment to receive one Social Security work credit, and $5,640 to get the maximum four credits for the year.

You need 40 credits — essentially 10 years of work — to qualify for Social Security retirement benefits. If you stop working before you have enough credits to qualify for benefits, your credits will stay on your record. If you return to work later on, you can add more credits so that you can qualify. No benefits can be paid if you have not accumulated sufficient credits.

If you do not have enough Social Security credits of your own, you may be able to get spouse's retirement benefits if you are at least 62 years of age and your spouse is receiving retirement or disability benefits. You can receive the spouse's benefit regardless of your age if you are caring for your spouse's child who is under age 16 or disabled. You also can qualify for Medicare at 65 if your spouse is at least 62 years old and eligible for Medicare in the future or already enrolled in Medicare.

The dollar amount of your Social Security benefit is based on your lifetime earnings. Your actual earnings are adjusted or "indexed" to account for changes in average wages since the year the earnings were received. Then Social Security calculates your average indexed monthly earnings during the 35 years in which you earned the most and applies a formula to these earnings to arrive at your basic benefit, or "primary insurance amount" (PIA). This is how much you would receive at your full retirement age, depending on your date of birth.

Finally, the age at which you claim your benefits determines your monthly payment. If you claim benefits before your full retirement age, your benefit will be reduced permanently. If you are willing to delay claiming your benefits, they will be larger for the rest of your life.




Source: Social Security Administration

Despite growing awareness about the value of putting off the collection of benefits for as long as possible — thereby increasing the monthly value of those benefits — about a third of retirees still claim retirement benefits as early as they can, at age 62. But just because they can claim benefits at that age doesn't mean they should, particularly if they plan to continue working, as so many boomers now expect to do.

Americans must come to understand that deciding when to retire and when to claim Social Security benefits are two separate events that need not occur at the same time. And it looks like the message that later is better when claiming benefits finally is getting through to American workers. A 2017 survey by Fidelity Investments found that pre-retirees say they are far less likely to claim Social Security benefits as soon as possible compared to current retirees. Only 28% of the 61-year-olds surveyed said they are planning to claim benefits at 62, compared to the 45% of 61-year-olds who said they planned to grab the money early when the survey was last conducted in 2008.

Claiming Social Security benefits before full retirement age — currently 66 for anyone born from 1943 through 1954 — means retirement benefits are permanently reduced. For example, if your full retirement age is 66 and you claim benefits at 62, your benefits are reduced by 25% for the rest of your life. That's a lot of money to forfeit.

On the other hand, if you are willing to postpone claiming your benefits, you will be rewarded for your patience. For every month you wait to collect Social Security beyond your full retirement age, you earn delayed-retirement credits worth 0.66% for a total of 8% per year — up to age 70.

The table below illustrates the effect of early retirement for a retired worker assuming a $1,000 primary insurance amount (PIA) at full retirement age.

**Decrease in Benefits for Claiming Early**
**Assumes a $1,000 primary insurance amount (PIA) at full retirement age**

| Birth Year | Full Retirement Age | Benefit Amount at 62 | Percent Reduction at 62 |
|---|---|---|---|
| 1943-1954 | 66 | $750 | 25.00% |
| 1955 | 66 and 2 months | $741 | 25.83% |
| 1956 | 66 and 4 months | $733 | 26.67% |
| 1957 | 66 and 6 months | $725 | 27.50% |
| 1958 | 66 and 8 months | $716 | 28.33% |
| 1959 | 66 and 10 months | $708 | 29.17% |
| 1960 or later | 67 | $700 | 30.00% |

Source: Social Security Administration

For someone whose full retirement age is 66, delaying Social Security benefits until 70 will result in a whopping 32% increase in benefits. Do the math. If your full-retirement-age benefit is $2,000 per month at 66 and you wait until 70 to collect, your benefits will grow by 8% a year for four years and be worth $2,640 per month ($2,000 plus $2,000 x 0.32).

The actual payout will be even larger, as annual cost-of-living adjustments (COLA) for each of the intervening years will be added to your monthly benefit amount. Waiting to collect the biggest benefit as possible at age 70 means future cost-of-living adjustments will be applied to a bigger base, resulting in larger monthly payments for the rest of your life.

The difference between claiming 75% of your benefits at the earliest age of 62 and waiting until 70 to collect the maximum benefit, worth 132% of your full-retirement-age amount, translates into a 76% increase in monthly Social Security income for the rest of your life. It is certainly worth considering.

If you were born in 1960 or later, your full retirement age is 67. As a result, your retirement benefits will be reduced by 30% if you claim at the earliest age of 62 compared to five years later at your full retirement age and your maximum delayed-retirement credit will be smaller — a total postponement bonus of 24% earned over three years between 67 and 70.

Consequently, the sweet spot for Social Security claiming strategies is for those people whose full retirement age is 66. The combination of a guaranteed 8% per year increase in benefits for up to four years and the comparatively low-interest rates on other risk-free investments creates a strong argument for waiting to collect Social Security. That assumes you are healthy and likely to exceed average life expectancy and have other income or assets to draw on in the interim.

Delayed-retirement credits end when you turn 70, so it makes no sense to postpone claiming beyond that age even if you plan to continue working.

## ***WHEN TO COLLECT: KEY CONSIDERATIONS***

As I often tell audiences of financial advisers and consumers when discussing how to make the most of Social Security, you must be present to win! That's why life expectancy is such an important consideration in the timing of when to collect retirement benefits. Obviously, no one knows what tomorrow brings, but assessing one's current health, family history and lifestyle can help establish some probabilities.

The Social Security Administration estimates that a man reaching 65 today can expect to live, on average, until 84; a woman turning 65 today can expect to live until about 86. If clients live to an average life expectancy, their lifetime income from Social Security will be about the same whether they choose to claim smaller benefits early or larger benefits later.

But if you live beyond average life expectancy — as many college-educated, white-collar individuals are likely to do — holding out for a bigger monthly Social Security benefit could mean a more secure retirement in the long run.

That's particularly true for boomers, whose full retirement age is 66. They enjoy a maximum delayed retirement credit of 32%. But the benefits of delay are likely to wane in the future as the age of full retirement rises to age 67, when the maximum delayed credit will shrink to 24%. So if interest rates on risk-free or low-risk investments increase from today's near-record lows, future retirees may want to claim Social Security at full retirement age or earlier — as was the norm in the past — and invest their Social Security benefits on their own. That would eliminate concerns over whether they will outlive the breakeven point where collecting benefits later would result in higher lifetime income than collecting benefits earlier. Plus, these future retirees will no longer be able to coordinate their claiming strategies in a way to maximize their lifetime benefits as some of today's retirees can.

The key is for financial advisers to remain nimble and adjust their recommendations concerning Social Security claiming strategies as the investment climate changes. What makes sense for retirees in 2020 may not be appropriate for future retirees.

## ***66 IS STILL THE MAGIC AGE***

I like to call 66 the "magic age" for Social Security benefits. That's the age when you can collect your full retirement benefit — even if you continue to work — and you can get fancy with your Social Security claiming strategies.

Of course, those creative claiming strategies are now limited to people born on Jan 1, 1954 or earlier. (Anyone born on the first day of the year is considered eligible for Social Security benefits in the prior year.)

For those born after New Year's Day 1954, the full retirement age ranges from 66 to 67, and none of today's creative claiming strategies will be an option. However, widows and widowers (as well as surviving divorced spouses) who are eligible for both their own retirement benefit and a survivor benefit can still choose which benefit to collect first, regardless of when they were born. They then can switch to the other benefit later if doing so would result in a larger amount. (I discuss this in more detail in Chapter 4.)

***SEVERAL ADVANTAGES ACCRUE WITH WAITING UNTIL THE MAGIC AGE OF 66 TO CLAIM SOCIAL SECURITY BENEFITS:***

- You are entitled to full retirement benefit, also known as primary insurance amount, or PIA.
- You may continue to work while receiving your full Social Security benefit — without any reduction in benefits — since the earnings cap disappears at full retirement age.
- You may be able to exercise some creative claiming strategies that can significantly increase lifetime benefits for you and your family, assuming you were born before Jan. 2, 1954, and are grandfathered under existing claiming rules.
- Although working longer can increase your retirement benefit if your current earnings replace one of the lower earning years used in your 35-year benefit calculation, working while you are collecting benefits before full retirement age can temporarily reduce or eliminate your benefits.

***EARNINGS CAP***

Anyone who collects Social Security benefits before full retirement age — including retired workers, their spouses, divorced spouses, survivors and minor dependent children — are subject to an earnings limitation that may reduce or wipe out their benefits. To be clear, the earnings cap restrictions apply only to wages or salary from a job, not to other forms of income, such as those from investments, pensions, government benefits or rental property.

In 2020, you lose $1 in Social Security benefits for every $2 you earn over $18,240 if you are younger than full retirement age for the entire year. The earnings cap is indexed to inflation and increases in years when there is a COLA. The annual earnings cap in 2020 is $600 higher than it was in 2019.

If you work for someone else, only your wages count toward Social Security's earnings limits. If you're self-employed, only your net earnings from self-employment count toward the earnings cap restrictions.

Let's say you are 62 and collect $1,250 per month in Social Security benefits for a total of $15,000 per year and continue to work. If you earn $40,000 from that job, that's $21,760 over the earnings limit ($40,000 - $18,240), so you would forfeit $10,880 in benefits ($21,760/2). The Social Security Administration will withhold your first nine months of benefits ($1,250 x 9 = $11,250), and once the withholding for the earnings cap is satisfied, they will pay you retirement benefits for October, November and December. Social Security would send you the excess $370 that was withheld ($11,250 - $10,880) the following year. If you neglect to inform the Social Security Administration that you are still working, the truth will eventually catch up with you when you file your federal tax return, and you will be on the hook to repay the excess benefits.

A more generous earnings cap applies in the year you reach full retirement age. In the months leading up to your 66th birthday, you can earn up to $48,600 for the year in 2020 — without sacrificing any Social Security benefits. If you earn more than that, you'll lose $1 in benefits for every $3 over the earnings cap.

Sometimes people who retire in midyear already have earned more than the annual earnings limit. That's why there is a special rule that applies to earnings for one year, usually the first year of retirement.

Under this rule, you can get a full Social Security check for any whole month you're retired, regardless of your yearly earnings. In 2020, a person younger than full retirement age for the entire year is considered retired if monthly earnings are $1,520 or less ($18,240/12 ). The Social Security Administration provides this example:

John Smith retires at age 62 on Oct. 30, 2020. He will earn $45,000 through October. He takes a part-time job beginning in November, earning $500 per month. Although his earnings for the year substantially exceed the 2020 annual limit of $18,240, he will receive a Social Security payment for November and December because his earnings in those months are $1,520 or less, the monthly limit for people younger than full retirement age. If Mr. Smith earns more than $1,520 in either November or December, he won't receive a benefit for that month. Beginning in 2021, only the annual limit will apply to him.

### ***ONCE YOU REACH FULL RETIREMENT AGE, THE EARNINGS CAP DISAPPEARS***

Benefits lost to the earnings cap are not gone forever, they are merely deferred. For example, say you claimed retirement benefits at 62 and continue to work. And assume that over the next four years, you forfeited the equivalent of 24 months of Social Security benefits due to excess earnings. When you reach your full retirement age of 66, the Social Security Administration will recalculate your benefits as if you first claimed Social Security at 64 rather than 62.

