Social Security Planning

6 Ways to Capture More Social Security Income over Your Lifetime

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Picture Your Retirement with More Income

Electing your Social Security income benefit may be the most important financial decision you make in your lifetime. Singles, and especially couples, can miss opportunities to collect hundreds of thousands of dollars of additional income over their lifetimes by making poor Social Security income election decisions. By applying little-known, yet creative claiming strategies, you may be rewarded with significant additional retirement income over your lifetime.

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A multitude of possible combinations are available for choosing your Social Security income election. At first glance, the election process and strategies can seem complicated and confusing. There are literally hundreds of strategic combinations for maximizing and optimizing your lifetime Social Security benefit. Unfortunately, few financial professionals understand how to successfully navigate the Social Security income election waters. Furthermore, only a small handful of diligent retirees investigate this critical financial decision at a deeper level.

Maximizing your Social Security income benefit requires a bit of education, good planning, and the application of smart decision tools. In this snapshot report, we highlight six important tools (i.e. concepts and techniques) pre-retirees and retirees should consider utilizing when evaluating their Social Security income claiming decision.

Tool #1: When You Claim Social Security, Get it Right the First Time

The Social Security Administration implemented a very important rule change, effective December 8, 2010, that places a limited timeframe constraint for when you can fix and re-do your Social Security Income election. You now have only 12 months from the date you file your claim to choose a more favorable election method.

Prior to December 8, 2010, anyone who had been receiving Social Security income—regardless of when they filed—could pay back the income they had received and re-elect their Social Security income choice. Effectively, these folks were receiving an "interest-free" loan from Social Security, and the government decided to put an end to this loophole.

What does this important ruling mean for you? You should now be more diligent than ever when choosing how and when to take your Social Security income:

□□□□□□□□□• If you have made your income election within the past 12 months, you should consider reviewing it closely with a qualified Financial Advisor. You may still have time to re-file if another strategy is a smarter choice.

□□□□□□□□□• If you are about to file a claim, be sure to evaluate your benefit election options thoroughly.

□□□□□□□□□• If you make a mistake, or if your financial picture changes, you now have only 12 months from your date of election to change it.

- In summary, it is now more crucial than ever to claim your Social Security income correctly the first time.

Tool #2: Understand the Impact of Claiming Social Security too Early

Research studies indicate about half of all Americans file during their first year of eligibility—typically age 62. Unfortunately, for a good portion of these folks, this could be a costly mistake. Filing early could mean forgoing thousands of dollars, and in some instances (especially with couples), over a hundred thousand dollars of their total lifetime income stream.

Although you certainly can file at 62 for benefits, most Americans will obtain greater lifetime income amounts by waiting until they reach age 66 or even 70. While this can, in certain cases, be a gamble, it is usually the most prudent choice to make.

If you decide to claim your benefit early at age 62, you will receive a smaller check for a longer period of time. If, however, you claim later at 66 or 70, you will receive a larger check for a shorter time period. Ages 78 to 80 are often called the break-even age. If you assume that you and/or your spouse might live beyond these ages, then it could make sense for you to claim Social Security at a later age. Some statistics show that for a healthy married couple age 65, at least one person has a 50% chance of living to age 92.[1]

TOOL #3: If Married, HarnessYour Living Spousal Income Benefit

Married couples, in particular, can employ creative strategies to maximize their lifetime Social Security income. To do this, you must pay close attention and learn the rules. For example, you should consider the often overlooked, yet powerful benefit, called the “spousal income benefit.” Understanding how this benefit works and correctly applying it in Social Security income planning can be a significant generator of additional income for a couple.

For example, a spouse with a low earnings history, or a spouse who never worked, can collect up to one-half of the primary earner’s (i.e. spouse with the highest benefit) Social Security income. Had this lower-earning spouse filed on his/her own record, he/she might receive very little, and in some cases, no Social Security income. Please note that there are some rules, caveats, and exceptions that apply to the spousal benefit. Make sure to contact a qualified Financial Advisor to assist you with understanding this benefit and how it might apply to you.

Also, very few Social Security claimants—as well as many financial counselors—are aware you can switch from the spousal benefit to your own benefit or vice-versa. Properly activating and timing the spousal income benefit is an important part of maximizing your Social Security income. Correctly timing the use of this benefit becomes a function of each spouse’s age, their Social Security earnings’ history, and the optimal time to implement the benefit. Once again, consult a qualified Financial Advisor for details on these spousal switching rules.

Tool #4: If Married, Leverage and Maximize Your Survivor Benefit Income Stream

Couples will often neglect planning for their Social Security income benefit in the context of the survivor benefit. Women typically outlive their spouse by 3 to 4 years. And, they often face longer periods of disability than men during the latter years of their lives. These prolonged periods of disability (e.g. expensive, chronic nursing care) can result in significant financial duress to the surviving spouse.

As discussed earlier, studies show that for a couple age 65, at least one person has a 50% chance of living to age 92. Furthermore, at least one spouse has a 25% chance of living to age 97[1], typically the female.

This would amount to an additional $251,712 of income to Linda during her 16 years of widowhood.

Following the death of a spouse, the survivor receives one Social Security income check instead of two. And, in some instances, the survivor's employment pension income might be reduced or altogether eliminated. Therefore, it is critical for the surviving spouse to maximize his or her Social Security survivor benefit to make up for these potential income reductions.

One benefit of Social Security is that when a spouse passes on, the other spouse will "bump-up" to that spouse's benefit if it is higher than his or her own benefit. Typically, for the survivor to capture the highest Social Security income benefit, it is advantageous to have the spouse with the higher Social Security income benefit delay claiming benefits until age 70.

