How to Maximize Your Social Security Benefits

Provided to you by:

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Written by Financial Educators

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All of the information in this booklet is based on the data at the government's social security web site www.ssa.gov effective for 2020, unless otherwise stated. But rather than repeat the rules, we show you how to USE the rules in plain English to maximize what you have coming to you. Figures change annually, so consult the government's web site for 2020 and later.[1] We answer five questions for you:

1. Can you do anything to potentially increase your social security check before you retire?
2. At what age is it best to start social security?
3. How can married couples help maximize the joint benefits?
4. What methods are available to reduce or avoid tax on your social security benefits?
5. How can you earn money and still collect social security benefits?

Coming Up on Retirement

You may have a simple question like, "What can I do now to get the biggest check?" The answer is not much but you do have some possibilities if married (explained later). Your social security benefit is based on your 35 highest years of income. So even if you have a couple of "break-the-bank" years of earnings just before you retire, it won't have much impact on your social security check for two reasons:

- (a) Each of the 35 years gets an equal weighting so two years out of 35 (2/35) could only impact what would be for example, a $1,300 monthly check by $74.
- (b) High earning years have a minimal impact because of the 420 months in the calculation (12 months x 35 years.) The first $960 you earned in a month counts six times as much as the monthly earnings **over** $5,785.[2] And annual earnings over $137,700 will not help you at all (for 2020, increasing each year thereafter).

- If you are single, the only option to increase the size of your social security benefit is to delay your starting date as explained in the next section. (However, if you are divorced or widowed, you may be able to collect on the earnings record of your deceased or ex-spouse as early as age 60.)

When Should You Start Your Social Security--Age 62, 65, 70?

This is a really straightforward question and if the math were the only factor, here's the straight-forward answer: wait at least until "full retirement age." Following is the table of full retirement ages and the reductions for starting social security payments early.

[1] This booklet will be republished each year with the government's figures that apply.
[2] Social Security web site 12/23/19 https://www.ssa.gov/OACT/COLA/piaformula.html

Full Retirement and Age 62 Benefit By Year Of Birth

Year of Birth[1]	Full (normal) Retirement Age	Months between age 62 and full retirement age[2]	At Age 62[3] A $1000 retirement benefit would be reduced to	The retirement benefit is reduced by[4]	A $500 spouse's benefit would be reduced to	The spouse's benefit is reduced by[5]
1937 or earlier	65	36	$800	20.00%	$375	25.00%
1938	65 and 2 months	38	$791	20.83%	$370	25.83%
1939	65 and 4 months	40	$783	21.67%	$366	26.67%
1940	65 and 6 months	42	$775	22.50%	$362	27.50%
1941	65 and 8 months	44	$766	23.33%	$358	28.33%
1942	65 and 10 months	46	$758	24.17%	$354	29.17%
1943-1954	66	48	$750	25.00%	$350	30.00%
1955	66 and 2 months	50	$741	25.83%	$345	30.83%
1956	66 and 4 months	52	$733	26.67%	$341	31.67%
1957	66 and 6 months	54	$725	27.50%	$337	32.50%
1958	66 and 8 months	56	$716	28.33%	$333	33.33%
1959	66 and 10 months	58	$708	29.17%	$329	34.17%
1960 and later	67	60	$700	30.00%	$325	35.00%

1. If you were born on January 1st, you should refer to the previous year.

2. If you were born on the 1st of the month, we figure your benefit (and your full retirement age) as if your birthday was in the previous month. If you were born on January 1st, we figure your benefit (and your full retirement age) as if your birthday was in December of the previous year.

3. You must be at least 62 for the entire month to receive benefits.

4. Percentages are approximate due to rounding.

5. The maximum benefit for the spouse is 50 percent of the benefit the worker would receive at full retirement age. The percent reduction for the spouse should be applied after the automatic 50 percent reduction. Percentages are approximate due to rounding.

So let's take this hypothetical example:

You were born in 1952 and turned age 62 in 2014. Your full retirement age is 66. Assume you are projected to receive $1,500 monthly at that time. However, you could start your benefits at age 62 and receive $1,125 (25% reduction). So do you wait and get $1,500 monthly at age 66 or take $1,125 now at age 62?

Some people argue that if they start benefits at age 62, they will get a smaller monthly amount but they could invest it. Hypothetically, if you could invest the funds at 5% guaranteed and that you view yourself as having average life expectancy[3], you would still not come out ahead by starting payments at age 62. (This calculation can be done using any financial calculator or spreadsheet with a present value function and the above assumptions.)

Because there is more to life than your life expectancy and discount rate, here are the other factors to consider:

Issue	**This would argue to...**
If you think you can earn more than 6% annually, for sure	Take the money now
If people in your family tend to outlive the average life expectancy	Take the money later
If you need the money to live on now and have no other sources	Take the money now
If you are married and your spouse is also dependent on the payments	Takes a lot more figuring - call us on this one
Your tax bracket will be lower later	Take the money later
Will you have earned income prior to your full retirement age forcing you to forfeit some of your social security benefit?	Take the money later
If you are divorced and your spouse is deceased and you can get benefits based on your ex-spouse's earnings, take it now and let you own benefit grow	Take the money later

Once you start to consider several of these factors at once, you may get a headache. Unfortunately, there is no blanket answer as to when to begin social security payments to maximize the benefit. This is an issue a retirement advisor can calculate for you taking into account your entire financial and personal situation.