In the case of early retirement, a benefit is reduced by five-ninths of 1% for each month before full retirement age, up to 36 months. If the number of months exceeds 36, then the benefit is further reduced by five-twelfths of 1% per month. So if someone whose full retirement age is 66 retires four years early at 62, their benefit would be reduced by 25%. (The calculations are: 5/9 of 1% per month for 36 months, which equals 20%, plus 5/12 of 1% for 12 months or 5%, for a total of 25%.)

Assume in the earlier example that someone whose full retirement age is 66 decided to claim benefits early at age 62 and continue to work. If they forfeited 24 months of benefits to the earnings cap because of excess earnings, those 24 months would be added to their original claiming age once they reached full retirement age. As a result, their benefit at age 66 would increase because their early retirement reduction would be trimmed from 25% to 13.3% (24 x 5/9 of 1%).

Individuals who turn 62 in 2017 or later will be subject to a higher full-retirement age. Those people born in 1955 must wait until age 66 and 2 months to receive full-retirement-age benefits. The full retirement age will gradually increase to 67 for those born in 1960 and later. Although anyone can still claim Social Security as early as age 62, the reduction for early claiming will be greater — up to a 30% reduction for those born in 1960 or later.

For more details, see "How Work Affects Your Benefits." (https://www.socialsecurity.gov/pubs/EN-05-10069.pdf ). Because benefits lost to the earnings cap are eventually restored, some Social Security experts claim that it is fine to collect benefits before full retirement age even if clients continue to work. I disagree.

Your reduced Social Security benefits could have serious long-term consequences for your surviving spouse who would inherit the smaller benefit if you died prematurely. Also, if you are eligible to restrict your claim to spousal benefits (because you were born before 1954) you would forfeit the right to use this valuable strategy to significantly increase lifetime income if you claim benefits before your full retirement age of 66.

# CHAPTER 2: DISAPPEARING STRATEGIES

As we've noted, the Bipartisan Budget Act of 2015 eliminated two Social Security claiming strategies that could increase retirement income for many retirees. Before explaining who is affected by the new law and when, let's review the two claiming strategies that were changed.

First, there was "file and suspend," which allowed you to file for your benefits at full retirement age and then immediately suspend those benefits. That action triggered benefits for a spouse or other eligible family member while the worker's own benefit would continue to grow until age 70. It also created an option to collect a lump sum payout of suspended benefits. This strategy is now history, but anyone who filed and suspended benefits by the April 29, 2016, deadline is grandfathered under the old rules and so are their eligible family members.

The file-and-suspend strategy made sense for married couples where one spouse was the primary earner and the other had little or no work history. In that case, the primary earner could have filed and suspended to trigger benefits for a spouse while his or her own retirement benefit continued to accrue delayed-retirement credits of 8% per year up to age 70. That allowed the couple to collect some Social Security benefits while they waited for a bigger benefit later.

The last group of people who were eligible to file and suspend their benefits before the April 29, 2016, deadline turn 70 in 2020. Their maximum retirement benefits will begin automatically once they turn 70. After that, this creative claiming strategy will be one for the history books.

Second is the claiming strategy that allows married spouses and eligible divorced spouses to collect half of their mate's or ex's benefit while their own retirement benefit continued to grow to the maximum amount at age 70. This strategy is known as filing a "restricted claim for spousal benefits." This strategy is still available to those born on or before January 1, 1954, but it is eliminated for everyone else. The last group of people eligible to use this strategy turned 66 in 2019 but they can continue to exercise this claiming option anytime until they turn 70.

Within a married couple, only one spouse can file a restricted claim for spousal benefits. Divorced spouses have special privileges. If both spouses were 66 or older by January 1, 2020, each could file a restricted claim for spousal benefits on their ex-spouse's earnings record when they turned 66 and allow their own retirement benefits to continue to grow, up until age 70.

## *THE STRATEGIES' OTHER BENEFITS*

By delaying benefits for the higher-earning spouse up until 70 when delayed-retirement credits stop, it was possible to maximize not only retirement benefits but survivor benefits too, since a survivor benefit is worth 100% of what the deceased worker received or was entitled to receive at time of death, if the surviving spouse collects at full retirement age or older. A couple must be married at least one year to qualify for spousal benefits and at least nine months to be eligible for survivor benefits. Same-sex couples are now entitled to the same Social Security benefits and claiming strategies as heterosexual couples.

Survivor benefits are available as early as age 60 but are worth just 71.5% of the deceased worker's benefits compared to 100% if the survivor waits until his or her full retirement age to begin collecting benefits. Anyone who continues to work while collecting any type of Social Security benefit before full retirement age — whether retirement benefits, spousal benefits or survivor benefits — is subject to earnings restrictions that can reduce or eliminate their benefits.

It was also possible to use the file-and-suspend strategy to trigger benefits for minor dependent children while allowing the parent's own benefit to continue to accrue delayed-retirement credits. When a parent collects Social Security retirement or disability benefits, a dependent child up to 18 (or 19 if still in high school) can collect benefits worth up to half of the parent's full-retirement-age benefit, subject to family maximum benefit rules. Disabled adult children who were permanently disabled before age 22 also are eligible for dependent benefits. (See Chapter 6.) That triggering mechanism is now gone.

### ***LUMP SUMS***

Finally, the file-and-suspend strategy was useful as a kind of insurance policy. Clients who filed and suspended benefits by April 29, 2016, have the right to request a lump-sum payment during the suspension period, though they forfeit any delayed-retirement credits earned during that same period. This is particularly valuable for unmarried individuals who find they need a lump-sum payout now, rather than a bigger monthly benefit later.

Imagine this situation: You were 66 and single and decided to file and suspend your Social Security benefits with the intention of collecting the maximum monthly benefit at 70. Two years later, you receive a terminal medical diagnosis. Now, outliving your money is the least of your concerns and you have no spouse who needs a survivor benefit when you die.

Under the old rules, you had two choices. You could have claimed your benefits immediately, which would include two years' worth of delayed retirement credits, boosting your monthly benefits by 16% (an 8% increase for each of the two years). Or, you could have requested your two years' worth of suspended benefits to be paid in a lump sum; you could then begin collecting your monthly benefits as if you had claimed them at age 66.

Here's how the math worked. Let's say you were entitled to $2,000 per month at your full retirement age of 66 but chose to file and suspend your benefits. Your plan was to collect your maximum retirement benefit at age 70, which would be worth $2,640 per month — or 32% more per month than the full-retirement age benefit.

But two years later, at age 68, your doctor said you have cancer and the prognosis wasn't good. You could then have started collecting your benefit, which would be worth $2,320 per month, or 16% more than the benefit at age 66. Alternatively, you could have requested a lump sum payout of your two years of suspended benefits, worth $48,000, and begun collecting $2,000 in monthly benefits. Given your diagnosis, the lump sum of cash on top of the lower, full-retirement-age benefit might have been a better choice.

Normally, lump-sum payouts of Social Security benefits are limited to six months of retroactive benefits when the claimant is older than full retirement age. For example, if someone whose full retirement age is 66 claims retirement benefits at 67, he or she could request a lump-sum payout of six months of retroactive benefits. Future monthly benefits would be paid as if the person claimed at age 66 and six months.

### ***RETROACTIVE BENEFITS***

The Social Security Administration cannot pay retroactive benefits for any month before the claimant reaches full retirement age or for more than six months in the past. However, when someone file and suspended their benefits under the old rules, they had the right to request a lump-sum payout for any period back to the date of suspension — even if it is longer than six months. The Social Security Administration's rationale for this seeming contradiction is that a file-and-suspend strategy is not a request for retroactive benefits, as the worker already has filed for benefits and is merely asking Social Security to lift its voluntary suspension and pay the worker's benefits back to the date of their initial filing.

A married person who filed and suspended at full retirement age or later also could request a lump sum payout — but may decide not to. If a married person received a terminal medical diagnosis, for instance, they might wish to leave a larger survivor benefit; a lump-sum payout would reduce that benefit.

### ***SUSPENSION RULES—THEN AND NOW***

Anyone who requests to suspend their benefits after April 29, 2016, no longer has an unlimited lump-sum payout option. The new law specifically prohibits it. Today, the only reason to temporarily suspend benefits is to boost future benefits. For example, say that at age 62 you collect reduced retirement benefits, which are worth 75% of the full-retirement-age benefit. Later, you change your mind. At 66, you could suspend your benefits, which means your benefit would stop. In the meantime, you would earn delayed retirement credits of 8% per year. If you resume your benefits at age 70, you would receive

99% of your full-retirement-age benefit. The math is a little tricky, but the surprisingly large number comes from taking the four years of 8% annual credits (32%), multiplying that by the 75% rate of the initial reduced benefit, resulting in 24% on top of the 75% — or 99% of the full benefit.

This can be a valuable strategy for married couples. Boosting the retirement benefit of the main breadwinner would result in a larger survivor benefit for a widowed spouse. (See Chapter 4).

## *CLAIMING SPOUSAL BENEFITS ONLY*

The other valuable claiming strategy that is disappearing is the ability to restrict a claim to spousal benefits when you reach full retirement age. 2019 was a watershed year for this strategy. Those who turned 66 in 2019 — including those who celebrated their 66th birthday on January 1, 2020  were the last group of people eligible to file a restricted claim for spousal benefits. People who reach full retirement age in 2020 and beyond lose this valuable claiming option.

Filing a restricted claim for spousal benefits when you turn 66 allows you to receive an amount equal to half of your mate's (or ex-mate's) full retirement age amount while your own retirement benefit grows by 8% per year. At 70, you can switch to your own larger retirement benefit.

**How Spousal Benefits Are Reduced If Claimed Before Full Retirement Age (FRA)**

| Age of claim | % if FRA is 66 | % if FRA is 67 |
|---|---|---|
| 62 | 35% | 32.5% |
| 63 | 37.5% | 35% |
| 64 | 41.7% | 37.5% |
| 65 | 45.8% | 41.7% |
| 66 | 50% | 45.8% |
| 67 | | 50% |

Source: Social Security Administration

In order to collect only spousal benefits, however, your mate must be collecting Social Security benefits or must have been old enough to have filed and suspended his or her own benefits by April 29, 2016. Different rules applying to divorced spouses, who in some cases can collect spousal benefits on their ex's earnings record even if the ex has not yet claimed, are discussed in Chapter 5. Depending on the relative ages of the spouses, many married couples and former spouses will no longer be able to coordinate their claiming strategies in the future to maximize their lifetime benefits.

Consider a husband who turned 66 in January 2016, and his wife who turned 66 in March 2020. While the husband may have filed and suspended by April 29, 2016, to trigger spousal benefits for his wife, she is too young to claim only spousal benefits under the new rules because she was born after the Jan. 1, 1954 deadline.

Unfortunately, if she has earned benefits on her own work and had hoped to claim spousal benefits only when she turned 66 to allow her own benefits to continue to grow up until age 70, she is out of luck. Because she was not at least 66 years old by the end of 2019, she lost the right to claim only spousal benefits at age 66. When she files for Social Security, she will be paid the largest benefit to which she is entitled at that age, whether on her own record or as a spouse, depending on her age at the time of the claim. She will not be able to choose which benefit to claim.

She could have filed for Social Security benefits as early as age 62, but her benefits would have been permanently reduced. Or, she could wait until she reached her full retirement age of 66 in March 2020 to claim her full benefit. In either case, whenever she filed for Social Security she would receive the largest benefit to which she was entitled at that age, whether on her own earning record or as a spouse. She wouldn't get to choose. She would be "deemed" to file for all available benefits as would anyone who was born after the Jan. 1, 1954, deadline.

For a couple in this situation, it still makes sense in most cases for the higher-earning spouse (the husband) to delay up to age 70 to maximize his retirement benefits while he is alive and to lock in the largest survivor benefit for whichever spouse remains.

