Your Key Social Security Moves

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You've seen the statistics—10,000 Baby Boomers a day are signing up for Social Security. Most of them have got it wrong—they're claiming too young, they're not taking advantage of all their options, and they're not adequately protecting their families. You can do better; these moves are a good place to start.

Key Move Number One: Set Up Your Account Online. If you haven't done so already, go to ssa.gov and establish your online account. You'll have to answer some personal financial questions, similar to those you'd answer to view your credit report. You have the option to create an additional security key, linked to your cell phone; that's a good idea.

Even if you don't plan to claim benefits anytime soon, there are many reasons to set up online access. With all the government cutbacks, the Social Security Administration no longer has the funds to send everyone a paper benefits statement each year. You can access yours online. First and foremost, be certain your earnings history is accurate and complete. Your Social Security benefit is keyed off your 35 highest earning years, age 21 and thereafter. If your earnings are understated or missing, your lifetime benefits will be adversely affected. Generally, you have until the April 15th three years after a calendar year end to correct your earnings, so check your record periodically.

The statement also gives you an idea of what your benefit might be at different ages. Beyond the statement, the Social Security website has useful online calculators, so you can play with different scenarios to see how they would affect your benefits.

Once on the web site, you can pretty much manage your account—apply for benefits, arrange for (and change) direct deposit, get most questions answered, and so on. This is far, far preferable to spending 45 minutes on hold with the toll free number or waiting half the day in a local office (even with an appointment you scheduled after sitting on hold for 45 minutes).

Should the time come when you need help managing your Social Security account, online access is even more important. The Social Security Administration does not recognize powers of attorney. In order for a friend or family member to manage your benefits for you, that person would have to be appointed a Representative Payee, a time-consuming and cumbersome process. A representative payee cannot have online access to your account, so that any changes (for example, changing the bank account into which your benefit is deposited) involves paper and time. Further, the representative payee must make annual reports to the Social Security Administration as to how your benefit is being managed. Save your family members this time and headache by documenting your online access.

Key Move Number Two: Claim Benefits as Late as You Can. In a world where cash pays zero and the ten year Treasury note pays less than 2.5 percent, who wouldn't want an eight percent return for life, particularly if that return is guaranteed by the U.S. government? Most investors today are scrambling to receive just a fraction of that amount. However, eight percent is what you get for every year (up until age 70) that you delay claiming your Social Security benefit.

Despite that, most people choose to take their benefit at age 62, accepting as much as a 30 percent haircut compared to waiting for full retirement (age 66-67). Why? The stated reasons vary from being fearful that Social Security will go bankrupt (not for the next several decades at least, and very likely not then) to thinking that lifetime benefits are larger if claimed sooner. That's a fallacy—if you plan to live until at least age 75, you are better off claiming at full retirement. If you plan to live until at least 82 or 83, you are best off claiming at age 70. Even by the government's very conservative standards, today's 66 year old has more than 20 years to live. Unless you've received very bad medical news, hold off claiming your Social Security benefit as long as you can.

As that suggests, it's important to know what your full retirement age is, and it varies. For those born between 1943 and 1954, full retirement age is 66. Thereafter, it increases by two months per birth year until topping out at age 67 for those born in 1960 or later.

If you claim benefits before full retirement age and continue to work, those benefits are reduced by $1 for every $2 you earn in excess of $15,720 (that number adjusts annually for inflation). A year after you reach full retirement age, your benefits will be adjusted upwards to compensate, but the bottom line is that taking Social Security before full retirement age will cost you.

<u>Key Move Number Three: Plan for Your Spouse</u>. Anyone with about ten years in the work force has earned his or her own Social Security benefit. Still, the lower earning spouse remains entitled to the larger of her (it is still typically the wife) own benefit or half of her husband's. That latter is referred to as the spousal benefit. You won't see the spousal benefit on your own Social Security statement—simply divide your spouse's benefit in half. Whether the lower-earning spouse is better off with the spousal benefit or with her own varies, but there are a few constants.

The spousal benefit reaches its maximum at full retirement age. Waiting until age 70 to claim it is self-defeating. For the lower earning spouse to receive the spousal benefit, the higher earning spouse must claim his. That's where things can get tricky—a well-advised higher earning spouse should wait until age 70 to claim his own benefit.

The solution is the oft-heard "file and suspend" process. Once both spouses have reached full retirement age, the higher earning spouse should file for benefits and immediately suspend his. By filing, he allows the lower earning spouse to claim the spousal benefit.

If the lower earning spouse's own income history would provide a benefit higher than the spousal benefit, she can claim the spousal benefit at full retirement age and switch to her own benefit at age 70. Here, it is particularly important that the lower earning spouse wait until her full retirement age to claim the spousal benefit—if she claims earlier than that, she is relegated to her own benefit, significantly reduced from what it would have been at age 70.

The spousal benefit is available to divorced persons as well, so long as the marriage lasted at least 10 years. The higher-earning divorced spouse does not need to cooperate in the application process, but there are some special twists.

Another reason the higher-earning spouse should wait until age 70 to claim benefits is death. After the first spouse passes away, the survivor is entitled to the higher of the two benefits. If the higher-earning spouse took benefits early, the widow is adversely affected. The greater the age difference between the spouses, the more important it is for the higher earner to delay claiming.

<u>Key Move Number Four: Understand the Do-Over Rules</u>. What if you claim benefits early and then change your mind? There's good news if you catch your mistake within 12 months of filing—you can withdraw your application, pay all the money back (including any taxes withheld), and reapply at a later, more fortuitous time.

If it's been more than 12 months, your options are very limited. If you claimed benefits early, then when you reach full retirement age, you can elect to suspend your benefits. That won't undo things totally, but it allows you to earn delayed retirement credits. When you resume benefits later on, those credits will increase what you receive.

A cautionary tale: this do-over is not an investment technique. Until a few years ago, you were allowed to withdraw your application up until age 70, so long as you paid back all your benefits (interest free). This was touted as a great investment strategy—claim at 62, invest in the stock market, repay just the benefits received at age 70, and keep all the earnings. The result was a disaster—the first baby boomers turned 62 in 2008. Anyone who really tried this gambit quickly lost as much as 50 percent of those benefits received. The strategy hasn't been heard from since.