How Do I Get the Most for My Spouse?

Let's look at an example; Margaret just turned 62 (before 1/1/16) and her husband is 64. Margaret has not worked for the past 10 years and worked 20 of the last 35 years. If she retires now, she's entitled to a monthly payment of $400 (after the 25 percent reduction for starting benefits retirement at the age of 62). When Margaret's husband retires at the age of 66, in two years, his monthly Social Security benefit will be $1,350. Margaret could claim her social security today and receive her $400 per month, based on her own earnings. Then when her husband retires and begins benefits, she could receive a benefit based on his work record. This will come to $472.50, or 35% of her husband's benefit (see prior table). You may have heard that spouses get 50% of the higher-earning spouses benefit-but that's ONLY if they wait until their own full retirement age to start collecting benefits.

[3] Life expectancies as per IRS Publication 590, table 1.

Decisions for Spouses

Start my own benefits at age 62	You can take reduced benefits on your wage record before full retirement age. If you do, your benefit will always be reduced--even if you take reduced benefits on your own record and then take spouse's benefits when the higher earning spouse retires. (See previous table showing reduction in spousal benefits).
Start my own benefits at full retirement age	If you are the higher earning spouse, you always will quality for benefits under your own earnings record and then the decision is when to start benefits as discussed in the previous section.
Start benefits at age 62 based on my spouse's social security earnings	You cannot receive spouse's benefits until your spouse files for and recieves retirement benefits. If you choose to receive a reduced benefit before full retirement age, you are not entitled to the full spouse's benefit rate upon reaching full retirement age. A reduced benefit rate is payable for as long as you remain entitled to spouse's benefits.
Start benefits at full retirement age based on my spouse's social security earnings	If you stopped working for several years or had low earnings, the spouse's benefit may be higher. At full retirement age, a spouse receives 50 percent of what the higher-earning spouse is entitled to at full retirement age. At death of the higher earning spouse, you receive that deceased spouse's full benefit.

How Do I Reduce/Avoid Income Tax On My Social Security Benefits?

The basic rule is that social security benefits are taxable if your "modified adjusted gross income" (defined as your adjusted gross income from your income tax return plus 50% of social security benefits plus tax-exempt interest plus exclusions per IRS publication 915) exceeds the following limits:

Percent of social security income taxed	**Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of the year**	**Married people**
0%	Less than $25,000	Less than $34,000
Up to 50%	$25,001-$34,000	$34,001 to $44,000
Up to 85%	More than $34,000	More than $44,000

Therefore, if you can engineer your includable income below these limits, you may be able to reduce or eliminate taxes on social security income. This may be possible using annuities. While this is not a recommendation to buy annuities, just because they can help reduce the tax on your social security income, the table below illustrates how this is possible in some circumstances.

Using Fixed Annuities to Reduce Tax on Social Security Benefits			
Hypothetical Illustration--Not Indicative Of Any Specific Product			
	Scenario #1 Interest from CDs	**Scenario #2 Interest from Tax-Free Bonds**	**Scenario #3 Fixed Annuity Interest (Not Distributed)**
Interest	$10,000	$10,000	**$10,000**
Pension	$25,000	$25,000	$25,000
Social Security Income	$20,000	$20,000	$20,000
Total Income	$55,000	$55,000	$45,000
Social Security subject to Tax	**$11,134**	**$11,134**	**$0**
Adjusted Gross Income	$51,134	$31,134	$20,000
Total Federal Tax	**$2,880**	**$717**	**$0**

Annuities are long-term investments and are guaranteed by the claims-paying ability of the issuer as are tax-free bonds, while CDs are FDIC-insured. Annuities and tax-free bonds cashed in prior to maturity may result in gains or loss and withdrawals from annuities prior to term may incur surrender charges. Withdrawals from CDs prior to term may incur early withdrawal penalties. Purchases or redemptions of tax-free bonds or annuities may incur commissions or charges. Withdrawals from annuities are taxed as ordinary income and withdrawals prior to age 59½ are subject to a 10% penalty. Tax-free bonds used for certain private use purposes may be subject to alternative minimum tax. This comparison does not include State income tax, which might change the results. Federal tax calculation per 2018 rates published at Factcheck.org , married filing joint, $24,000 standard deduction.

You can see from the above table that if our hypothetical couple, Mr. and Mrs. Smith, move money from CDs to municipal bonds to fixed annuities, the amount of their social security income subject to tax changes, as does their total federal tax. Their lowest tax situation is with the deferred annuity. If they need to withdraw the interest from the annuity, this solution won't help them, as they come out ahead only if they allow the interest to reinvest.