The younger spouse should claim benefits at 66 — or even earlier if she stops working before then. Even though her retirement benefits will be permanently reduced if claimed early, it will have no impact on her survivor benefits, as long as she is at least full retirement age when she claims them. (See Chapter 4.)

Married couples are not the only ones to lose potential benefits under the new rules. Divorced spouses who were married at least 10 years and who are currently single are able to claim benefits as if they were still married. As long as a couple has been divorced at least two years and each party is at least 62 years old, a divorced spouse can collect benefits on an ex's earnings record, even if the ex has not yet claimed benefits.

But other basic rules apply. Only those people who were born on or before January 1, 1954, can claim only spousal benefits when they turn 66. All others will be paid the highest benefit to which they are entitled — whether on their own earnings record or as a spouse. Anyone born after January 1, 1954, will not be able to choose which benefit to claim.

Divorced spouses have some special privileges. If both spouses were born on or before January 1, 1954, they can each file a restricted claim for spousal benefits on their ex-spouse's earnings record when they turn 66 and allow their own retirement benefits to continue to grow up until age 70. For married couples, only one spouse can claim spousal benefits.

Survivor benefits are unchanged under the new law. Those who have earned their own retirement benefits and are a surviving spouse or a surviving ex-spouse who married at least 10 years can choose to claim either their retirement benefit or survivor benefit initially and then switch to the other benefit later if it would result in a larger amount. (See Chapter 4).

The Social Security Administration offers the following two examples to illustrate the application of the new rules that require people who were born after January 1, 1954, to apply for all available benefits. The requirement is called "deemed filing" because when you apply for one benefit, you are "deemed" to have also applied for the other.

**Example 1**: Maria turns age 62 after January 1, 2016, and her husband, Joe, is 65. They have each worked enough years to earn a retirement benefit. In March of 2020, Maria has reached her full retirement age and files for benefits. Maria is eligible for a spousal benefit on Joe's record. Maria must file for both benefits. She can no longer file only for the spousal benefit and delay filing for her own retirement. She will receive a combination of the two benefits that equals the higher amount.

Deemed filing applies to retirement benefits, not to survivor benefits. So, widows and widowers may start their survivor benefits independently of their retirement benefits as long as they restrict the scope of application when they apply for benefits.

**Example 2:** Jennie is a 62-year-old widow. She is eligible for retirement benefits based on her work history and she is also eligible for survivor benefits on her deceased husband's record. She starts her survivor benefit this year, restricts the scope of her application to widow's benefits, and does not start her own retirement benefit, allowing it to grow. At age 70, she starts her own increased retirement benefit which she will receive for the rest of her life. The new law does not affect her because deemed filing does not apply to widows and widowers.

There are also some exceptions to deemed filing. For example, deemed filing does not apply if you receive spousal benefits and are also entitled to disability, or if you are receiving spousal benefits because you are caring for a minor child or permanently disabled adult child. In those cases, you could receive disability benefits without claiming spousal benefits or could receive child-in-care benefits, regardless of your age, without applying for your own retirement benefits.

# CHAPTER 3: MARRIED COUPLES

Married couples have the most flexibility when it comes to collecting Social Security benefits. Their best strategies depend on their ages and individual earnings histories.

**Q. What is the best strategy for maximizing a married couple's Social Security benefits?**
A. In most cases, it makes sense for the higher-earning spouse to delay claiming Social Security for as long as possible, locking in not just the maximum retirement benefit for the couple during their lifetimes, but also assuring the largest possible survivor benefit for the remaining spouse. That assumes both clients are relatively healthy, can afford to delay collecting benefits and are close in age.

The amount of a spousal benefits depends on how old the spouse is when he or she collects it. A spousal benefit is worth up to 50% of the worker's full-retirement-age benefit, also known as the primary insurance amount, if collected at the spouse's full retirement age, less if collected earlier. Spousal benefits are available as early as 62. (Spousal benefits are available earlier if that spouse is caring for the worker's child who is under age 16 or permanently disabled).

Because lower-earning spouses tend to be wives who are the same age or younger than their husbands and are likely to outlive them, it often makes sense for them to collect reduced retirement benefits as early as 62 to bring in some money into their households and step up to a larger survivor benefit later. Collecting reduced retirement benefits early also assumes that beneficiaries are not working or not earning too much to have their benefits wiped out by the earnings test. (See Chapter 1.) Although retirement benefits are permanently reduced if collected early, the decision has no impact on survivor benefits as long as the recipient has reached full retirement age when he or she collects them.

A survivor benefit is worth 100% of what the deceased worker was receiving or was eligible to receive at the time of death, if the surviving spouse collects at his or her full retirement age, less if collected earlier. (Full retirement age for retirement benefits and survivor benefits may be different. Reduced survivor benefits are available as early as 60.)

Unfortunately, if the higher earner collects Social Security benefits early, his or her retirement benefits will be permanently reduced and the surviving spouse may face a lifetime of reduced benefits. The maximum survivor benefit is limited to what the higher earner would have received if still alive, or 82.5% of his or her full-retirement-age benefit, whichever is higher, if the surviving spouse has reached at least full retirement age.

Let's use an example. Say a husband whose full retirement age is 66 decides to claim benefits at the earliest possible age, 62. He will receive 75% of his primary insurance amount. Then he dies. Normally, his surviving spouse is limited to collecting whatever he received during his lifetime. But there is an exception. If the widow is at least full retirement age when she begins receiving survivor benefits, she will receive either the higher of what her husband collected — 75% of his PIA — or 82.5%. In this case, she would receive 82.5% of his full-retirement-age benefit.

Even if the lower-earning spouse claims reduced benefits early and the higher-earning spouse delays collecting benefits up until 70, there's sometimes room for a little claiming magic in between, depending on their birth dates and whether they are grandfathered under former claiming rules.

**Q. What's the best Social Security claiming strategy for traditional couples wherein the wife has earned little or no Social Security retirement benefits?**
A. If one spouse has not earned the minimum 40 quarters of credits — about 10 years of covered employment — to qualify for Social Security benefits on her own, she can't collect anything until her husband claims his benefits.

In that case, if the husband was at least 66 and filed and suspended his benefits by the April 29, 2016, deadline, it would trigger spousal benefits for his wife while deferring his own benefits until they are worth more later.

If he missed that deadline, he cannot file and suspend under the new rules. He would have to collect his benefits in order to trigger a spousal benefit for his wife worth up to 50% of his full-retirement-age benefit. The wife, who must be at least 62, can then begin collecting her spousal benefit. But the amount she receives will be worth less than half of her husband's primary insurance amount if she is younger than her full retirement age when she first claims benefits.

For example, say the husband's primary insurance amount at his full retirement age of 66 is $2,400 a month. The maximum spousal benefit is 50% of that amount, or $1,200, if his wife is at least full retirement age when she claims benefits, less if she claims earlier. So if the husband filed and suspended his benefits by April 29, 2016, his wife could collect a spousal benefit of $1,200 per month — half of his primary insurance amount — assuming she was at least 66. But if she is only 62, her benefit would be reduced to $840 — 35% of his primary insurance amount — because she collected four years early.

In many cases, lower-earning spouses may be eligible for two types of Social Security benefits: a retirement benefit based on their own work history and a spousal benefit. If the wife in this scenario files for Social Security before her full retirement age, she is "deemed" to file for both benefits and be paid the higher of the two amounts. She cannot choose which benefit to receive.

Instead, the Social Security Administration will pay her own retirement benefit first, and if the spousal benefit is larger, top off her retirement benefit with a spousal supplement to bring the total benefit up to the larger amount. Since clients who claim benefits before they reach full retirement age cannot choose which benefit to receive, they must collect the largest benefit to which they are entitled. Retirement benefits as well as spousal benefits are permanently reduced if claimed before full retirement age.

Younger workers who turn 66 after 2019 will never be allowed to claim only spousal benefits under the new rules. For them, the "deeming" rules extend through age 70, meaning that the Social Security Administration will always pay them their retirement benefit first; only if their spousal benefit were higher would they receive an additional amount layered on top of the retirement benefit to bring the combined total up to the spousal benefit amount.

Those who were 66 or older by January 1, 2020, have another option. If they wait until 66 to claim benefits, they can collect only their spousal benefits for up to four years while their own retirement benefits continue to grow by 8% per year up to age 70. Then, at 70, they could switch to their maximum retirement benefit, assuming it is larger than their spousal benefit amount.

**Q: How can married couples coordinate their Social Security claiming strategies?**
Let's continue with the example above where the husband's full-retirement-age benefit — his primary insurance amount — is $2,400 per month. The maximum spousal benefit is 50% of that amount, or $1,200, if his wife is at least full retirement age when she claims benefits. And let's assume that the wife's primary insurance amount on her own earnings record is $800 per month. The excess spousal benefit in this case is $400, which is the difference between half of his primary insurance amount and her primary insurance amount ($1,200 - $800).

If the wife decides to claim her own retirement benefit early at 62 — and the husband has not yet claimed his benefit — she will receive $600 per month ($800 x 75%), a 25% reduction because she collected four years early. At this point, there is no spousal benefit because the husband has not yet claimed his Social Security benefit nor did he file and suspend his benefits before April 29, 2016.

Later, when the husband claims his benefit, she will step up to a larger benefit. Assuming she is at least full retirement age at that time, the $400 excess spousal amount will be added to her reduced retirement benefit of $600 for a combined benefit of $1,000. That's less than the maximum spousal benefit of $1,200 per month, because she collected her own retirement benefit early. Once her husband claims his maximum retirement benefit of $3,168 ($2,400 x 1.32), and when he later dies, she will collect that entire amount as her survivor benefit (plus any annual cost-of-living adjustments between the time he turned 70 and when he died). At that point, her smaller retirement benefit of $1,000 per month would disappear.

Even though her retirement benefits were permanently reduced because she claimed early, she will still receive the full survivor benefit — 100% of what her husband received during his lifetime — because she was at least full retirement age when she collected the survivor benefit. The ability to claim a retirement benefit first and switch to a survivor benefit later — or vice versa — does not change under the new law.

**Q. How can dual-income couples maximize Social Security benefits?**
A. If one spouse claims Social Security benefits, the other spouse, who is at least full retirement age, can take advantage of another valuable claiming strategy: filing a restricted claim for spousal benefits only. Under the new rules, one must be at least 66 years old by January 1, 2020, to claim only spousal benefits at age 66.

Let's assume that the wife decides to retire early at 62 and collects reduced Social Security benefits on her own work history. She's entitled to $1,000 per month at 66, but because she collects four years early, she'll receive $750 per month.

And let's also assume that the husband is 66 and still working, and doesn't plan to collect a dime in Social Security benefits until he's 70. But now that he's reached his full retirement age, he can request to collect spousal benefits only — which is half of his wife's full benefit. That is half of the $1,000 per month she would have gotten if she had waited until 66 to collect, not half of her reduced benefit.

The husband doesn't have to worry about losing Social Security benefits if he continues to work because the annual earnings cap disappears at his full retirement age. And because he's restricted his claim to spousal benefits only, his own benefits continue to grow to the maximum amount at 70. In the meantime, he collects half of her benefit — that's $500 per month for an extra $6,000 of annual income — until he switches to his own benefit at 70.

Only one spouse can claim spousal benefits. However, eligible divorced spouses who were born on or before January 1, 1954, can each claim spousal benefits on one another's earnings record.

