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10 STRATEGIES To **Maximize** Your Social Security Income

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Kristine McKinley is a CPA and Certified Financial Planner.

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You can learn more about Kristine and fee-only financial planning at www.beacon-advisor.com

Kristine created this report in response to the many questions she receives about Social Security benefits.

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“Retirement benefits make up at least half the income for two-thirds of the people collecting Social Security”

In a recent survey, 49 percent of American workers said they are not confident that they will have enough money to live comfortably during their retirement years.

Americans’ concern about running out of money during retirement has increased the past few years, and it’s no wonder with pensions becoming extinct, employers cutting or eliminating 401K matches, and a stock market that can post 100 point gains and losses in just one day.

Retirees basically have three sources of income during retirement:

- Pensions,
- Investments, and
- Social Security.

With the demise of pensions, and the declining savings rate, retirees are relying even more on Social Security to help them cover living expenses in their retirement years.

According to the Social Security Administration, retirement benefits make up at least half the income for approximately two-thirds of the people collecting Social Security, and 90 percent of the income for at least one third of Americans receiving benefits.

With so many people relying on Social Security for the majority of their retirement income, you would expect that people would try to get the most out of their Social Security benefits.

Surprisingly, most people fail to learn about Social Security until after they have started receiving benefits, and unfortunately it's usually too late at that point to do anything about it.

The goal of this ebook is to help you wade through the many rules and complexities of the Social Security system and to show you strategies to help you maximize your benefits.

Most people collect Social Security as soon as they are eligible for benefits, so you may be wondering why you should worry about maximizing your benefits instead of taking them as soon as you qualify.

Here are three good reasons why you should want to get the most out of your benefits…

- Social Security is a ***lifetime income stream***. That means even if your investments run out, you'll still receive income from your Social Security benefits.

- Social Security is an ***inflation adjusted*** income stream. So as the cost of groceries, utilities, and other expenses rise, so will your Social Security income.

- Your family may be eligible for benefits based on your earnings record; by maximizing your benefits, you also ***maximize the benefits your family may receive***.

There are many strategies that can help you maximize your benefits; not just for you, but also for your family and your survivors.

While most of these strategies will benefit married couples, there are strategies included for single people as well.

After you have read this ebook, you should contact the Social Security Administration or a financial planner who specializes in Social Security planning to determine which strategy is the best one for you and your family.

STRATEGY #1
Delay Taking Benefits

This is probably not what you wanted to hear, but the best way to boost your Social Security benefit is to delay taking benefits.

I know you were hoping for some juicy little-known tips and loopholes on how to maximize your benefits, and those are coming, but the #1 strategy to increase your benefits is to wait as long as possible to apply.

There are three key ages when it comes to applying for Social Security retirement benefits:

- **Age 62** - This is the earliest that you can apply for retirement benefits, however, you will be penalized for every month that you take benefits early.

- **Your full retirement age** - This is age 66 for most people retiring now, but this number increases by two months for every year that you were born after 1954. So if you were born in 1955 your full retirement age is 66 and 2 months, if you were born in 1956 your full retirement age is 66 and 4 months, and so on. If you were born in 1967 or later, your full retirement age is 67.

- **Age 70** - While you don't have to start collecting benefits at age 70, your benefits will no longer accrue credits once you reach age 70, so there's no benefit to delaying benefits beyond this age.

Note that you can take benefits at any time in between ages 62 and 70; you don't have to wait until full retirement age if you don't apply when you reach age 62, and similarly, you don't have to wait until age 70 if you don't apply at your full retirement age.

Now that you know when you can apply for retirement benefits, why should you consider waiting to start collecting your Social Security check?

Higher Monthly Benefit: Your Social Security benefit increases the longer you wait to take it. You can collect Social Security as early as age 62, but your benefits will be reduced for the rest of your life. Depending on your full retirement age, your benefits will be reduced by up to 30% if you take them early.