Earn All You Want and Still Collect your Full Social Security

Because of a prior rule, some people still think there are limits on how much you can earn and still collect all of the social security to which you are entitled. That is still true for people who opt to take social security before full retirement age (age 66 for those retiring now). However, those working after full retirement age can have unlimited amounts of earned income and still collect their full social security benefit. Here's the rule and then let's look at an example.

Rule: If you are under full retirement age when you start getting your Social Security payments, $1 in benefits will be deducted for each $2 you earn above $18,240 (for 2020)[4]. In the calendar year you attain full retirement age, $1 in benefits will be deducted for each $3 you earn above $48,600 (for 2020) up to the month of full retirement age attainment.

[4] Social Security Administration https://www.ssa.gov/oact/cola/rtea.html

Hypothetical example:

Mrs. Smith, turned age 62 in March of 2020 decides to retire from employment and start her reduced social security benefits at the rate of $12,000 annually ($1,000 per month). She also decides to start a business. By March 2021, when she is 63, her business is earning a net profit of $20,000 annually. She will need to give up $880 ($20,000-$18,240/2) of her annual Social Security for this reason: During those months before you reach full retirement age (age 66 for someone born in 1953 like Mrs. Smith), your social security benefits are reduced $1 for each $2 you earn over $18,240.

Mrs. Smith keeps working at her business and by 2024, the year she reaches full retirement age, her business is earning $55,000 annually ($4583 monthly). For January and February of 2024 (assuming rates don't change), she must give up $355 of Social Security ($1 for every $3 her business earns over $48,600 ($4050 monthly) in the year she reaches full retirement age, prorated for 2 months. Once March 2024 arrives and she becomes 66, she can earn unlimited amounts from her business and will never give up any social security income.

For the test above, earnings include bonuses, commissions and vacation pay, but don't include pensions, annuities, investment income, interest, veterans or other government or military retirement benefits.

Best of Both Worlds - File and Suspend

The benefit below is restricted as follows:

1. The lower-earning spouse will have needed to turn age 62 before 2016.
2. The higher-earning spouse will need to file and suspend before April 30, 2016
3. The higher-earning spouse must be age 66 before April 30, 2016

If all 3 conditions are not met, then the file and suspend strategy will no longer be available. The new replacement rule after 4/30/16: the lower-earning spouse can only file and receive spousal benefits if the higher-earning spouse is also receiving benefits.

File and Suspend Before 4/30/16

In order for your spouse to get benefits based on your social security account, you are required to file for benefits. However, you may not want benefits now because by waiting, you can collect more later. There may be a way to have your cake and eat it too (if the above three conditions are met by 4/30/16)!

If you have reached full retirement age (see earlier table) then you can file for benefits but tell the Social Security Administration to hold up on the payments. Now that you have filed, your spouse can file for their spousal benefit.

Now, you can earn delayed credits up to age 70 so you can get a larger check later while your spouse enjoys up to half of your benefits today.

About
Scott Farwick

Scott is an outgoing business professional who originally started his insurance career in the early 1990's providing healthcare plans for small business owners and self-employed individuals, he has since found his calling by transitioning into estate planning and starting Safe Retirement Plans. He is passionate about helping retirees' transition into the preservation phase of life and has consistently demonstrated the ability to develop and implement estate and retirement plans customized to meet each client's needs and goals. He takes pride in knowing that his clients are in a much better position after working with him and have peace of mind knowing that their monies are safe while also protecting their assets from probate, nursing home spenddown all while creating guaranteed lifetime income and minimizing any tax liability.

Scott is very excited to assist anyone in need of his expertise or needs help with any of the legal documents that are necessary for proper estate planning. He enjoys educating people on what options they have when it comes to protecting and preserving their assets in order to avoid any unnecessary spend down of assets or tax liability, all while helping families leave a legacy to their loved ones. He recognizes the importance of these processes and ensures his clients understand the choices they have through proper pre-planning, ensuring that their goals can be accomplished.

About
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Safe Retirement Plans Mission:

To serve our clients by helping them reach their goals in all areas of their financial & estate planning needs while helping them protect their assets from any unnecessary spend-down and provide guaranteed lifetime income through a variety of safe money products.

- **Estate Planning** - Educate you on how to minimize nursing home spend-down & taxes, probate avoidance, will creation, POA's, trusts, and deed management.

- **Retirement Planning** - How to create guaranteed lifetime income that you cannot outlive. How to replace any income lost when the first spouse passes away.

- **Long Term Care Planning** - Advantages of Asset Based Long Term Care options Vs purchasing a LTC insurance policy. How to protect assets from Medicaid spend-down and qualify for federal and state benefits.

- **Tax Free Wealth Transfer** - How to take advantage of tax benefits that can create tax-free Vs taxable wealth transfer to your loved ones.

- **Safe Money Options** - How to diversify your portfolio to grow your monies with no market risk of losing any monies while eliminating high advisor fees.

Phone today with questions or to see if we can help you.
There is no charge for an initial meeting.

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First Published 07/15/15

Published by Financial Educators