**Q. What is the best claiming strategy for high-earning power couples in which both spouses are entitled to substantial Social Security benefits based on their individual earnings history?**
A. If both spouses have similar earnings and are close in age, they can exercise a combo strategy assuming they are both old enough under the new rules to exercise these claiming strategies.

If one spouse was at least 66 and filed and suspended benefits by April 29, 2016, the second spouse, at 66, can file a restricted claim for spousal benefits only if born by January 1, 1954. Because neither is claiming his or her own retirement benefits — remember, one has suspended benefits and the other is collecting spousal benefits only — each of their retirement benefits continues to earn delayed-retirement credits until they reach the maximum amount at 70.

Let me show you how this works. Let's say the husband turned 70 in March 2020 and the wife is 67 and they are each entitled to collect $2,400 per month at their normal retirement ages. At 66, the husband filed and suspended his benefits by April 29, 2016, triggering spousal benefits for his wife. He collects nothing for four years. When the wife turned 66 in 2019, she filed a restricted claim for spousal benefits only and collected $1,200 per month — half of this full benefit — boosting their household income by $14,400 per year for the next four years. (The spouse must turn 62 by Jan. 1, 2016, in order to file a restricted claim for spousal benefits when he or she turns 66.)

At 70, they could each collect the maximum benefit of $3,168 per month ($2,400 x 1.32). Together, they would collect more than $76,000 per year of Social Security benefits — guaranteed, cost-of-living-adjusted income for the rest of their lives. It's a vivid example of why a well-designed Social Security claiming strategy can be the key to retirement security.

**Q. Can clients restrict their Social Security claim to spousal benefits only at 62 and switch to their own full-retirement-age benefit at 66?**
A. No. If they want to restrict their claim to spousal benefits only, they must wait until their full retirement age to do so and must have been born by Jan. 1, 1954, to take advantage of this valuable claiming strategy. That's one of the reasons that I call 66 the magic age.

If they claim Social Security benefits before their full retirement age, they can't engage in creative claiming strategies that could increase their lifetime benefits. Instead, if they claim benefits before full retirement age, they must collect the largest benefit to which they're entitled, and their retirement benefits (but not necessarily their survivor benefits) will be reduced for the rest of their lives. Under the new law, these "deeming" rules, which assume that when you claim Social Security, you are filing for all of your available benefits, will be extended through age 70 for anyone born after Jan. 1, 1954.

**Q. My client filed and suspended his benefits so his wife could collect spousal benefits. Can he now restrict his claim to spousal benefits only and collect half of her benefit?**
A. No. Each Social Security beneficiary is entitled to one claiming election. Your client already made his. He elected to file and suspend his benefits in order to trigger spousal benefits for his wife. He cannot now file a restricted claim for spousal benefits only.

**Q. Can both spouses file for each other's spousal benefits and defer collecting his or her own until they are worth the maximum amount later?**
A. No. In order to restrict a claim for spousal benefits, one spouse needs either to be collecting retirement benefits or to have filed and suspended his or her benefit by April 29, 2016, in order to trigger a benefit for the other spouse. If neither spouse has filed for retirement benefits, no spousal benefit exists for the other to collect. However, eligible divorced spouses can each claim spousal benefits on their ex's earnings record assuming they were both born before Jan. 2, 1954.

**Q. If my client defers claiming retirement benefits until they are worth the maximum amount at 70, will his wife collect half of that amount?**
A. No. The maximum spousal benefit is based on 50% of your client's full-retirement-age benefit, also known as his primary insurance amount or PIA. Spousal benefits do not earn delayed-retirement credits. Even if your client defers collecting Social Security retirement benefits until 70, the maximum spousal benefit is based on half of his age 66 benefit amount if his wife collects at her full retirement age; less if collected earlier.

Although spousal benefits do not grow any larger than half of a worker's PIA if collected beyond full retirement age, survivor benefits are worth 100% of what the deceased worker collected or was entitled to collect at time of death — including any delayed-retirement credits — if collected at full retirement age or later. So the real value of the higher-earning spouse's delaying benefits up until 70 is to lock in the maximum survivor benefit for the other spouse.

**Q. My client is 70, retired and collecting Social Security benefits. His wife is 67, still working and plans to postpone her benefits until 70. Is there something she should do now?**
A. Yes. She is leaving unclaimed Social Security spousal benefits on the table. Because she has already reached the magic age of 66 and was born before the January. 1, 1954, deadline, , she can file a restricted claim for spousal benefits only and collect half of her husband's full-retirement-age benefit while allowing her own retirement benefit to accrue delayed-retirement credits.

Unfortunately, she has missed out on a year's worth of spousal benefits. But luckily, she is entitled to a lump-sum payment of six months of retroactive benefits. Normally, when a client collects retirement benefits, accepting a lump sum reduces the amount of the future retirement payments because he or she can't collect a lump sum and earn delayed-retirement credits for the same period. But because spousal benefits don't earn delayed-retirement credits, they are never worth more than 50% of the spouse's full-retirement-age benefit. So, collecting a lump-sum payout of six months' worth of spousal benefits that otherwise would go unclaimed makes perfect sense.

At 70, the wife should switch to her maximum retirement benefit, which will be worth 132% of her full-retirement-age amount, plus any intervening annual cost-of-living adjustments.

**Q. Most of your examples assume that spouses are the same age or that the higher-earning spouse is older. What happens when the higher-earning spouse is younger?**
A. Academic discussions of optimal Social Security claiming strategies for married couples may make these important decisions seem simple when both spouses are the same age. But real life is often messy, particularly when a spouse who has no retirement benefits of his or her own is the older spouse.

Consider a recent case that a financial adviser brought to me involving her clients, a married couple where the wife was 62 and the husband 57. The wife did not earn enough work credits to be eligible for her own Social Security benefits. The husband will receive a monthly retirement benefit of $2,388 at his full retirement age of 67.

"Can the wife claim a spousal benefit at her full retirement age of 66 when her husband would be 61 years old?" the adviser asked.

No. Because the wife is not entitled to her own retirement benefits, she must wait until the husband files for his own benefit before she can collect a spousal benefit. Until then, there is no spousal benefit to claim. The earliest he can claim benefits is 62, at which point she will be 67. Her spousal benefit will be worth 50% of his full-retirement-age benefit, even if he claims a reduced benefit early, because she is claiming at her full retirement age or older. The amount of the benefit received is based on the age when the claimant collects it. But that could create some additional problems.

Because the husband will be younger than his full retirement age if he collects Social Security benefits at 62, he will have to accept his reduced retirement benefit and will be subject to earnings cap restrictions. So, if he's still working, this strategy could backfire. If he earns too much, his retirement benefits could be temporarily reduced or even wiped out, and so could hers since she is collecting on his record. Plus, he will lock in a lower survivor benefit.

I told the adviser to consider which was more important to this couple — creating Social Security income for the wife as soon as possible or locking in a bigger survivor benefit. Because the husband is too young under the new rules to file and suspend, he may want to wait until his full retirement age of 67 to claim his full retirement benefits even if he continues to work, because he will no longer be subject to earnings restrictions. His wife will be 71 by then. Given their age difference, it probably does not make sense for him to wait until 70 to collect his maximum retirement benefit because his wife would be nearly 75 by then and cannot collect any spousal benefits until he claims his retirement benefit.

# CHAPTER 4: WIDOWS AND WIDOWERS

Many financial advisers overlook the most valuable aspect of Social Security for their married clients — survivor benefits for the spouse left behind.

Widows and widowers have more flexibility than other Social Security beneficiaries because retirement benefits and survivor benefits represent two different pots of money. A surviving spouse can choose one benefit first and switch to the other benefit later if it results in a larger monthly amount. These rules are not affected by the new law.

To be eligible for a Social Security survivor's benefit, a widow or widower must have been married to the deceased worker at the time of his or her death — and for at least nine months before that. But there are some exceptions to the nine-month-minimum requirement, such as cases in which the worker's death is accidental or if it occurred in the line of duty as an active member of a uniformed service.

While spousal benefits are worth a maximum of 50% of the higher earner's full-retirement-age benefit if collected at full retirement age, survivor benefits are worth 100% of what the deceased worker collected or was entitled to collect at time of death, provided the survivor collects the benefits at full retirement age or later. Both benefits are reduced if collected before full retirement age.

A worker's decision to collect early reduced retirement benefits will result in a reduced survivor benefit for the remaining spouse. If the widow or widower is full retirement age or older, he or she would receive the larger of what the deceased worker collected or 82.5% of the worker's full-retirement-age benefit. So if worker's full-retirement-age benefit is $2,000 per month and he collects early at 62, he receives just $1,500 per month — a 25% reduction for collecting benefits four years early. If he later dies, the maximum benefit his widow could collect is $1,650 — 82.5% of her husband's full benefit if she is at least full retirement age at that time. It will be less if she claims survivor benefits before her full retirement age.

The goal for most married couples should be to maximize survivor benefits by having the higher-earning spouse delay retirement benefits as long as possible up to 70. The largest retirement benefit will continue as a survivor benefit for the remaining spouse and the smaller benefit will disappear upon the death of the first spouse.

**Benefits for Widows and Widowers**

| Claiming Age* | Percentage of Survivor Benefits |
|---|---|
| 60 | 71.50% |
| 61 | 76.25% |
| 62 | 81.00% |
| 63 | 85.75% |
| 64 | 90.50% |
| 65 | 95.25% |
| 66 | 100.00% |

*Assumes 66 is full retirement age

Source: Social Security Administration

Generally, the earliest age for collecting retirement or spousal benefits is 62. Survivor benefits, however, are available as early as 60. But there are exceptions in both cases for younger spouses who can claim benefits earlier if they are caring for a minor dependent child or the permanently disabled child of a retired, disabled or deceased worker. (See Chapter 8).

**Q. If the wife takes her benefit at age 62 and her husband defers his benefit until his full retirement age or later, what benefit passes to the wife upon her husband's death? Will she get his full benefit or will it be reduced because she claimed her retirement benefits early?**
A. That question was posed by a financial adviser whose clients were a 62-year-old wife and a 60-year-old husband. The wife's projected retirement benefit at her full retirement age of 66 is $1,700 per month. His is $2,400 per month. If the wife claims her retirement benefit at 62, four years before her normal retirement age, she will receive 75% of her full benefit or $1,275 per month. (That assumes she is no longer working or earns less than the earnings cap.)

If her husband waits until his normal retirement age of 66 to claim benefits, he'll receive $2,400 per month. His wife will not collect a spousal benefit because the $1,275 month she receives on her own earnings record exceeds half of his primary insurance amount — $1,200 — at his full retirement age.

Anytime your clients claim benefits before their full retirement age, they must collect the largest amount to which they're entitled at that age. Social Security pays their own benefit first, and if there is a discrepancy between their benefit and a higher spousal benefit, their benefits will be topped off to bring it up to the spousal amount — with appropriate reductions for collecting benefits before full retirement age.

But if the husband dies first and the wife has reached her full retirement age of 66, she receives a survivor benefit of $2,400 per month — 100% of his monthly retirement benefit — even though she collected reduced retirement benefits early. At that point, her lower retirement benefit disappears. Remember, retirement benefits and survivor benefits represent two different pots of money.

If the husband had delayed collecting his retirement benefit until 70 when it would be worth $3,168 per month — including four years' worth of delayed-retirement credits — his widow would collect $3,168 as a survivor benefit.

This is a classic example of why it sometimes makes sense for the lower-earning spouse — the wife, in this case — to claim benefits early. Her reduced Social Security benefit boosts their household income by $15,300 per year ($1,275 x 12). And even though her retirement benefit will be permanently reduced, it will not affect her survivor benefit if he dies first, as long as she is at least full retirement age when she collects her survivor benefit.