On the other hand, if you wait to take benefits after you have reached full retirement age, your benefits will increase approximately 8% per year; if you wait until age 70 to collect, your benefit amount will be 132% of the amount you would have received at full retirement age.

<u>Greater Lifetime Benefits:</u> Depending on how long you live, the total amount you will receive over your lifetime will be higher if you wait to take Social Security.

For example, let's assume that your retirement benefit at your full retirement age is $1,230. If you take your benefits early, you will receive a smaller monthly benefit ($861) but you will receive them for a longer time period. If you lived to age 85, your total lifetime benefits if you started at age 62 would be $346,914.

If you wait until you reach full retirement age, your benefit will be higher ($1,230) but you will receive payments for a shorter time period. You might think you would lose out by waiting to take benefits, but in the same example, if you live to age 85, your total lifetime benefits will be $388,636 if you wait until your full retirement age to start benefits.

That's an additional $41,722 that you will receive over your lifetime simply by waiting until your full retirement age to apply for benefits. And that number only gets larger the longer you wait to collect benefits.

Higher Spousal and Survivor Benefits: Delaying your retirement benefits not only increases your benefit but it could also affect the amount your family receives.

Spousal and survivor benefits are both reduced if you collect your retirement benefit early, so you can maximize both of those benefits by delaying your own benefit.

While delaying your benefits will be beneficial to most people, there are some instances where you might want to take your benefits early.

For example, if you are unable to work, either due to health reasons or due to a poor economy, and you don't have any other income or savings, then it doesn't make sense to delay your benefits.

Also, if you are in poor health and you do not expect to live a long life, it might not make sense to delay your benefits, especially if you are unmarried.

STRATEGY #2
Maximize Family Benefits

I promised you some juicy tips and loopholes, so here's the first one...

Most people are aware that children may qualify for Social Security benefits if the parents are disabled or deceased. However, *did you know that children may also qualify for benefits just because a parent retires?*

It's true. If you are retired and collecting Social Security retirement benefits, your children may also qualify to receive a benefit up to one-half of your full retirement benefit amount (that's for each child).

To be eligible to receive benefits, the child must be unmarried and under age 18 (exception: children still in high school will continue to receive benefits until they graduate or until two months after they reach age 19, whichever comes first). Disabled children under the age of 22 may also qualify for benefits.

Child can be your biological child, your step-child, an adopted child or even a grandchild (if they are a dependent of you).

If your children qualify for benefits their benefit will not decrease your retirement benefit, however, there are limits to the amount that a family can receive.

Depending on the size of your family, the maximum family amount that can be paid is generally 150 to 180 percent of your full retirement benefit.

Most people will not benefit from this rule, as their children are usually grown and on their own before you retire.

However, if you had (or adopted) children late in life, this could be a valuable planning tool to increase your retirement income.

STRATEGY #3

Collect Benefits Based on Your Spouse's Earnings

One of the benefits of being married is that you can draw Social Security based on your spouse's earnings record if that benefit is higher than your own.

Social Security originally didn't pay benefits to anyone besides the worker, but in 1939 spousal benefits were added along with survivor benefits and benefits for children.

This helped reduce the possibility that a widow would become impoverished when the working spouse died.

Who qualifies as a spouse? That might seem like a silly question, but in today's world where people get married several times in a lifetime, and same-sex marriages are being made legal in various states, it's a good one.

Generally, when we are talking about spousal benefits we are talking about the current spouse; however, divorced and surviving spouses can also receive benefits based on the worker's earning's history. We'll discuss divorced and widow benefits in more detail later.

Some states recognize common law marriages and even same-sex marriages, so a quick note about those…

Common law marriages are recognized by Social Security if they are legally entered into in a state that recognizes them and you act as if you are married.

Same-sex marriages, on the other hand, are NOT recognized by Social Security even if you get married in a state that allows them.

Now that we know who qualifies as a spouse, how much can a spouse receive? If you're married, you can withdraw Social Security retirement benefits based on your own earnings, or you can collect half of your spouse's benefit, whichever is larger.

