Maximizing Social Security Benefits

Because people are unaware of the potential benefits of Social Security's alternatives, they forgo a larger future of inflation protected retirement with larger survivor benefits. These alternatives are: (1) Delay Initiating Benefits, (2) Suspend Payments, (3) File and Suspend, and (4) File a Restricted Application. We'll look at an example for each. These all take an "investment" of savings to support the delays or suspensions, but there is no other investment that equals what these savings will buy in terms of not just an inflation-adjusted annuity but an annuity with impossible to match spousal benefits, survivor benefits and a high security rating.

Delay Initiating Benefits: We'll illustrate this for a case of a single person. Below we compare what happens when Jill, a single lady, has sufficient savings to delay the start of Social Security from 62 to 70. Any delay is better than starting early, but delaying to 70 provides the most future income. Figures 1 and 2 show the differences in today's dollar values. Jill's full-retirement-age (FRA) benefit at 66 is $1,500 per month. At 62, she gets 75% of that. At 70, she gets 132% of that. When she is 65, we'll assume that her Medicare deduction is only a $100 a month. Medicare deductions start at 65.

Fig. 1. Jill's Social Security Income Starting at 70 vs 62

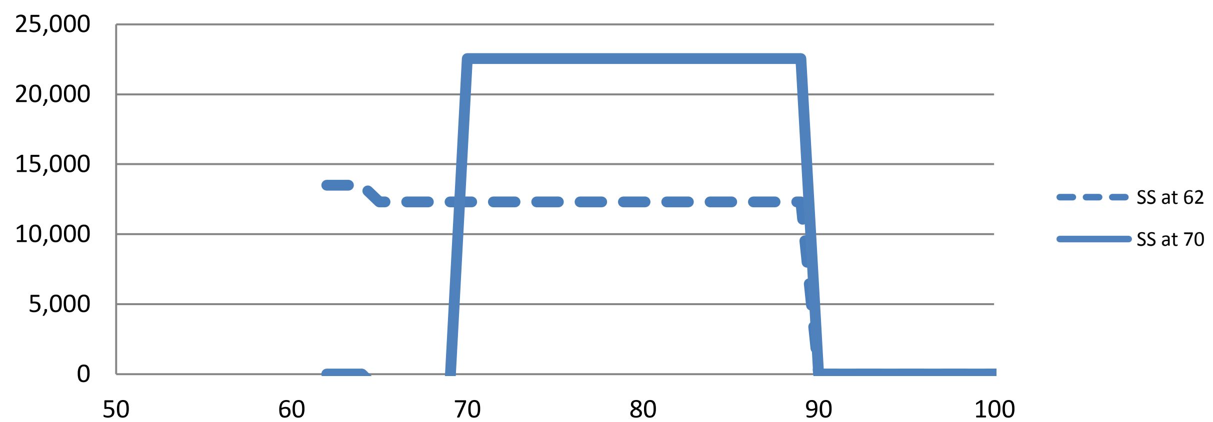


Fig. 2. Cost Benefit Analysis

Results:	**SS at 62**	**SS at 70**	Higher (lower) by	
Annual income from retirement till death	12,000	23,000	**11,000**	
Annual survivor's income	-	-	-	
Minimum savings at retirement	-	190,000	**190,000**	<Cost
Total income over retirement (Depends on death ages)	348,000	635,000	**287,000**	<Benefit
Benefit less cost (Depends on death ages)			97,000	

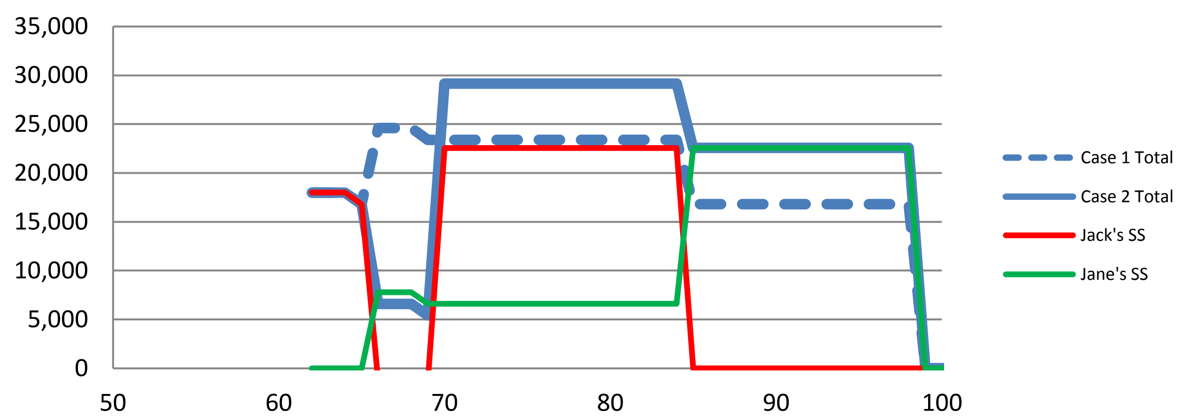
Delaying till 70 increases annual income by $11,000. But it comes at a cost of $190,000 in savings used to provide $11,000 income from age 62 until starting Social Security at 70. Whether or not this is beneficial depends on how long the income will last. If Jill dies at 90, she is better off by $97,000 and would have enough to live another four years if her return on investment would equal inflation.

