Retirement Daily

Social Security/Medicare

Strategies to Get the Highest Social Security Benefits

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Social security is a retirement benefit provided by the U.S. government to every worker who received wages subject to social security taxes (FICA). The Social Security Administration (SSA) keeps track of each taxpayer's earnings subject to FICA taxes and applies an average into a formula. It also adjusts, or indexes, prior earnings to reflect the rise in wages over time to determine "Average Indexed Monthly Earnings (AIME). The point of this formula, AIME, is to calculate a future retirement benefit for each worker. There's a maximum level of annual earnings subject to Social Security tax, and in 2018 the ceiling was set at $128,400, or $10,700 per month.

The SSA looks at the highest 35 years of averaged indexed wages to determine the AIME. For workers that don't pay FICA taxes over the full 35-year period the Administration simply records $0 of earnings for the missing years.

It becomes apparent that working, and paying FICA taxes, helps improve the equation for those that haven't yet reached the 35-year milestone. It takes just 10 years to become eligible for a minimum retirement benefit. Working beyond age 60 can potentially help increase a worker's AIME even though the SSA won't adjust or index the earnings.

You can set up an account in the Social Security website and use their online tool to estimate your benefits based on different inputs for wages and claiming age.

OK, I'm Entitled to Social Security. What's Next?

Your next step is to start planning to determine your optimal claiming strategy, including when to begin benefits.

It's a decision we all must face and deciding when to claim your Social Security benefits can be taxing. But it doesn't have to be. Whether you are married, single, or divorced, we've compiled everything you need to know to figure out the right strategy for your unique situation and lifestyle.

Ultimately, the most effective Social Security claiming strategy will depend on how long you live. Since we don't have a crystal ball, we need to use the information we do have to make an informed decision. Here are a few things to consider:

If you have major health issues that could affect your life expectancy, it can make sense to claim your benefits sooner rather than later. One reason you might still wait, even when facing health concerns, is to leave a higher benefit to a surviving spouse.

On the other hand, if you've participated in your share of 90th birthday celebrations of your immediate relatives, and you're in good health, you might consider delaying your benefit to increase your future payments.

Another important factor you will need to evaluate is your source of income while in retirement. Do you have a pension? A retirement account? Or, do you have individual savings to cover your expenses while you let your Social Security income grow? If you didn't answer "Yes" to at least one of these questions, you can skip the rest of this article and claim your benefits at full retirement age. If Social Security will be your main and largest source of income, no matter how good the other strategies look, you can't afford to delay it.

Below are some tactics worth considering:

Don't Claim Before Your Full Retirement Age

Full Retirement Age (FRA) depends on the year you were born. For workers born between 1943 and 1954, full retirement age is 66. Those born between 1955 and 1959 see their full retirement age shift slightly based on the specific birth year, i.e., age 66 and 2 months for those born in 1955, 66 and 4 months for those born in 1956, and so on. For everyone born in 1960 and thereafter, FRA is age 67.

Those who start taking Social Security benefits at age 62, rather than waiting until their FRA of age 66 will get 25% less, and 30% less if their full retirement age is 67. However, if you have any health issues, you should consider the timing carefully. Generally, you would have to live until age 80 to benefit from the deferral.

Stop Working but Wait to Claim Your Benefits

If you have other sources of income, such as pension, personal, and/or retirement accounts, you can delay claiming Social Security benefits and increase future payments. By waiting until age 70 to begin your benefits, you can increase your future income by 25% or more.

This strategy works especially well when you have a normal life expectancy and there is a low-interest rate environment. Your benefits will grow at 8% per year of deferral without taking on market risk.

Remember, there is no incentive to delay claiming your benefits after age 70.

Claim Your Spouse's Benefit

If both you and your spouse are eligible to receive benefits based on each person's earnings record, you should consider whether you should take your benefit or claim based on your spouse's earnings. Social Security allows you to receive up to 50% of your spouse's benefit, if that amount is higher than your own benefit. To receive unreduced spousal payments, you must apply for the benefit at your full retirement age. Spousal benefits will be reduced if claimed before FRA, similar to the regular benefits.