Locking in the biggest survivor benefit should be the main goal of most married couples. In some cases, however, beneficiaries may want to choose to receive survivor benefits first and defer collecting their own retirement benefit if it will be worth more later. Why? Because survivor benefits and spousal benefits never grow larger than the amount available at full retirement age. But retirement benefits continue to accrue delayed-retirement credits worth 8% per year for every year one postpones collecting beyond full retirement age up to 70.

Of course, that strategy makes sense only if the enhanced retirement benefit, including any delayed-retirement credits, will be worth more than the survivor benefit. That is often the case for surviving widowers who have substantial lifetime earnings, but not necessarily so for surviving widows with a spotty work history.

**Q. Can a surviving spouse collect a survivor benefit first and delay collecting his or her own retirement benefit until 70?**
A. Yes. Let's say a widower is entitled to his wife's survivor benefit of $1,500 per month if he collects it at his full retirement age of 66; less if he collects earlier. And let's assume that his retirement benefit is worth $2,000 per month at his full retirement age. He may want to collect the survivor benefit for four years starting at 66 and switch to his own retirement benefit at 70 when it will be worth $2,640 per month ($2,000 x 1.32%).

In the above example, the widower could collect a survivor benefit as early as 60, but it would be worth just $1,072 per month — 71.5% of the full retirement age amount, because he claimed it six years early. But if he collects any Social Security benefits before his full retirement age and continues to work, he will be subject to earnings cap restrictions, losing $1 in benefits for every $2 earned above the $18,240 limit in 2020. The earnings cap disappears at full retirement age, meaning at that point he could collect Social Security benefits while continuing to work without forfeiting any benefits.

**Q. Can one increase a survivor benefit by waiting until 70 to collect it?**
A. No. Survivor benefits, if collected at full retirement age or later, are worth 100% of the deceased worker's benefits, including any delayed-retirement credits the worker may have accrued at time of death.

But a surviving spouse cannot increase the amount of his or her survivor benefit by waiting until 70 to collect it. Survivor benefits are frozen in time upon the date of the worker's death. They do not accrue delayed-retirement credits after the death of the worker. However, any annual cost-of-living adjustments between the time of the worker's death and the time that the widow or widower collects a survivor benefit would be applied.

Some questions get very personal. This came from my sister-in-law, who was widowed upon my brother's death 10 years ago.

**Q. Now that I'm 62, should I collect my retirement benefit or my survivor benefit, which is much larger? I'm still working part-time.**
A. Most people would probably jump at the chance to collect the bigger benefit first. But a wise financial adviser would recommend patience, as I did to my sister-in-law. The key issue in deciding which benefit to collect first is to compare the amount of each benefit and any reductions for early collection or increases for delayed collection.

I told her to claim her reduced retirement benefit first, even if she forfeited some of her benefits due to earnings cap restrictions. Once she reached her full retirement age of 66, she could switch to her larger survivor benefit, which would be worth 100% of her late husband's retirement benefit, creating a larger base for future cost-of-living adjustments for the rest of her life. And even if she continued to work, her benefits would not be reduced, because the earnings cap restrictions disappear at full retirement age.

In cases like hers where her retirement benefit is much smaller than her survivor benefit, it makes no sense to delay collecting a survivor benefit beyond normal retirement age, as they do not earn delayed-retirement credits.
Compare this strategy with the earlier question where the widower's own retirement benefit was larger than his survivor benefit. In his case, it made sense to collect his smaller survivor benefit first, while allowing his retirement benefit to accrue delayed-retirement credits until it was worth the maximum amount when he turned 70.

# CHAPTER 5: DIVORCE AND SOCIAL SECURITY

In many cases, former husbands and wives have the same rights to Social Security benefits as a spouse. But there are specific rules that must be met. In order for someone to collect spousal benefits on his or her ex-spouse's earnings record, their marriage must have lasted at least 10 years, both spouses must be at least 62 years old, and the ex-spouse seeking the benefit must be unmarried.

In addition to the 10-year rule, there is a special rule that applies only to divorced spouses: A divorced spouse can claim benefits on a former spouse's earnings record even if that former spouse has not yet claimed retirement benefits. However, to take advantage of this special rule, the couple must be divorced at least two years. Ex-spouses can each claim spousal benefits on their former mate's earnings record.

This ability to collect spousal benefits independently is something that married couples can't do. Married couples either have to wait for one spouse to claim benefits or for one spouse to have filed and suspended benefits before the April 29, 2016, deadline to trigger benefits for the other spouse. For married couples, only one spouse can file a restricted claim for spousal benefits.

Those wrinkles aside, when it comes to collecting Social Security benefits as a divorced former spouse, the regular rules regarding age and work apply.

Anyone who claims Social Security benefits before full retirement age must collect the largest benefit to which they are entitled — whether based on their own work record, on their ex-spouse's record or a combination of the two. They can't choose which benefit to collect.

If one wants to collect spousal benefits only, he or she must wait until full retirement age to file a restricted claim for spousal benefits. Under the new law, only those people who were born on or before January 1, 1954, will be able to file a restricted claim for spousal benefits when they turn 66. Anyone who is born after January 1, 1954, will never get to choose which benefit to claim. They will be paid the highest benefit to which they are entitled at that age, whether on their own earnings record or as a spouse.

A divorced client's spousal benefit is equal to up to half of the former spouse's full retirement age amount if the client begins collecting benefits at his or her full retirement age. The client can collect spousal benefits on a former spouse as early as 62, but those benefits will be worth just 35% of the ex-spouse's benefit because they collected four years early if their full retirement age is 66; less if their full retirement age is higher.

If a client collects benefits before full retirement age while continuing to work, he or she also will be subject to earnings cap restrictions. That means forfeiting $1 in Social Security benefits for every $2 earned over $18,240 in 2020. In the year he or she reaches full retirement age, a more generous earnings cap applies in the months leading up to the 66th birthday: He or she will forfeit $1 in benefits for every $3 they earn over $48,600 in 2020 until the month of full retirement age. Once the client reaches 66, the earnings cap disappears.

But if your eligible clients wait until full retirement age to claim benefits and are born on or before January 1, 1954, they can file a restricted claim for spousal benefits only and collect half of their ex's full-retirement-age benefit, while allowing their own retirement benefit to accrue delayed-retirement credits worth 8% per year up until 70.

Of course, financial advisers have to crunch the numbers to make sure that strategy is appropriate. It would make sense for a client to file a restricted claim for spousal benefits if his or her full-retirement-age benefit, plus a 32% increase due to the delayed-retirement credits, will be worth more than the spousal benefit.

But if his or her own retirement benefit is never likely to exceed the spousal benefit amount, he or she should go ahead and file for Social Security benefits without any restrictions.

**Q. Can a divorced client who remarries continue to collect Social Security retirement benefits on an ex-spouse?**
A. In most cases, a divorced client who remarries can no longer collect Social Security benefits on his or her former spouse's earnings record unless his or her subsequent marriage ends, whether by death, divorce or annulment. A client must be unmarried to collect benefits on an ex-spouse. But there is an exception. If someone who is collecting auxiliary benefits, such as spousal or survivor benefits, marries someone who is also collecting auxiliary benefits, they can each continue collecting those benefits after their marriage.

**Q. Can I collect survivor benefits if my ex-spouse dies?**
A. Yes. You are entitled to the same survivor benefits as you would be if you were still married, assuming that the marriage lasted at least 10 years and you are currently single or you waited until age 60 or later to remarry. Even if your former spouse remarries, you can still collect full survivor benefits. It will not affect the benefits of the ex-spouse's new family, nor will it reduce the survivor benefit you can collect.

**Q. I collect Social Security survivor benefits on my late ex-husband's earnings record and I plan to remarry. Will I lose my survivor benefits?**
A. As long as you wait until you are at least 60 for that next trip down the aisle, you can keep your survivor benefits. Of course, that assumes the survivor benefits are larger than a spousal benefit on your new mate. You can collect one or the other benefit, but not both.

**Q. I have been married and divorced twice. The first marriage lasted more than 10 years and the second one lasted 22 years. Can I claim Social Security benefits on either ex-spouse's earnings record or do I lose the ability to draw off the first spouse because I remarried, even though I divorced again?**
A. You can collect spousal benefits based on the earnings record of either ex-spouse as long as each of the marriages lasted at least 10 years and you are currently unmarried. You can claim on whichever ex-spouse would result in a higher Social Security benefit.

Another adviser wrote to me about clients who were married for many years before divorcing.

**Q. My clients divorced after 19 years of marriage. The husband, now 66, began collecting Social Security benefits early at 62. The ex-wife is now 55. Can she draw on the ex-husband's Social Security benefits at 62 and defer her own until 70? And if she can draw on his benefit, is it worth half of his reduced benefit or half of his full-retirement-age benefit?**
A. Those are good questions. When the ex-wife turns 62, she can claim reduced benefits. But when claiming benefits before full retirement age, Social Security will pay the largest benefits to which she is entitled, whether it is on her own work record or as a spouse. She can't choose which benefit to receive.

And because she is claiming before her full retirement age, which in her case is 66 years and 8 months, her retirement benefits will be reduced by 28.3% at 62. Or, if her benefit is larger as a spouse than on her own earnings record, her spousal benefit will be worth 33.3% of her husband's full-retirement-age benefit if she collected it at 62.

Even though the ex-husband collected a reduced retirement benefit early, spousal benefits are based on half of his full-retirement-age benefit if claimed at full retirement age; less if collected earlier.

To recap: The ex-wife can draw reduced Social Security benefits as early as 62, but she can't choose which benefit to collect. Because of her age, she is too young to file a restricted claim for spousal benefits only, at her full retirement age, under the new law.

Whenever she claims Social Security, she will always receive the highest benefit to which she is entitled, whether on her own earnings record or as a spouse. If she claims before full retirement age, she forfeits the chance to earn delayed-retirement credits on her own retirement benefits worth 8% for each year she postpones collecting them between her full retirement age and 70.

**Q. I was married for nine years and three months. Am I entitled to Social Security survivor benefits based on my ex-husband's earnings record?**

A. Unfortunately, no. For an ex-spouse to be eligible to collect retirement benefits or survivor benefits, the marriage must have lasted at least 10 years. Let this be a cautionary tale to financial advisers, their clients and divorce attorneys. If a marriage is falling apart just before the 10-year mark, encourage your clients to string out the paperwork so the time between the marriage certificate and the divorce decree is at least 10 years. Remember: There must be a decade or more between "I do" and "I don't" in order to claim Social Security benefits on an ex-spouse's earnings record.

# CHAPTER 6: DISABILITY

Social Security pays disability benefits to people who can't work because they have a medical condition that is expected to last at least one year or result in death. In general, to get disability benefits, you must meet two separate earnings tests: a recent work test, based on your age at the time you became disabled, and a duration of work test to show that you worked long enough under Social Security to be eligible for disability benefits. See https://www. socialsecurity.gov/pubs/EN-05-10029.pdf for details.

If you are approved for disability benefits, certain family members can also receive money from Social Security, including a spouse age 62 or older, or a spouse of any age caring for your child who is under age 16 or an adult child who is permanently disabled. If you are divorced, your ex-spouse may be able to collect benefits as long as your marriage lasted at least 10 years and your ex-spouse is at least 62 years old and single.

In addition, if you receive disability benefits and have a dependent child under age 18 (or under age 19 if still in high school) or a disabled adult child, the child also may collect benefits on your earnings record, subject to family maximum rules. (See Chapter 8). Social Security disability benefits automatically convert to retirement benefits at full retirement age, but the monthly amount remains the same.

