Maximize Your Social Security Benefits

How Recent Changes to Laws May Impact Your Strategies

By Palmer Klaas

One of the big questions my clients ask when approaching Social Security age of 62 (the earliest age at which most people can file for benefits) is: "When is the best time to take Social Security?" Any time between the ages of 62 and 70, Social Security benefits can be claimed. Receiving Social Security benefits at the most opportune time can mean many tens of thousands in additional cash payments over a lifetime. The dollars at stake magnify for couples, since the number of options increase with two spouses. "According to a recent Mercer study, people of average or above average health would benefit by delaying Social Security benefits until age 66 or even up to 70," writes Minda Smiley in an Aug. 11, 2014 article in *Investment News*.

The Bipartisan Budget Act of 2015, passed in late October, has changed the Social Security Rules in a big way. This article is going to show what could have been done in the past and how the new law has changed a number of things.

There are important strategies to be aware of regarding Social Security. One of the more popular strategies is to file for the spousal benefit only. A spousal benefit means getting a portion of your spouse's benefit up to a maximum of 50 percent of the primary insurance amount of your spouse. In the past, under the old rules, this was done by restricting your application to only a spousal benefit so that your own retirement benefit could earn delayed retirement credit benefits. Full retirement age, as defined by the Social Security Administration, is the age when a person first becomes entitled to full or unreduced retirement benefits. That age depends on your date of birth, and used to be 65, but is climbing to age 67. For a number of baby boomers, the age is 66. For somebody who is full retirement age at 66, benefits would be reduced for every year down to age 62 if taken prior to full retirement age and in this case reduced by 25 percent if taken at age 62. If delayed from full retirement age, in this case age 66, until age 70, delayed retirements credit benefits grow by 8.0 percent per year. Thus, it may be a huge advantage to take the spousal benefit and let your own benefits grow to claim later down the line, as long as you are still eligible under the new rules.

It's important to note that a person can't get a spousal benefit until that person's spouse has applied for Social Security. This brings up another strategy of file and suspend. A person files for his or her own Social Security, so that the spouse can file for a spousal benefit. But, the first spouse filing doesn't really want to start receiving Social Security yet. Under the old rules, all that person had to do was file for their own benefit and immediately request a voluntary suspension for their own benefit, thus allowing their Social Security to build up earning the delayed credits already discussed. Now, however, the other spouse is receiving the spousal benefit which can be up to 50 percent of the first spouse's Social Security. Under the new rules, whether or not you are eligible for this benefit depends upon your age. Also, note that one can't suspend their own benefit, after filing, unless they are full retirement age.

Under the new Bipartisan Budget Act of 2015, the rules are drastically different for Social Security in a number of cases. Here are some of the primary rule changes for Social Security coming from this Act, according to Joe Elsasser, creator of Social Security Timing software company:

Widow: Fortunately, widow planning is one of the few areas not impacted at all.

Single: Clients born on or before May 1, 1950, for whom the best strategy would be to delay benefits past Full Retirement Age, should file and suspend as soon as eligible. To fall under the old rules the suspension must be received prior to April 30, 2016. This preserves the option to request a retroactive lump-sum payment if things change for the individual while benefits are suspended.

Married: (three set of rules)

Those born on or before May 1, 1950 have access to Voluntary Suspension, which allows other auxiliaries to claim, but the request for Voluntary Suspension must occur prior to April 30, 2016. In this case, one has the Restricted Application available at Full Retirement Age through age 70. This is important to do and it does not appear to have any downside.

For those born on or after May 2, 1950 but before Jan. 2, 1954, it is very important to note that Voluntary Suspension also suspends benefits of other auxiliaries such as spouses and children. In the case of an individual whose benefit is in suspense, spousal excess can't be claimed. Fortunately, Full Retirement Age through age 70 in this group still has access to the Restricted Application.

Those born on or after Jan. 2, 1954 have been hit the hardest. Voluntary Suspension of one's benefit at the same time also suspends the benefits of spouses and children and any auxiliary person. This age group no longer has the option to file a restricted application for spousal benefits. A person in this age group who has a retirement benefit in suspense can't receive spousal benefits.

Divorced: In a divorced circumstance, the results are very similar to married.

Under the old rules, I had prepared a Social Security report for a husband and wife client. The report's program crunches a large number of combinations to show the suggested time to take Social Security. At full retirement age, the wife's spousal benefit of 50 percent of the husband's happened to be almost equal to her own benefit. Thus, it was a slam dunk for her to take the spousal benefit and let her own grow, in her case from ages 66 to 70, at 8 percent per year. She will have 32 percent more benefit at age 70, plus all accumulated cost of living adjustments, when she drops the lower spousal benefit and takes her own benefit. In their case, that amounted to tens of thousands of additional dollars that she is projected to receive over her lifetime. That's a lot of dollars she would have left on the table had she not used this strategy and instead simply took her own benefit.

It certainly pays to know your options. Under the three new rules discussed here, this strategy could be greatly altered depending on when each husband and wife were born.

A very interesting caveat of Social Security is the case of a divorced spouse, married for at least 10 years and not remarried. Under the old rules, that spouse could claim the other living divorced spouse's Social Security up to 50 percent, if he or she was at least age 62. The spousal benefit could be taken as early as age 62 by the divorced client and the ex-spouse must also be at least age 62 for the divorced spouse to file for this retirement benefit. It is important to keep in mind that, in this divorced spouse situation, where both people are living, a divorced spouse is very similar to the married rules already outlined in this article under the new Bipartisan Budget Act of 2015. Thus, based on their birthdates, the divorced rules in this case could be greatly altered.

In the case of a divorce when the ex-spouse is deceased, the surviving divorced spouse can claim up to the ex-spouse's full benefit. This benefit would be an ex-spouse's widow benefit. Another advantage of this is that their own Social Security benefit would continue to grow, since it has not been taken yet, while receiving the widow benefit.

The Cost of Living Adjustment (COLA) is a feature that should be considered as well. In the past, there have been a number of years that Social Security has been increased, and this increase is called the COLA. This COLA is like a pay raise for a retiree on Social Security. Remember that the longer you wait to take your Social Security to receive a larger benefit, the greater the COLA will increase your payments.

If you want to see your most recent Social Security benefit calculation, go to Social Security's website of SSA.gov/mystatement.

Through wise, sound planning, you can maximize your Social Security benefits. Understanding these Social Security strategies is a big step in accomplishing this. Before you file for Social Security, it's important to confirm any of the strategies discussed in this article and to check the rules, under the new law, with the Social Security office. The new rules certainly are not easy to understand. Remember, if the top goal is to increase the benefit to the surviving spouse, the larger the benefit, the greater the advantage to the survivor. When the first spouse passes away, the survivor receives 100 percent of the greater benefit between the two of them. If the higher-earning spouse delays benefits until age 70 (assuming full retirement age of 66), the survivor someday will get this extra 32 percent plus COLA adjustments.

One is certainly getting paid to wait when it comes to taking Social Security! ∎

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