Restricted Application to Claim a Spousal Benefit

In 2015, Congress changed the rules of Social Security to eliminate so-called loopholes that married couples took advantage of to increase their overall retirement benefits. However, there is one strategy that remains available for couples under the Restricted Application filling. It allows the higher earning spouse to take spousal benefits earlier in retirement while letting their more substantial income stream to grow. The filer can accumulate deferred retirement credits and switch to their own benefit in the future.

You can only use the restricted application option if you were born on or before Jan. 1, 1954. Additionally, for the higher earning spouse to receive a spousal benefit, the other spouse must be receiving his or her benefit.

Claim Your Ex-Spouse's Benefit

If your ex-spouse earned significantly more than you, you want to consider taking benefits based on their earnings. To qualify for the ex-spousal benefit, you both must be 62 years or older and have been married for at least 10 years.

The positive is that you don't have to go to court to claim your benefit as an ex-spouse. Your benefit doesn't affect what your ex-spouse and his or her new spouse receives in benefits, nor does your ex get notified that you're making a claim for benefits based on their work record. If your ex qualifies for benefits but hasn't claimed them, you must be divorced for at least two years (and meet the other requirements above) in order for you to receive your benefits.

One thing to keep in mind is that if you remarry, you can no longer claim or collect the spousal benefit based on your former spouse's work record. Otherwise, the benefit is yours indefinitely.

Claim Your Ex-Spouse's Benefit under a Restricted Application

If you meet the age criteria for a Restricted Application and are eligible for a benefit on your ex-spouse's record, you can use the Restricted Application to claim a spousal benefit, letting your own benefit grow. You can accumulate deferred retirement credits on your earnings and switch to your own benefit at age 70.

Claim Deceased Spouse Benefits

If your spouse passes away, you can step into the shoes of the deceased spouse to inherit his or her Social Security payment, if that amount is higher than your current monthly payment. If one spouse is not in good physical health, it might be beneficial for them to delay claiming Social Security to increase the income stream for the surviving spouse.

Children's Benefits

Once a parent reaches retirement age and is entitled to Social Security benefits, their minor children may be eligible for Social Security benefits, as well. The parents must be receiving retirement benefits, and the child can collect up to half of what the retiree receives. The same is true if the parent is disabled and entitled to Social Security benefits.

General eligibility is that the child must be unmarried and under the age of 18 (or 19 if they are a full-time student). Children 18 and older can be eligible for benefits if they have a disability that began before age 22 and remain disabled.

If you die, your qualified children can receive your Social Security benefits and will be eligible for up to 75% of your full retirement age benefit. They would need to meet the same eligibility requirements as children of a retired or disabled parent.

The spouse of a Social Security beneficiary who is caring for a dependent child under age 16, or a disabled child, could also qualify for payments. Again, a parent must be receiving benefits to allow child-in-care benefits to be paid to a spouse.

Future of Social Security

All of these strategies are based on current legislation which could change in the future. It is well known that the current framework for Social Security is such that the combination of the Administration's trust assets, the number of retiring workers, and the taxpaying wage base is not sufficient to continue paying full benefits for the foreseeable future. The Administration estimates that the trust assets will be exhausted by approximately 2034. This doesn't mean that Social Security benefits will disappear. It means that there would be enough tax revenue to pay approximately 79% of currently scheduled benefits.

There are several ways that Congress can address this by making incremental changes to the system to avoid the depletion of trust assets. Based on what we know about how benefits are calculated Congress could consider any number of the following ideas:

- Increase the number of years used in the AIME calculation to something more than 35, which would effectively decrease the benefit amount
- Increase the payroll tax rate above the current 12.4% (split evenly between employee and employer)
- Continue to increase the Full Retirement Age for workers born after a certain date
- Adjust the investment policy for trust assets to include some higher yielding asset classes beyond U.S. Treasuries considering the long-term investment time horizon of the system itself
- Increase the Social Security taxable wage base

Congress has enough lead time to make these important decisions. Now it's a matter of acting on them.

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