(All charts come from the Free Strategic Social Security Planner from www.analyzenow.com.)

Suspend Payments: This alternative is valuable when a couple has enough savings to provide support for a period in which the spouse with the higher full-retirement-age (FRA) benefit <u>suspends</u> Social Security payments so that they may begin at a higher amount later. The earliest this alternative is available is at the FRA. Each year of suspension after that provides an increase in Social Security of 8%. The maximum would be at age 70 where the increase would be 32%. (4 x 8%)

We'll use an example for Jack, age 62 with a $2,000 per month FRA benefit, and Jane, age 58 with a benefit of $500 per month. They retire at Jack's age of 62 and Jack starts Social Security at 75% of his FRA benefit. Later, Jack learns that he can suspend his payments at 66, wait to start again at 70 and make 32% more Social Security. Jack will then get 1.32 x 75% or 99% of his FRA benefit. That will not affect Jane's spousal benefit that also is 32% more after Jack dies at 85 in the example. This is illustrated in Figures 3 and 4 below. Each has a $100 Medicare deduction from Social Security payments after 65.

Fig. 3. Jack Suspends Payments at 66 and restarts at 70.



Case 1 in Figure 4 shows results from both spouses starting their own Social Security benefits at 62 while Case 2 shows both the details of each spouse's Social Security and the couple's total if Jack suspends his payments at 66, the youngest he can suspend. There is a remarkable difference, but it requires more savings to maintain an inflation-adjusted income of $29,000 that would start when Jack was 62.

Fig. 4. Cost Benefit Analysis.

Results:	Case 1	**Case 2**	Higher (lower) by	
Annual income from retirement till first death	23,000	29,000	**6,000**	
Annual survivor's income	17,000	23,000	**6,000**	
Minimum savings at retirement	26,000	144,000	**118,000**	<Cost
Total income over retirement (Depends on death ages)	780,000	993,000	**213,000**	<Benefit
		Benefit less cost (Depends on death ages)	95,000	

In Case 1, the couple only needs $26,000 of savings to support Jane's income until she reaches 62 when Jack will be 66. They will need $118,000 more savings to support both Jane's start at 62 and Jack's four year suspension. If Jack dies at 85 and Jane at 95, they would still have enough savings for the couple to live another three or four years if their savings can earn a return equal to inflation in each year.

File & Suspend: Had Jack understood that he could file for benefits at his full-retirement-age (FRA) of 66 and then suspend his payments until 70, and that he would increase his Social Security benefits by 76%, he might have waited till his FRA to begin. This would not only increase his benefits, it would increase Jane's survivor benefits because Jane is entitled to the larger of her own benefit or 100% of whatever Jack was getting before he died. Figures 5 and 6 display the results compared to starting Social Security at 62 for each of them.

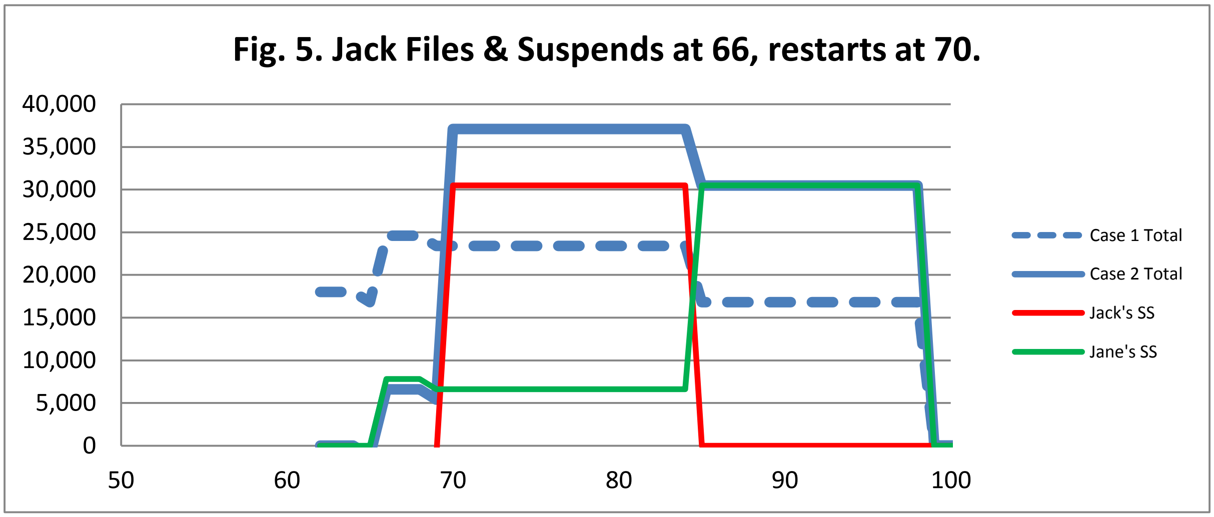


Fig. 6. Cost Benefit Analysis.