This is helpful if one spouse earned significantly less than the other, or if one spouse stayed out of the work force to raise a family.

Spouse’s can collect benefits as early as age 62, but those benefits will be reduced for every month before she reaches full retirement age.

The worker must have applied for benefits in order for the spouse to collect spousal benefits, but the worker can apply and immediately suspend his own benefits if he is still working or if he wishes to delay his benefits for other reasons.

There are multiple strategies available to spouses to maximize your family’s benefits which will be discussed throughout this report.

STRATEGY #4
Tap Into Your Ex's Social Security Benefits

Many people are surprised to learn that the spousal benefit applies to ex-spouses too.

If you were married to your ex-spouse for at least 10 years, and you aren't currently married to someone else, you can collect up to 50% of your ex spouse's benefits.

And the best part, your ex-spouse will never even know you are collecting benefits against their earnings record unless you tell them, and it won't affect their benefits in any way.

Also, unlike the spousal benefit, ex-spouses don't have to wait for their ex-spouse to start collecting benefits.

This rule may seem unfair to the current spouse, but the SSA reasons that the current spouse can rely on her husband’s earnings while he is still working; the ex-spouse does not have a current spouse to provide for her, so she shouldn’t have to wait for her ex-spouse to retire before she can apply for benefits on his record.

You can apply for Social Security based on your ex-spouse's earnings as soon as you are eligible (i.e., age 62). However, just like if you were applying for your own retirement benefit, spousal and ex-spouse benefits will be reduced for every month you collect before you reach full retirement age.

STRATEGY #5
The Do-Over Strategy

Did you apply for benefits early and then have second thoughts? Or did you retire, apply for benefits, and then decide to go back to work? Well, you might have a shot at a do-over.

The reset allows people who have already started receiving benefits to “reset the clock” by suspending their Social Security, repaying all of the benefits received to date, and reapplying at a later date, such as at full retirement age or age 70.

However, you only have a limited amount of time to implement this strategy and you can only do it once in your lifetime.

The time frame for this strategy used to be an open window, meaning you could apply for benefits at 62 and request a reset at age 70. As long as you had the money to do this, it was allowed.

The effect was essentially an interest free loan to people who could afford to do this strategy, with the added benefit of a higher Social Security benefit when they reapplied.

Starting in December 2010, the time frame for a do-over has been limited to 12 months.

That means you have 12 months from the date you started receiving benefits to request a do-over.

So you still have an opportunity to correct a mistake if you think you took Social Security too early or if you decided to go back to work, but you have to act quickly and the days of using this strategy to secure an interest free loan for several years are gone.

STRATEGY #6

File and Suspend Benefits

One spouse can file for benefits and then suspend them, thus allowing the other spouse to start benefits.

One of the benefits of being married is that you can collect Social Security based on your spouse's earnings record if they had significantly higher earnings or if you didn't work enough to earn Social Security on your own record.

One of the problems that couples run into though is when the non-working spouse wants to collect benefits and the working spouse isn't ready to retire.

This can happen if the non-working spouse is older than the working spouse, or if the working spouse plans on working beyond "normal" retirement age.

Thankfully there is a way around that; it's called "file and suspend". Here's how it works…

Let's assume that you are 64 and want to collect benefits but you didn't work enough to qualify for benefits on your own, so you are going to collect a spousal benefit based on your husband's earnings record. Your husband is 66, but he isn't ready to retire yet.

According to the Social Security rules, you can't collect spousal benefits until your husband applies for benefits.

Under the “file and suspend” rule, your husband can apply for benefits and then immediately suspend them.

This will allow you to collect the spousal benefit, but will allow him to delay collecting his own benefit until a later date.

This is a great strategy if you want to maximize the higher-earner’s retirement benefit, but you would like to have some cash flow coming in now.

The “working” spouse must be at full retirement age or older in order to file for benefits and request that the be suspended.

STRATEGY #7
The Restricted Application

The restricted application might be more beneficial for couples with similar incomes.