In the past, disability beneficiaries could request to withdraw their benefits to prevent the automatic conversion to retirement benefits. That withdrawal would allow them to collect spousal or survivor benefits — known as "auxiliary benefits" — between ages 66 and 70 while their own retirement benefits earned delayed retirement credits worth 8% per year. But a clarification of the agency's rules in December 2014 wiped out that option. Under the revised version, a withdrawal request to prevent an automatic conversion to retirement benefits now will be treated as a request to withdraw all benefits — including disability benefits. That would require individuals to repay all of the disability benefits they have received to date — an expensive and unattractive option.

# CHAPTER 7: EXCEPTIONS FOR PUBLIC EMPLOYEES

People who have worked for city, state or federal government entities — or in some cases, public school systems — may be affected by rules that can reduce or even eliminate their Social Security benefits. That is the case if they worked in jobs where they didn't pay Social Security taxes and, in retirement, receive a pension from non-covered work.

Problems can arise if people also worked in other jobs during their career where they accrued enough quarters to be eligible for Social Security benefits. Unfortunately, they may not realize that those benefits may be reduced because their Social Security benefit estimate — the one they used to receive in the mail and now must go online to retrieve — may not reflect the reduction.

You should set up a personalized online account at ssa.gov/myaccount. If there are multiple years where your Social Security and Medicare earnings show a zero, that's the first hint that you may be affected by offset rules. The sooner you know the real impact of these reductions, the better you will be able to tweak your retirement income plan, even if it means you may have to work a bit longer or trim your spending in retirement.

Here's an example of this sort of situation.

**Q. I worked for a state government and I did not pay Social Security taxes. I collect a state pension. I also worked long enough in private-sector jobs before and after my government career to qualify for Social Security retirement benefits. Will my Social Security benefits be affected by my government pension?**
A. Yes. A rule known as the Windfall Elimination Provision (WEP) affects how retirement or disability benefits are calculated when workers receive a pension from a job where Social Security taxes were not taken out of their pay. The Windfall Elimination Provision applies only to a worker's retirement benefits, not to Social Security spousal or survivor benefits. A separate rule, called the Government Pension Offset (GPO) rule, affects those benefits.

The Windfall Elimination Provision can only reduce the size of a worker's retirement benefit, not eliminate it. For 2020, the maximum reduction under the provision is $480 per month. However, it could be less. The Windfall Elimination Provision reduction is limited to no more than one-half of the amount of the pension from employment that is not covered by Social Security. For example, if your government pension is $500 per month, the reduction cannot exceed $250 per month.

Although most current federal workers are covered by Social Security, public-sector employees in many states are not.

Those states include Alaska, California, Colorado, Connecticut, Illinois, Louisiana, Maine, Massachusetts, Missouri, Nevada, Ohio and Texas. In addition, employees of certain local governments in Georgia, Kentucky and Rhode Island also are not covered. Federal workers hired before 1984 and covered by the Civil Service Retirement System, where they did not contribute to Social Security, also are affected by Windfall Elimination Provision rules. But public-sector employees who also worked in the private sector and paid Social Security taxes on 30 years or more of "substantial earnings" are not affected by the Windfall Elimination Provision.

You can read all about these rules in the Windfall Elimination Provision fact sheet (ssa.gov/pubs/10045.pdfssa.gov). You can also use the Windfall Elimination Provision online calculator (ssa.gov/retire2/anyPiaWepjs04.htm) to estimate the impact on your future retirement benefits.

**Q. Can a retired Louisiana schoolteacher who did not contribute to Social Security during her career and receives a teacher's pension also collect Social Security spousal benefits on her husband's earnings record?**
A. Her Social Security spousal benefits could be reduced or even eliminated.
The Government Pension Offset provision, which applies only to benefits for spouses, ex-spouses and survivors, reduces potential Social Security benefits by two-thirds of the amount of the government pension.

## Public Sector Employees, 'Substantial Earnings,' and the Windfall Elimination Provision (WEP)

### Annual 'Substantial Earnings' limits used to calculate effects of WEP on Social Security benefits

| Year | Substantial Earnings | Year | Substantial Earnings |
|---|---|---|---|
| 1937-1954 | $900 | 1991 | $9,900 |
| 1955-1958 | $1,050 | 1992 | $10,350 |
| 1959-1965 | $1,200 | 1993 | $10,725 |
| 1966-1967 | $1,650 | 1994 | $11,250 |
| 1968-1971 | $1,950 | 1995 | $11,325 |
| 1972 | $2,250 | 1996 | $11,625 |
| 1973 | $2,700 | 1997 | $12,150 |
| 1974 | $3,300 | 1998 | $12,675 |
| 1975 | $3,525 | 1999 | $13,425 |
| 1976 | $3,825 | 2000 | $14,175 |
| 1977 | $4,125 | 2001 | $14,925 |
| 1978 | $4,425 | 2002 | $15,750 |
| 1979 | $4,725 | 2003 | $16,125 |
| 1980 | $5,100 | 2004 | $16,275 |
| 1981 | $5,550 | 2005 | $16,725 |
| 1982 | $6,075 | 2006 | $17,475 |
| 1983 | $6,675 | 2007 | $18,150 |
| 1984 | $7,050 | 2008 | $18,975 |
| 1985 | $7,425 | 2009-2011 | $19,800 |
| 1986 | $7,825 | 2012 | $20,475 |
| 1987 | $8,175 | 2013 | $21,075 |
| 1988 | $8,400 | 2014 | $21,750 |
| 1989 | $8,925 | 2015-2016 | $22,050 |
| 1990 | $9,525 | 2017 | $23,625 |
| | | 2018 | $23,850 |
| | | 2019 | $24,675 |
| | | 2020 | $25,575 |

Source: Social Security Administration

For example, if the client collects $900 per month from her teachers' pension, any Social Security spousal benefit she might receive is first reduced by $600 per month — two-thirds of her teacher's pension. So if she is entitled to a Social Security spousal benefit of $800 per month, she will receive just $200 per month after the Government Pension Offset reduction ($800 - $600 = $200).

And don't think she can skirt the Government Pension Offset rule by electing a lump-sum annuity payment of her government pension. Social Security will calculate the reduction as if she chooses to get a monthly benefit from her government work.

- There is an exception to the Government Pension Offset rule. If you paid Social Security taxes on your earnings during the last 60 months of your public employment, your Social Security benefits will not be reduced.

You can learn more about the Government Pension Offset rules at socialsecurity.gov/pubs/EN-05-10007.pdf, and you can calculate the potential impact of the rules by using the GPO calculator at socialsecurity.gov/retire2/gpocalc.html.

The Windfall Elimination Provision and Government Pension Offset restrictions were created as part of the 1983 Social Security reforms. In explaining the rationale for the two rules, the Social Security Administration noted that Social Security benefits are intended to replace only a percentage of a worker's pre-retirement earnings. The way Social Security benefit amounts are calculated, lower-paid workers get a higher return than highly paid workers. For example, lower-paid workers could get a Social Security benefit that equals about 55% of their pre-retirement earnings, while the average replacement rate for highly paid workers is about 25%.

Before 1983, people who worked mainly in a job not covered by Social Security had their Social Security benefits calculated as if they were long-term, low-wage workers. They had the advantage of receiving a Social Security benefit representing a higher percentage of their earnings, plus a pension from a job where they did not pay Social Security taxes. Congress passed the WEP to remove that advantage.

**Q. Can future Social Security retirement benefits be reduced for someone who is retired from both the military and a 30-year career in the private sector?**
A. No. Generally, there is no reduction in Social Security benefits because of one's military service. The person can collect both Social Security and military retirement benefits with no reduction in either one.

Since 1957, all active-duty military personnel have paid Social Security taxes on their earnings. And since 1988, inactive-duty service in the armed forces reserves (such as weekend drills) also has been covered by Social Security. If you served in the military before 1957, you did not pay Social Security taxes, but you will receive a special credit for some of your service.

You can read more about the rules in the Military Service and Social Security fact sheet (ssa.gov/pubs/10017.pdf).

# CHAPTER 8: DON'T FORGET THE KIDS

When I travel around the country speaking to financial advisers and consumers about Social Security claiming strategies, I often joke about the "Viagra College Fund."

That's how I refer to the provision that provides Social Security benefits to a dependent child when a parent claims retirement or disability benefits. Stash that extra income into a Section 529 plan, and you just may be able to pay for a Harvard education someday I tell them, only half in jest.

The combination of high divorce rates and the incidence of remarriage of older men to younger women has led to a rash of AARP-card-carrying dads pushing baby strollers. The second-family phenomenon can have a huge impact on a parent's retirement-planning strategy that goes well beyond boosting life insurance coverage and updating individual retirement account beneficiary designations. It can influence when a parent should claim Social Security benefits.

To be eligible for Social Security benefits, a child must be unmarried and under 18, or under 19 if still a full-time high school student. Disabled people over 18 are also eligible for benefits as long as the total disability began before 22.

The child can be a client's natural child, legally adopted child, stepchild or a grandchild, if the child's parents are dead or disabled and the child is your client's dependent. The child's benefit is based on 50% of the parent's primary insurance amount at full retirement age. Even if the parent claims reduced retirement benefits early or larger benefits by delaying his full retirement age, the child's benefit is still based on half of the parent's full retirement benefit. The same calculation applies if there is more than one child. And, as the caregiver of a minor child, a spouse, regardless of age, could also receive up to half of the worker's retirement benefit until the youngest child turns 16.

But the total amount paid on a worker's record is capped at the family maximum, which falls somewhere between 150% and 180% of a worker's full retirement benefit. If total family benefits exceed the prescribed family maximum, each dependent's benefit is reduced proportionately, but the worker's own benefit is not affected.

**Q. I am 60 years old and I have a 4-year-old son. Does it make sense to claim reduced retirement benefits at 62 so he can collect dependent benefits longer?**
A. It depends on whether you are still working. If you are and you collect Social Security before your full retirement age, you will be subject to annual earnings cap restrictions. In that case, you would lose $1 in benefits for every $2 earned over $18,240 in 2020. The earnings cap in future years would be increased for annual cost-of-living adjustments. In addition to reducing your monthly retirement benefits, excess earnings can reduce any spousal or child benefits based on your record. The earnings cap disappears once you reach full retirement age.

If your full-retirement-age benefit at 66 is $2,000 per month and you claimed your benefits as soon as you were eligible at 62, you will collect reduced benefits of about $1,500 per month for the rest of your life (plus any annual cost-of-living adjustments). Your son will claim $1,000 per month — half of your full-retirement-age benefit. Your son will continue to receive benefits until he graduates from high school or reaches 19, whichever comes first.

**Q. Can a parent file and suspend benefits at 62 to trigger dependent benefits for a child.**
A. No. Filing and suspending benefits is no longer an option. Under the new law, a claimant must have been at least 66 and have filed and suspended benefits by April 29, 2016, in order to trigger benefits for a spouse or dependent minor child. Beginning April 30, 2016, no one is able to collect any Social Security benefits during a suspension. That means a parent

would actually have to collect Social Security benefits in order to trigger dependent benefits for a minor dependent child or an adult child who was permanently disabled before age 22. However, depending on the age of the child and whether you are still working, it may be a good idea to collect reduced Social Security benefits early.

For example, assume you are 62, retired and have a 14-year-old child. You might want to collect reduced Social Security benefits while simultaneously triggering dependent benefits for your child. Four years later, when you are 66 and your 18-year-old becomes too old for dependent benefits, you may want to suspend your benefits. You would collect nothing for up to four years but in the meantime, your benefits would grow by 8% per year up to age 70, effectively restoring your full retirement age amount (75% x 1.32= 99%).

