

FREE REPORT

# SOCIAL SECURITY

## LITTLE-KNOWN STRATEGIES TO **MAXIMIZE** SOCIAL SECURITY BENEFITS

Some believe that Social Security may go the way of the dinosaur before long. But for now, it is one of the most important sources of retirement income for your clients. With 10,000 Baby Boomers turning 62 every day,<sup>1</sup> you may get more and more questions about Social Security. “When should I apply for Social Security Benefits?” is one of the biggest questions you may hear.

For many middle income married couples, Social Security benefits comprise 20% - 50% of their retirement income with lifetime benefits reaching upwards of \$500,000.<sup>2</sup> Social Security is adjusted annually for inflation; benefits can be taxed up to 85%;<sup>3</sup> and it is backed by the government and guaranteed for life.

Understanding the importance that Social Security holds for your clients, it makes sense to maximize this vital asset. By maximizing (or optimizing) Social Security benefits you can save tens or even hundreds of thousands of dollars over the span of one’s retirement. The following is a list of core concepts to reference in your planning.

## Optimization Overview

- ▶ **Delay.** The longer you wait to receive Social Security, the bigger your benefit - up to age 70.<sup>4</sup>
- ▶ **Spousal strategies.** Married couples can tag-team on each others' benefits. One spouse can delay their benefit to allow it to grow and claim "spousal" benefits, which are half of the monthly benefit that the other spouse receives. Once the delayed benefits reach their maximum the spouses can switch.
  - For example, say a 59 year old wife and 61 year old husband use this method. She starts benefits at 64 while he claims spousal benefits until 70, and then starts his own benefits. Assuming they both have average life expectancies, of 82 for him and 86 for her,<sup>5</sup> they will have received roughly \$76,000 more than if they had both started claiming benefits at 62.
- ▶ **Life expectancy.**
  - If that same couple expects to live longer than the average life expectancy, her to 92 and him to 88, they can wait until she is 66 to claim spousal benefits. Both spouses can defer their benefits until she is 69 and he is 70. They would then receive \$137,000 more.
  - Unless you have a medical history that expects a shorter life span, it is more efficient to prepare for a longer one.
- ▶ **Divorced couples** can claim the other's benefits for a few years as long as they were married for more than 10 years.<sup>6</sup>
- ▶ **Single people** can delay their benefits to allow them to grow.
- ▶ **Carving out income** into a tax-deferred annuity or other tax-savings approaches you can protect income and grow their retirement.
- ▶ **Evaluate assets.** Do you have enough to live on if you delay your benefits? If so, the extra money is worth pulling money out of personal accounts.

## Core Concept #1: Timing

How much you receive in Social Security benefits depends on your earning record, at what age you apply, and your life expectancy. You can't change your earnings record, and have little control over your life expectancy, so at what age you choose to begin receiving Social Security is crucial.

**Can you delay receiving your benefits or do you need them now?** Every client's situation is different and so is the best timing for applying for your Social Security benefits. You may be able to delay taking benefits, or need them sooner, depending on whether you or your spouse is working.

At age 66 you will receive your full Social Security benefits, but you are eligible to receive 75% of your full benefits if you apply at 62.<sup>7</sup> Also, if you delay the onset of benefits past age 66 you earn delayed actuarial credits until age 70. These credits increase your benefits by 8% per year, so that at age 70 you will receive 132% of your full benefits.<sup>8</sup>

**Can I wait and let the benefit grow to a larger amount or should I apply early and collect as long as I can?** This is the key question for leveraging the delayed credit system and optimizing

benefits. That's why the idea that "the bread winner will delay" is important. Ideally, the longer the primary earner delays, the more the monthly income will increase, but every situation is unique.

Theoretically, if you begin receiving Social Security early, you will receive a smaller monthly benefit for a longer time, and if you delay, you will receive a larger monthly benefit for a shorter time. There are "break-even calculators" which can be used to figure out how long you would have to live to make delaying worthwhile. These calculators work for single people, but it is more complicated for married couples.

The decision is also more complex for married couples. Married couples have to consider how the retired worker benefit, spousal benefit, and survivor benefit will affect your benefits and life time maximums.

## Core Concept #2: Delayed Actuarial Credits

**The Delayed Actuarial Credit** is probably the most important element to maximizing Social Security benefits. These credits are also known as Actuarial Reductions or Delayed Retirement Credits.

Actuarial Reduction is applied when a retiree applies for Social Security prior to full retirement age (FRA). Effectively, if full retirement age was 66, someone taking at 62 is going to receive a 25% reduction. That is 75% of what their full retirement age benefit would be, and that's due to actuarial reduction.

However, if one delays past their FRA, delayed retirement credits get applied. So, for each additional year you wait, you would get an **8% delayed retirement credit**. This is simple interest. So at age 70, if they had delayed, someone would receive 132% of what their full retirement age benefit would have been.<sup>9</sup>

Social Security is generous to married couples. Thus, major differences exist between spousal benefits and benefits on an individual's earnings record. Spousal benefits are reduced on a faster schedule than an individual's benefits if the person elects early. For example, if you take your own benefit at 62 you'd get 75% of your full retirement benefit; if you take your spousal benefit at 62 you would only get 70% of your full benefit and the schedule for reduction is a little different than electing on your own record.<sup>10</sup>

Importantly, spousal benefits don't get delayed retirement credits. It's only the individual record that receives them, for every year one delays past full retirement age the person gets an additional 8% for every year that you delay. That doesn't happen with a spousal benefit, however it can be a key strategy when used in conjunction with a concept called "File and Suspend" – more later.