The “file and suspend” strategy works great when one spouse has either not worked enough to claim Social Security on her own, or if her earnings were substantially lower than her husband’s.

But what about couples who have similar incomes?

There is another strategy - the restricted application - that might be more beneficial if you and your spouse both have full careers and earn similar incomes.

Under the restricted application, the higher earner applies for spousal benefits at his full retirement age, instead of his own benefits.

The spousal benefit is generally 50% of the other spouse’s benefit, so why would this be helpful?

The advantage of doing a “restricted application” instead of the husband applying for his own benefit is that his own benefit will continue to accrue delayed retirement credits and will be even larger when he collects later (presumably at age 70).

This also means a higher survivor benefit for the wife should she outlive her husband.

The lower earning spouse in this example must have applied for benefits already in order for the higher earning spouse to apply for spousal benefits.

It's also important to note that the higher earning spouse must be at full retirement age for this to work. If he applies for benefits before full retirement age, he will not be able to collect the "spousal" benefit if his own benefit would be higher.

Again, this strategy works best when both spouses have careers and they also have similar incomes (or at least not substantially different).

Note: One of the most commonly asked questions I receive is whether someone can apply for spousal benefits only and switch to their own benefit when they reach full retirement. The answer is no. The restricted application (requesting spousal benefits instead of your own) is only available if you have already reached full retirement age.

STRATEGY #8
Boost the Survivor Benefit

Maximizing your benefit will also maximize the benefit your survivors will receive.

The survivor benefit has been mentioned several times throughout this report, and for good reason. You don't want to just increase your benefit, you want to increase your entire family benefit wherever possible. That includes the survivor benefit.

According to the U.S. Census Bureau, 80% of women live longer than their spouses, and by an average of 14 years. Combined with the fact that women (still) typically have lower lifetime incomes than men, and this makes survivor benefits even more important.

When Social Security was first enacted, it did not provide benefits for spouses or children, only the worker received a benefit. However, with women outliving their husbands by so many years, this left many women and families in poverty when the husband died.

To provide economic security for families, not just the worker, the Social Security Act was amended to provide benefits to spouses and minor children of retired workers, and survivors in the event of the death of the worker.

Today, when one spouse dies, the surviving spouse will receive her own benefit or her husband's benefit (if it is higher), but not both. However, even if the surviving spouse receives the higher survivor benefit, the fact is her income is still going to go down when her husband dies.

As a result of women living longer than men, women having less income than men, and the fact that Americans are relying more and more on Social Security to provide income during retirement, it is important to maximize the survivor benefit as much as possible.

The easiest way to do this is for the husband to work as long as possible, or at least wait to collect his Social Security retirement benefit for as long as possible.

Two of the strategies mentioned above can also help increase the survivor benefit. Those are the "file and suspend" strategy and the "restricted application" strategy.

Both of these strategies aim to maximize the husband's benefit (assuming he is the higher earner and is the same age or older than his wife), but it will maximize the survivor benefit as well.

If you have children under the age of 18 (or under the age of 22 if disabled), then maximizing the survivor benefit will increase the benefits they will receive also.

STRATEGY #9

Minimize the Taxes You Pay on Your Social Security Benefits

Did you know you may have to pay taxes on your Social Security benefits?

Many people are surprised to learn that they may have to pay taxes on their Social Security benefits. After all, they paid Social Security taxes throughout their career, why should they have to pay taxes on those benefits?

To be honest, most people will not have to pay taxes on their Social Security benefits. But if you have a pension or you have substantial investment income, then you may have to pay taxes on a portion of your benefits.

This is true also if you go back to work or continue working after you start collecting benefits.

For example, if you are single and you have combined income (defined as your adjusted gross income + nontaxable interest + 1/2 of your Social Security benefits) between $25,000 and $34,000 you may have to pay taxes on up to 50 percent of your benefits. If your combined income is more than $34,000, up to 85 percent of your benefits may be taxable.

If you are married, those income limits are $32,000 and $44,000 respectively.