But be careful. Under the new rules, no one can collect benefits during a suspension. So if your spouse is also collecting benefits on your earnings record, his or her benefits would stop if you suspend your benefits.

# CHAPTER 9: THE DO-OVER STRATEGY

One of the biggest challenges of figuring out when to claim Social Security benefits is determining which strategy will maximize benefits for a client. The second challenge is to keep up with any rule changes that could undo the initial decision.

Over the past few years, I have heard from several readers whose clients claimed reduced Social Security benefits early because they needed the money at the time. The clients planned to repay those benefits later and restart them at a higher amount based on their age at the time. The only problem is, they missed the memo that repayment options had changed.

Until December 2010, it was possible for an individual to collect reduced Social Security benefits as early as 62, and at any point up to 70, withdraw their application for benefits, repay any benefits they had received and restart their benefits at a higher rate. Although repayments often exceeded $100,000, it was significantly cheaper than buying an immediate annuity that would generate the same amount of additional guaranteed income. The do-over strategy essentially amounted to an interest-free loan from the government.

But the Social Security Administration put a stop to that possibility. Now an individual can withdraw their application for benefits only once in a lifetime and it must be within 12 months of first claiming benefits. To do so, they must file Form 521 and repay any benefits they have received, including any benefits that a spouse or child has collected on their earnings record. So are these clients out of luck if they miss the 12-month window for withdrawing their application for Social Security benefits? Not necessarily.

There is a little-known option that allows individuals who have reached their full retirement age to voluntarily suspend — but not repay — the Social Security benefits they have received. The suspended benefits earn delayed-retirement credits worth 8% per year for each year they postpone collecting their benefits up to 70.

For example, say your client is entitled to retirement benefits of $2,000 per month at his normal retirement age of 66, but he elects to claim reduced benefits early at 62. He starts collecting 75% of his primary insurance amount or $1,500 per month, but later regrets his early-collection decision. Unfortunately, more than a year has passed since he first claimed Social Security. If he waits until his full retirement age of 66, he could voluntarily suspend his benefits until 70, boosting his monthly amount to 99% of what it would have been if he had collected them initially at age 66.

Here’s how the math works: 75% (reduced benefits at 62) x 1.32% (delayed-retirement credits from 66 through 70) = 99%. The lesson for financial advisers: Pay attention to rule changes that could affect your clients Social Security claiming decisions. I will do my best to keep all of you informed.

# CHAPTER 10: FILING FOR BENEFITS ONLINE

Everyone should set up a personal Social Security online account to access their estimated benefits any time. You can do that in a matter of minutes by going to www.ssa.gov. Once your account is created, the system will generate a personalized digital statement that includes estimated benefits at age 62, at full retirement age and at age 70, as well as potential disability benefits if you are unable to work. The statement also details how much your surviving spouse and any minor dependent children would be able to collect in the event of your death.

It is identical to the paper statements that we all used to receive in the mail every year a few months before our birthday. The Social Security Administration stopped mailing those statements in 2011 to save money, but in response to congressional pressure, the agency resumed mailing the paper statements in 2014. Budgetary pressures forced the agency to cut back on mailing paper statements again in 2017. Now only workers age 60 or older who are not receiving benefits and who have not set up a personal online account will receive paper statements in the mail. That should be even more of an incentive to set up a personal online Social Security Account (www.ssa.gov/myaccount), which allows you to access information at your convenience, day or night.

On March 17, 2020, the Social Security Administration announced that all local offices will be closed to the public for in-person services in response to the COVID-19 outbreak. But the agency would continue to provide critical services online.

If you need help from Social Security, the agency recommended that you first check out online service options at www.socialsecurity.gov/onlineservices. You can apply for retirement, disability and Medicare benefits online. You can also check the status of an application or appeal, request a replacement Social Security card and print a benefit verification letter from a laptop computer or mobile device.

If you cannot complete your Social Security business online, use the agency's national 800 number (800-772-1213). It has many automated service options you can use without waiting to speak with a telephone representative. A list of automated telephone service is available at www.socialsecurity.gov/agency/contact/phone.html.

The SSA website also has a wealth of information online that will answer most Social Security questions without your having to speak to an SSA representative. You can visit the agency's frequently asked questions page at www.socialsecurity.gov/ask.

The benefit estimates assume you will continue to work and make about the same amount this year and beyond (up to full retirement age) as you earned last year. Workers and employers each pay 7.65% of gross wages up to a maximum annual limit. For 2020, earnings up to $137,700 are taxed for Social Security purposes. All earnings, including amounts above the limit, are taxed at 1.45% for Medicare, which will give you a more accurate view of your annual income.

Your actual benefit amount may differ from the estimate if your future earnings increase or decrease. You can use the retirement estimator (https://www.socialsecurity.gov/retire/estimator.html) to calculate the impact of possible changes in earnings, such as retiring one year but delaying collecting Social Security benefits until a later year.

Your future Social Security benefits are based on your average lifetime earnings. If your earnings information is wrong, you may not receive all the benefits to which you are entitled. Therefore, everyone should review their Social Security statement at least once a year. Contact SSA (800-772-1213) immediately if you think your record is incorrect.

Ordinarily, you cannot correct your earnings after three years, three months and 15 days from the end of the taxable year in which your wages were paid, according to the Social Security Administration. But in some cases, you can correct your record after that length of time if you can match it up with previously filed tax returns or can otherwise document your earnings.

Not only can you use your computer to retrieve your estimated benefit statements 24/7, you also can file for benefits online from the comfort of your home. More than 50% of all prospective retirees now file for their Social Security benefits online. It is a safe and efficient option even for people who want to file a restricted claim for spousal benefits at 66, a strategy that is now limited to people who were born on or before January 1, 1954.

I used to recommend that individuals who wanted to do anything out of the ordinary should make an appointment for a face-to-face interview at their local Social Security office. Not anymore. Given the agency's shrinking workforce and the fIlIng for BenefIts onlIne increasing demand for services from aging baby boomers resulting in long waits on the phone or for in-person appointments, I think online applications are the way to go.

The application will ask for your name, Social Security number and date of birth. It will also ask for the name and date of birth of your current and any former spouses, if applicable, the date and place of any marriages and the dates of divorce or death of a spouse, if appropriate.

### ***REQUIRED INFORMATION***

The benefit application asks about your employment or self-employment, military service, whether you earned credits under another country's social security system or if you expect to receive a pension from a state, local or federal government. It asks about your citizenship status and requires a bank account number for direct deposit of your benefits. The earliest you can apply for benefits is four months before you want your benefits to start.

If you were born on or before January 1, 1954, you are eligible to restrict your claim to spousal benefits at 66 to allow your own retirement benefits to continue to increase until age 70. There is a box on the online application that says, "If you are eligible for both retirement benefits and spouse's benefit, do you want to delay receipt of retirement benefits?" Check yes. You can submit an application for spousal benefits up to four months before your 66th birthday. If you elect to collect only spousal benefits (assuming your spouse has either claimed benefits or filed and suspended their benefits by the April 29, 2016, deadline in order to trigger a spousal benefit for you), you will have to apply for your own retirement benefits when you turn 70. If you were born after January 1, 1954, you are not eligible to claim only spousal benefits.

If you still have doubts, check out "How to Apply Online for Retirement, Spouses or Medicare Benefits" (https:// www.socialsecurity.gov/pubs/EN-05-10523.pdf). The two-page publication includes screen shots so you know what to expect when applying online for Social Security benefits. The whole process takes about 15 minutes and you can save your application and resume the process at a later time once you receive a re-entry number.

Divorced spouses and survivors should call Social Security (800-772-1213) and make an appointment to apply for benefits in person. You will need your marriage license, divorce decree and/or death certificate.

# CHAPTER 11: HOW BENEFITS ARE TAXED

About 40% of Social Security recipients — and probably the majority of financial advisers' clients — pay federal income taxes on a portion of their benefits. The taxes usually hit when the recipients have other substantial income from sources such as wages, self-employment, interest, dividends and other taxable sources that must be reported on their federal tax return in addition to their Social Security benefits.

Social Security benefits are subject to federal income taxes, regardless of age, if income rises above certain thresholds known as "combined income," which is the sum of adjusted gross income from Line 37 of the IRS 1040 form, plus non-taxable interest, plus one-half of Social Security benefits. Because income brackets have not changed since 1994, more and more retirees must pay this stealth tax as their income rises due to annual cost-of-living increases.

Individuals with combined income between $25,000 and $34,000 pay taxes on up to 50% of their Social Security benefits. If their combined income is more than $34,000, up to 85% of their Social Security benefits are subject to income tax. Married couples filing a joint return have to pay taxes on up to 50% of their Social Security benefits if their combined income is between $32,000 and $44,000. If their combined income is more than $44,000, up to 85% of their Social Security benefits are subject to income tax.

Social Security benefits weren't always taxable. The change was the result of Social Security reform legislation designed to shore up the long-term finances of the system. Under legislation enacted in 1983, the Social Security Trust Funds receive income based on taxes on up to 50% of benefits from single and married taxpayers with incomes over the first threshold. Subsequent legislation enacted in 1993 extended taxation of benefits to 85% from 50% for single taxpayers with incomes over $34,000 and for taxpayers filing jointly with incomes over $44,000. All additional tax income resulting from the 1993 legislation is deposited in Medicare's Hospital Insurance Trust Fund.

**How Social Security Benefits are taxed**

**Combined Income = AGI + Tax-Exempt Interest + 50% of SS Benefits**

| Filing Status | Combined Income | Taxable Up To |
|---|---|---|
| Single | <$25,000 | 0% |
| Single | $25,000 - $34,000 | 50% |
| Single | >$34,000 | 85% |
| Married Filing Jointly | <$32,000 | 0% |
| Married Filing Jointly | $32,000 - $44,000 | 50% |
| Married Filing Jointly | >$44,000 | 85% |

Source: Social Security Administration

Each January, retirees receive a Social Security Benefit Statement (Form SSA-1099) showing the amount of benefits they received in the previous year that they can use to determine how much of their benefits are subject to tax. They can make quarterly estimated tax payments to the IRS or choose to have federal taxes withheld from their benefits by filing IRS Form W-4V, Voluntary Withholding Request.

Although most states follow federal law and exempt Social Security benefits from state income taxes, 13 states do not. The states that tax Social Security benefits include: Colorado, Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont and West Virginia.

# CHAPTER 12: SOCIAL SECURITY AND MEDICARE

More than 64 million beneficiaries, including retirees, disabled workers and their eligible dependents and surviving family members, will receive a 1.6% increase in Social Security benefits in 2020, the smallest annual cost-of-living increase in the past three years.

The 1.6% increase will boost the average Social Security benefit by about $24 to $1,503 per month in 2020 and increase the maximum benefit for someone who retires at full retirement age in 2020 to $3,011 per month. Medicare Part B premiums, which cover outpatient services and doctor visits, will increase by about $9 per month for most people. Because Medicare Part B premiums are usually deducted directly from Social Security benefits, it means the majority of retirees will see a small increase in their net Social Security benefits in 2020.

In 2020, most Medicare beneficiaries will pay a standard premium of $144.60 per month for Part B. But individuals whose modified adjusted gross income (MAGI) tops $87,000 ($174,000 for couples) pay higher premiums for both Medicare Part B and the Medicare Part D prescription drug program. MAGI adds tax-exempt interest to adjusted gross income.