A spouse can potentially drastically "short-change" his/her surviving spouse by taking Social Security early. For example, let us say Jim decides to claim at age 62 for $1,725 per month. If Jim waited until age 70, his income amount would step up to about $3,036 per month, a 76% increase above his age 62 amount.

So let us go ahead and include two claiming scenarios. First, we assume Jim and Linda are the same age. Second, we further assume Jim dies at age 77, and Linda lives to 93. Jim receives $1,725 a month if he claims Social Security at age 62 and $3,036 if he claims at age 70. If Jim claims at age 62 and dies at 77, then Linda would receive $1,725 monthly for the rest of her life. However, if Jim waits and claims at age 70, Linda would receive about $3,036 per month. This represents an increase of $1,311 a month, which is substantially more than if Jim had claimed at age 62. Furthermore, if Jim claims at age 70, versus age 62, Linda would receive an additional $251,712 of income during her 16 years of widowhood.

In summary, the survivor benefit is a substantial planning consideration that should not be ignored. The survivor's benefit is especially important to females, because they typically outlive their male counterparts. Planning for a strong survivor benefit is a significant part of comprehensive, intelligent Social Security income planning for married couples.

Tool #5: Work with a Social Security Specialist to "Do the Math" to Determine Your Best-fit Claiming Strategy

Few financial professionals are fluent and experienced in the art of Social Security income planning. Accountants and tax professionals are often focused on traditional practice areas, such as tax preparation, tax auditing, and bookkeeping. The vast majority of Financial Advisors work primarily in the area of investment management and administratively maintaining client relationships.

Social Security administration personnel are typically involved with helping the public with information requests, case management, and routine claiming requests. The local Social Security staff is typically not allowed to provide customized financial advice or to suggest case-by-case Social Security optimization financial planning recommendations for singles or married couples.

It is essential that you make the effort to locate an advisor who specializes in Social Security income planning. He or she will help you understand the concepts and tools put forth in this report. An advisor specializing in Social Security planning will have dedicated software to help you evaluate the hundreds of Social Security income claiming possibilities to help you get more income. Contrary to what you might assume, Social Security income planning is an emerging area in the financial services. And the rules for electing Social Security have been changing. Consequently, it is to your advantage to take some extra time to find a qualified Social Security planning professional who can help you with your decision.

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A significant portion of pre-retirees and early retirees do not “do the math” to make the optimal Social Security income decision for their unique situation. First of all, many folks are not aware that these Social Security claiming strategies even exist. And, if they are aware, many do not take the time, or are not counseled by a Financial Advisor who is familiar with how to maximize Social Security income. Failure to examine and implement these advanced claiming strategies can result in a significant reduction in lifetime income for many retirees.

There are compelling financial income incentives for applying some of the advanced claiming strategies. Depending on a couple’s Social Security “vitals” (earnings history, relative ages, and life expectancy) and your goals, they may wish to apply claiming strategies such as the “File & Suspend,” or “Claim Some Now, Claim More Later.” A detailed description of these strategies is beyond the scope of this article. In short, these strategies all involve the timing of filing for benefits and utilization of the spousal and survivor benefit concepts described earlier in this report to maximize lifetime income.

A significant portion of those who claim Social Security execute the “land grab” strategy and take it as soon as possible at age 62. Others partially understand the potential merits of waiting and claim later at age 66 or 70. Those of you who become educated and carefully apply these advanced claiming strategies may be rewarded with significant additional retirement income over your lifetime.

Tool #6: Orchestrate Your Social Security Election Plan in the Context of Your Retirement Income Stream and Investment Holdings

Some Social Security claimants think their Social Security income is, or will be, tax-free. For many, this may not be the case. Up to 85% of your Social Security income may be taxable due to what is called provisional income.[2] Provisional income, according to Kevin McCormally of Kiplinger, is “... basically your adjusted gross income plus any tax-exempt interest, plus 50% of your Social Security benefits.”

Several sources of income can contribute toward triggering the provisional income taxation thresholds for you. These income sources may impact the taxation of your Social Security income benefit. These income sources include, but are not limited to:

- Distributions from your 401k or IRA account(s)
- Wages, pension income
- CD, money market, savings interest
- Dividends from stocks, bonds, mutual funds

Of course, you will want to be mindful and minimize the taxation of your Social Security benefit if possible. Therefore, it is important to investigate and determine in which sequence you might draw upon your retirement income stream and/or retirement asset buckets. When and how you take your Social Security income can significantly enhance or reduce the longevity of your retirement assets and income stream. Questions you might consider asking yourself include:

- Should I take Social Security early or later?
- Which Social Security income election strategy will give me the most lifetime income?
- Does it make sense for me to first draw upon my 401k and/or IRA account(s) and then claim Social Security later?
- Does it make sense to re-distribute some of my assets into other investment vehicles that minimize, or altogether possibly eliminate, the taxation of my Social Security benefit?

Next Steps and the consultative Process

In summary, the Social Security income election decision should not be made in a vacuum. The concepts and considerations highlighted in this report uncover many important elements necessary to maximize your Social Security income election.

You should strongly consider working closely with a financial professional who has the experience and tools to guide you through the Social Security income election maze. He or she should also be able to help you synchronize your Social Security income election with your bigger picture retirement income plan. Your Social Security income election is one of the most important money decisions you may make in your lifetime, so you will want to do everything possible to get it right.

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[1] Source: Annuity 2000 Mortality Table, Society of Actuaries. Figures assume you are in good health.

[2] This article may contain tax and tax planning discussion/examples that should be reviewed by your personal tax and/or legal advisor to determine if they are appropriate for your particular situation and comply with local law.

Scholar Wealth Management, National Securities and National Asset Management do not tender tax or legal advice.

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