If you have a substantial pension or investment assets, you could easily find that you have to pay taxes on your Social Security benefits.

Here are some strategies to help keep the taxes you pay on your Social Security benefits down:

Delay your benefits until you are completely retired. Working while you are collecting Social Security will mean a good portion of your benefits may be taxable, so if you can wait to collect benefits until after you retire, that will help keep the taxes you pay down.

Plan Roth IRA conversions to take place before you collect Social Security benefits. Many people take the opportunity to do Roth IRA conversions once they retire because they are in a lower tax bracket. This can be a great long term tax planning strategy.

However, if you are already collecting Social Security benefits the additional income from the conversion could cause your benefits to become taxable, so you should time your conversions before you collect Social Security if possible.

Plan IRA distributions accordingly. Once you reach age 70 1/2 you are required to take minimum distributions from your IRAs. If you have other income that already has you close to the income bases (discussed above), your required minimum distribution (RMD) could put you over those limits, causing your Social Security to be taxable.

One way to reduce the impact of the RMD is to start taking distributions from your IRAs earlier, or to convert a portion of your traditional IRAs to Roth IRAs before you have to start taking the minimum distribution.

Diversify your retirement assets for tax purposes before you need them. While you were building your nest egg you were probably told to diversify your portfolio for investment purposes. But did anyone tell you to diversify for tax purposes? They should have.

By building a nest egg that includes tax deferred investments (401K, traditional IRAs), tax free investments (Roth IRAs) and taxable investments (stocks, bonds and mutual funds held in non-IRA accounts), you will have several "buckets" to pull from during retirement, thus giving you the ability to pull from the funds or buckets that will keep your taxes at a minimum.

The bottom line is that your Social Security could be subject to income taxes if you have other income streams and you should be working with a tax professional every year to help you reduce the taxes that you pay on your Social Security and other income.

After all, one of the best ways to maximize your Social Security benefits is to reduce the taxes that you pay on those benefits.

STRATEGY #10

Maximize Your Income Now to Maximize Your Benefits Later

The more you make now the higher your benefits will be later.

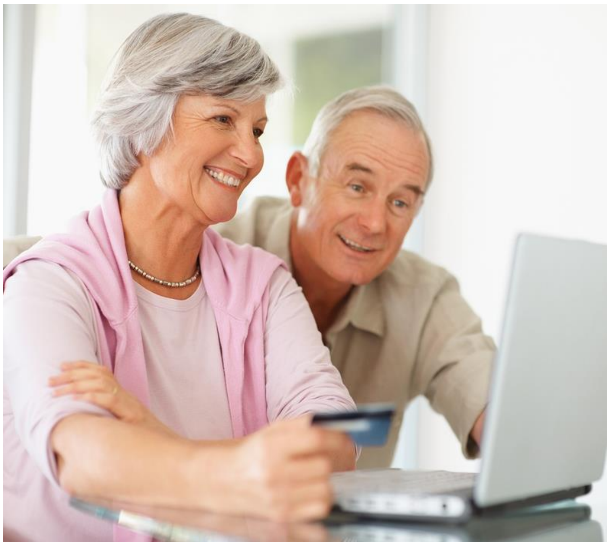
Your retirement benefit is based on your top 35 years of earnings so it's important to get as many "high earning" years in as possible.

If you're at the top of your career as far as income goes, working just one year longer in a high paying job could make a big difference in your retirement benefit.

Similarly, if you left the work force for several years, such as to raise a family, and you don’t have 35 years of earnings, then every additional year you can work will help boost your Social Security benefits.

READY TO MAXIMIZE YOUR BENEFITS?

One of the biggest concerns that people have is that they will run out of money during retirement.



Maximizing your Social Security will help make sure you have enough in your later years.

If you're interested in learning how to get the most out of your Social Security, contact Kristine for a consultation.

Kristine McKinley is a Certified Financial Planner who specializes in retirement and tax planning, including maximizing your Social Security retirement benefits.

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