If your MAGI exceeds one of the six income tiers by even $1, you are catapulted into the next tier and required to pay a higher surcharge. Medicare premiums are based on the latest available tax return, so 2020 premiums are based on 2018 tax returns filed last year. In 2020, premiums that included high-income surcharges for Medicare Part B range from $202.40 to $491.60 per month. Rates are per person, which means that married couples where each spouse is enrolled in Medicare and whose income exceeded $174,000 by just $1 in 2018, would pay more than $4,857 for Medicare Part B premiums alone in 2020.

A new top income tier for very high-income retirees was added in 2019. An individual with MAGI topping $500,000 in 2018 would pay about $4,900 for Medicare Part B premiums in 2020 and a married couple whose 2018 income topped $750,000 would pay twice as much.

Medicare premiums and surcharges are reset each year to take effect the following Jan. 1. Retirees can be subject to a Medicare premium surcharge if their income spikes for a variety of reasons such as large investment gains, sale of a vacation home or converting a traditional retirement account to a Roth IRA. If their income later falls, future Medicare premiums may decline.

## Medicare Premiums Rise with Income

**Modified Adjusted Gross Income (MAGI) =**
**Adjusted Gross Income + Tax-Exempt Interest**

***MOST MEDICARE BENEFICIARIES, WILL PAY $135.50 PER MONTH FORMEDICARE PART B IN 2019***

| If your 2018 MAGI was: | | Your Medicare Part B* Premium in 2020 is: |
|---|---|---|
| File individual tax return | File join tax return | (including surcharge) |
| <$87,000 | <$174,000 | $144.60 |
| $87,001 - $109,000 | $174,001 - $218,000 | $202.40 |
| $109,001 -$136,500 | $218,001 - $272,000 | $289.20 |
| $136,001 - $163,000 | $272,000 - $326,000 | $376.00 |
| >$163,001 - $500,000 | $326,001 - >$750,000 | $462.60 |
| >500,000 | >$750,000 | $491.50 |

*Monthly premiums are per person
Additional premium surcharges also apply to Medicare Part D prescription drug plans

Source: Medicare.gov

If a retiree's current income is lower than the most-recent tax return, they may be eligible to appeal a Medicare premium surcharge — but only if the income drop is due to a specific life-changing event, such as the death of a spouse, divorce, marriage or retirement. If that is the case, clients should immediately respond to the premium surcharge notice, known as an income-related monthly adjustment account (IRMAA) letter they receive in the fall and follow the instructions on how to appeal the surcharge.

There are several sources of income that do not count in the MAGI calculation, including: distributions from Roth IRAs and Roth 401(k) plans; distributions from Health Savings Accounts when used to pay for medical expenses; loans or distributions from cash-value life insurance; a portion of immediate annuity distributions that represent a return of basis when held in a non-retirement accounts; and proceeds from reverse mortgages.

Future retirees would be wise to diversify the taxability of their retirement income sources by spreading their assets among tax-deferred retirement accounts, brokerage accounts where taxes are levied on profits at preferential capital gains rates, and tax-free accounts such as Roths and HSAs. Being able to draw from different types of accounts can reduce both income taxes and Medicare premiums, resulting in more spendable retirement income.

Charitable-minded clients age 70 ½ and older have another option. They can contribute up to $100,000 per year directly from their IRA to a qualified charity to satisfy their annual required minimum distribution without increasing their taxable income or boosting their MAGI.

As part of the $2 trillion federal stimulus package known as the Coronavirus Aid, Relief and Economic Security, or CARES Act, Congress waived required minimum distributions from retirement accounts in 2020 so retirees who don't need the money can leave it in their accounts and avoid paying taxes on those distributions.

If retirees can afford to skip their annual IRA distribution this year, it offers some enormous planning opportunities. Normally, taxpayers who are subject to RMD requirements must take their distribution first before converting excess amounts in their IRA to a Roth IRA. That could lead to a large tax bill, since both the RMD amounts and the Roth conversion amounts are taxable. In 2020, IRA account holders can skip the RMD and instead convert amounts of their choice to a Roth IRA to create future tax-free income.

Skipping RMDs could lead to lower income tax bills for 2020 and could also reduce future Medicare premiums by allowing people to avoid or reduce the impact of high-income surcharges. Medicare premiums for 2022 will be based on 2020 tax returns. Surcharges apply once modified adjusted gross income, which is AGI plus any tax-exempt interest from municipal bonds, exceeds $87,000 for individuals and $174,000 for married couples in 2020. Those income thresholds will be adjusted for inflation in 2021 and beyond.

Here's a little-known fact: Once you enroll in Medicare, you can no longer contribute to a health savings account (HSA), but you can continue to take tax-free distributions when you use the money to pay for out-of-pocket medical costs. And here's another shocker: You must enroll in at least Medicare Part A, which is free, once you start collecting Social Security benefits, if you are age 65 or older. Enrollment is mandatory. No Medicare enrollment, no Social Security benefits.

For some clients, it creates a tough choice between continuing to fund an HSA or to begin collecting Social Security. The rules for enrolling in Medicare Part B, which carries a monthly premium, are different. In general, you must enroll in Medicare Part B during your initial enrollment period, which begins three months before you turn 65, includes your birthday month and continues for three months after your birthday. If you miss your initial enrollment period, you will have to wait until the next general enrollment period, which occurs from January through March each year, for coverage that begins the following July.

And there is a penalty for delayed enrollment. For every year you are eligible to enroll in Medicare Part B but do not, you will pay a 10% delayed enrollment penalty every month for the rest of your life. So, if you wait until age 70 to enroll in Medicare Part B — five years after you were first eligible — you will pay an additional 50% delayed enrollment penalty on top of your monthly premium forever.

But there is an exception. If you have group health insurance through your current employer or are covered by your spouse's group health insurance, you can delay enrolling in Medicare Part B penalty-free until that coverage ends. At that point, you have up to eight months to enroll in Medicare Part B.

# CHAPTER 13: NEW RULES, NEW STRATEGIES

Even after all the creative claiming strategies disappear, future retirees will still face the critical decision of when to claim Social Security benefits. The file-and-suspend strategy is now history and the final group of people eligible to claim only spousal benefits while their own retirement benefits continue to grow up to age 70 turned 66 in 2019. However, those people who were born on or before January 1, 1954, can continue to exercise the right to file "a restricted claim for spousal benefits" any time up to the age of 70.

For married couples, it will still make sense for the spouse with the higher Social Security benefit to delay up until age 70 in order to collect the largest retirement benefit while both spouses are alive and to create the largest possible survivor benefit for the spouse who is left behind after one dies. At that point, the larger Social Security benefit will continue for the surviving spouse and the smaller one will go away.

In the meantime, it may make sense for the spouse with the lower Social Security benefits to collect at full retirement age — or even sooner if not working — in order to maximize the couple's cash flow while waiting for the other spouse to collect the maximum retirement benefit at age 70.

Couples where one spouse has no Social Security benefits of his or her own are in a bind. The working spouse must actually collect Social Security benefits to trigger benefits for the non-working spouse. They should look closely at their relative ages to decide when to begin claiming benefits. For example, a husband who is several years older than his wife might want to delay claiming his benefits until his wife is at least 62 — the youngest age that she can collect spousal benefits. Even if he were older than full retirement age by then, it means he will have earned some delayed retirement credits that will boost his monthly payments and potential survivor benefit.

Although collecting retirement benefits early results in a permanent reduction in those benefits, it will have no impact on survivor benefits if the person collecting them is at least full retirement age at the time. Surviving spouses retain the right to claim their own retirement benefit first and switch to a survivor benefit later, or vice versa, if it would result in a bigger benefit. That rule was not altered by the Bipartisan Budget Act of 2015 which changed the claiming rules for spouses and ex-spouses.

"Power" couples who are each entitled to maximum Social Security benefits at their full retirement age may want to hedge their bets. One spouse probably should claim benefits at full retirement age when the earnings restrictions disappear while the other delays up until age 70. It probably does not make sense for both of them to delay until 70. Although it would increase their monthly cash flow with two maximum retirement benefits, there may be no survivor benefit after the death of the first spouse if the deceased spouse's benefit was the same or smaller than the surviving spouse's benefit.

It is a tougher call for divorced spouses. Once the ability to claim only spousal benefits at full retirement age disappears, the choice of when to claim Social Security comes down to cash flow needs. Although an ex-spouse who was married at least 10 years, is divorced and is currently single is entitled to claim Social Security benefits on an ex's earnings record, there will no longer be a choice of which benefit to receive. Social Security will pay the highest benefit available whether based on your own earnings record or that of a spouse.

If the spousal benefit would be higher, it makes no sense to delay claiming beyond full retirement age since spousal benefits do not earn delayed retirement credits. But if benefits would be larger on your own earnings record and you can afford to wait to collect a bigger benefit at age 70, your monthly benefits could increase by up to 32% over your full retirement age amount. And if your ex-spouse dies first, you are entitled to survivor benefits worth 100% of what your ex was collecting or was entitled to collect at time of death, even if he or she had remarried.

Although you lose the right to collect benefits on a living ex if you remarry, you may be able to collect survivor benefits on your deceased spouse if you wait until age 60 or older to remarry.

For single people, it probably makes sense to wait until full retirement age to collect Social Security, particularly if they are still working, but it may not be worth delaying benefits until 70. Although benefits would be larger if you waited to collect them, the real value of delaying until 70 is to leave a bigger benefit for a surviving spouse. Without a spouse, it may not pay to wait.

Families with young children should take a close look at their options. Children under age 18 (or 19 if still in high school) and adult children who were permanently disabled before age 22 are eligible for dependent benefits worth up to 50% of a parent's retirement or disability benefit.

But with the demise of the "file and suspend" claiming strategy, a parent must actually be collecting Social Security benefits in order to trigger benefits for a dependent. A parent can collect retirement benefits as early as age 62 but will be subject to earnings restrictions if they continue work while collecting benefits.

Much depends on the relative ages of the parent and child. For example, a 62-year-old mother with a 14-year-old child may want to claim retirement benefits early, assuming she is not working or not earning much more than the annual earnings limit, to trigger dependent benefits for a child. Let's assume her husband is 64 and still working.

Once the child turns 18 and ages out of the dependent benefits, the mother, who would be 66 by then, would have the option of either continuing to collect her reduced benefits or suspending her benefits. Although she could not collect anything during the suspension, her benefits would earn delayed retirement credits of 8% per year up until age 70. That could effectively restore her full-retirement-age benefit (75% x 1.32 = 99%).

Depending on the couple's income needs, the husband could collect his benefits at 66 and continue to work with no reduction in benefits or could wait up until age 70 to collect his maximum benefit, locking in a maximum survivor benefit as well.

Or, assuming the husband was born on or before January 1, 1954, he could file a restricted claim for spousal benefits on his wife's earnings record and switch to his own maximum retirement benefit at 70. But in order to exercise this combination claiming strategy, the wife must continue to collect her Social Security benefits. If she suspends her benefits at full retirement age once the child ages out of the dependent benefit, she cannot collect any benefits during the suspension period and no one can collect benefits on her record during that time.

# ENDNOTE

Despite recent legislative changes — and no matter what adjustments future Congresses and administrations decide to make — Social Security benefits will continue to be a keystone of retirement income and one of the few sources that are assured for a lifetime.

Because of the importance and complexity of Social Security rules, it is more important than ever that financial advisers become knowledgeable about this area, and that they and their clients take a holistic view of retirement income. That means coordinating Social Security claiming decisions and asset drawdown strategies — as well as asset allocation and risk considerations — in ways that will minimize taxes and hold down Medicare premiums.

If maximizing after-tax income in retirement is the objective, knowing more about Social Security is imperative.