Results:	Case 1	**Case 2**	Higher (lower) by	
Annual income from retirement till first death	23,000	37,000	**14,000**	
Annual survivor's income	17,000	30,000	**13,000**	
Minimum savings at retirement	26,000	280,000	**254,000**	<Cost
Total income over retirement (Depends on death ages)	780,000	1,287,000	**507,000**	<Benefit
		Benefit less cost (Depends on death ages)	253,000	

This is even better than just plain suspend. The cost of the delay is higher by $254,000, but the lifetime Social Security income has increased to $1,280,000 AND provides a substantial income cushion if one or both live longer. Alternatively, they could have a significant amount of savings left to heirs.

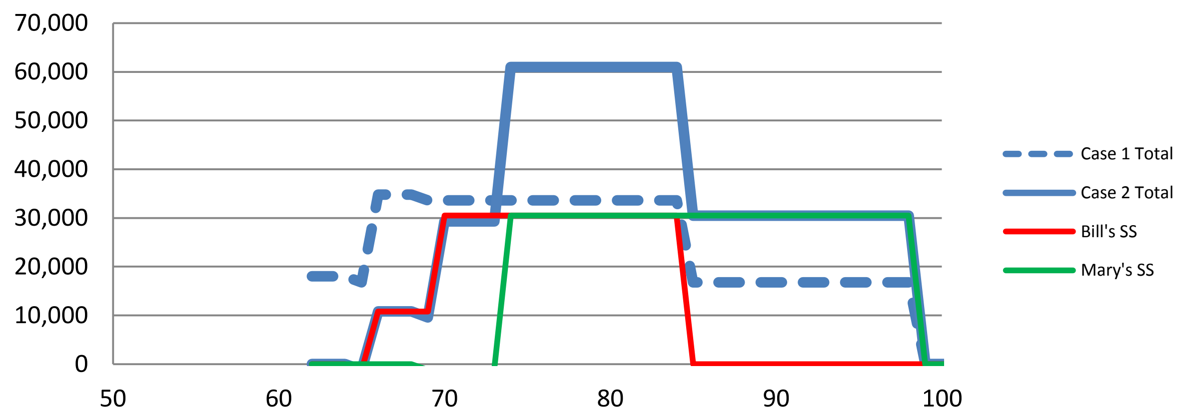
File a Restricted Application:

This is unlikely to be an advantage when one spouse's full-retirement-age (FRA) benefit is less than 50% of the higher income spouse's FRA benefit. We'll use as an example Bill and Mary who have both earned FRA benefits of $2,000 per month. (If one of them had a benefit of less than $1,000, other alternatives above are better.) Bill is four years older than Mary in this example and each pays $100 per month for Medicare after 65.

The SSA rules permit someone at their FRA to file and claim a spousal benefit instead of their own benefit while the other spouse is able to File & Suspend. Which spouse should do which is dependent on their particular ages and amounts of their FRA benefits. Since that is so case specific, potential retirees just have to try out the alternatives on a program such as the Free Strategic Social Security Planner on www.analyzenow.com.

Figures 7 and 8 tell the tale for this couple with the same FRA benefits. Compared to their each starting Social Security at 62, this is an absolutely amazing gain. But once again it takes considerable savings to maintain a constant spending level (in real dollars) from age 62 to Bill's age of 70 when Social Security takes over.

Fig. 7. Bill Files a Restricted Application; Mary Suspends.



In this case, Social Security totals $61,000. That income will last until one or the other dies. But even the survivor benefits are large as well. This couple must have saved a lot to use this strategy—about $577,000. That's based on the assumption that they can earn a return that's equal to whatever inflation occurs each year. If they have higher returns, they can save less each year, and vise versa.

Fig. 8. Cost Benefit Analysis.

Results:	Case 1	**Case 2**	Higher (lower) by	
Annual income from retirement till first death	34,000	61,000	**27,000**	
Annual survivor's income	17,000	30,000	**13,000**	
Minimum savings at retirement	67,000	577,000	**510,000**	<Cost
Total income over retirement (Depends on death ages)	1,015,000	1,832,000	**817,000**	<Benefit
Benefit less cost (Depends on death ages)			307,000	

Conclusion: The best alternative is often case specific. If users do not have access to a computer program that will analyze different Social Security alternatives, it would be wise to go to a professional planner who can help them with a plan before they make their first Social Security application. However, in general, if people plan on each party delaying Social Security at least to their FRA, now 66, they will do very much better than starting at the earliest possible age of 62. Working longer is often one of the best ways to increase benefits, save more, and use less savings until Social Security starts. Further, too high an income when starting Social Security before the FRA can trigger a loss of up to $1 of Social Security for every $2 earned from work—but this loss is compensated with increased payments later.

That said, the over 2,000 rules for Social Security are complex and change at times. Starting Social Security too early is often a one-way street to a retirement in poverty. Make sure you review your plans and alternatives with an expert and not a relative or friend before committing.

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10-14-12
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