Survivor benefits are another key area for maximization. Survivors benefits are only available to married couples. **At time of the spouse's death, the survivor generally receives the highest out of either his or her own benefit, the benefit of the deceased, or 82.5% of the full retirement age benefit of the deceased. The lesser benefits disappear.**<sup>11</sup>

So, in many cases you've got a married couple in which the female spouse lives longer and the husband has had a higher earnings record. If the husband is electing early he is effectively short changing the survivor benefit to his wife.

## Core Concept #3: Little-Known Filing Strategies

Some unusual claiming strategies exist to help your clients optimize the growth of their benefits. Few advisors are familiar with these concepts.

Experts call these “switch strategies” because they include the election of a limited benefit for a short period of time and then switching to a higher benefit at some point in the future. **Some have seen these strategies result in \$20,000-\$30,000 in newfound income.**<sup>12</sup> For the purpose of this white paper, we will only touch upon the concept. More details, including sales and marketing tools to assist you with Social Security planning are available from your IMO.

### File and Suspend

The first strategy is called “file and suspend.” This allows the primary earner to delay and grow his benefits a guaranteed 8% per year while the lower-earning spouse collects every month.<sup>13</sup> The one can file for their benefit, which makes your spouse eligible for their spousal benefit, and then immediately request that your benefit be suspended. The person requests to receive no checks, and that triggers the 8% growth per year. Then years later he or she can draw Social Security benefits. For more information, contact your IMO.

### Restricted Application

A second concept is called the “restricted application.” The lower earner gets \$1,000 per month for example. The primary earner delays his retirement to age 70 to get the 8% growth. The primary earner files a “restricted application” for his spousal benefit under his wife’s earnings record. This will allow him to collect \$500 per month (half her monthly benefit) until he turned 70 without adversely affecting his delayed earnings. The truth is if he doesn’t file that restricted application, he will lose out on his right to \$24,000.<sup>14</sup>

### Tying Maximization Together with Retirement Planning

Take the time to learn the ins and outs of Social Security with the help of your IMO’s client education materials. As one of the hottest financial planning topics today, you can quickly become a Social Security expert, break down the trust barrier with prospects, help consumers channel their extra funds into an annuity, protect them from taxation and help them supplement their Social Security benefits in retirement.

**For more information contact your IMO for information about the  
Athene Social Security Maximization Toolkit.**

<sup>1</sup> <http://www.pewresearch.org/daily-number/baby-boomers-retire/>

<sup>2</sup> <https://www.socialsecuritytiming.com/sstiming.cfm?page=consumers&logic=max-ss&cobrand=SST>

<sup>3</sup> [http://www.aarp.org/content/dam/aarp/money/budgeting\\_savings/2011-12/Find-out-how-your-Social-Security-benefits-could-be-taxed-AARP.pdf](http://www.aarp.org/content/dam/aarp/money/budgeting_savings/2011-12/Find-out-how-your-Social-Security-benefits-could-be-taxed-AARP.pdf)

<sup>4</sup> <http://www.socialsecurity.gov/retire2/agereduction.htm>

<sup>5</sup> <http://www.ssa.gov/oact/STATS/table4c6.html>

<sup>6</sup> [http://www.aarp.org/content/dam/aarp/money/budgeting\\_savings/2011-12/Find-out-how-to-claim-Social-Security-if-you-are-divorced-AARP.pdf](http://www.aarp.org/content/dam/aarp/money/budgeting_savings/2011-12/Find-out-how-to-claim-Social-Security-if-you-are-divorced-AARP.pdf)

<sup>7</sup> <http://www.socialsecurity.gov/retire2/agereduction.htm>

<sup>8</sup> <http://www.ssa.gov/retire2/1943.htm>

<sup>9</sup> <http://www.socialsecurity.gov/retire2/agereduction.htm>

<sup>10</sup> [http://www.aarp.org/content/dam/aarp/money/budgeting\\_savings/2012-02/How-to-Maximize-Your-Social-Security-Benefits-AARP.pdf](http://www.aarp.org/content/dam/aarp/money/budgeting_savings/2012-02/How-to-Maximize-Your-Social-Security-Benefits-AARP.pdf)

<sup>11</sup> [http://greenbook.waysandmeans.house.gov/sites/greenbook.waysandmeans.house.gov/files/2012/documents/R41479\\_gb\\_2.pdf](http://greenbook.waysandmeans.house.gov/sites/greenbook.waysandmeans.house.gov/files/2012/documents/R41479_gb_2.pdf)

<sup>12</sup> <https://www.socialsecuritytiming.com/sstiming.cfm?page=advisors&logic=unusual-strategies&cobrand=sst>

<sup>13</sup> <http://www.kiplinger.com/features/archives/krr-make-the-right-moves-to-boost-benefits.html>

<sup>14</sup> <http://www.forbes.com/sites/advisor/2011/11/28/the-social-security-spousal-benefit/>