

Tips to maximize your Social Security benefits

Social Security benefits are critical to most Americans' retirement income plans. And yet, many people are unaware of options that may maximize this income.

When you consider that with a healthy 65-year-old couple there is a 50 percent chance that at least one of them will live to 92 and a 25 percent chance of living beyond 97, it's easy to understand the importance of maximizing lifetime income sources.



Gary Brooks

As with most financial decisions, proactive planning may unveil valuable opportunities to improve your financial security. In this case, it may be done with an asset that limits inflation risk (Social Security payments come with an annual cost-of-living adjustment), has no longevity risk (you can't outlive them) and no investment risk (they're not exposed to market fluctuations).

If you need the income as soon as you are eligible at 62, there's nothing wrong with receiving Social Security benefits early. If you can wait until your full retirement age – 66 or 67 depending on birth year – or even longer, you are in better position to get the most out of Social Security.

Consider these often-overlooked strategies:

THE 'FILE AND SUSPEND' PLAN

This opportunity is most applicable to married couples where one spouse is younger or has lower career earnings than the other.

In this case, the higher-earning spouse files a request for Social Security benefits at full retirement age but suspends collection of benefits. The lower-earning spouse (who also must be at full retirement age) collects spousal

benefits at 50 percent of the higher-earning spouse's record. While the higher-earning spouse suspends receipt of Social Security income, he or she earns delayed retirement credits until age 70. Each year of delayed retirement credit is worth an 8 percent bump in Social Security payment. If it's possible to delay until 70, the monthly payment will be 32 percent higher than at 66, plus it will be adjusted for inflation all along the way.

There are two benefits to this. In many cases, it will take less than a decade for the larger delayed payments to offset the smaller payments received by claiming Social Security sometime between age 62 and full retirement age. Perhaps more importantly, the larger payment is locked in through the life of both spouses. Therefore, since women's life expectancy is longer than men, in many cases a larger income stream is preserved for the wife's later years.

START SMALL, FINISH BIG METHOD

For married couples that need or want to receive benefits at 62 and keep a larger benefit available for later in retirement, there is a way to access some Social Security income and be paid to wait for a larger future benefit.

In this case, it is wise to work off of the lower-earning spouse's record. The spouse with the lower benefit begins receipt of monthly income and the other spouse files for the spousal benefit. This creates a small income stream but postpones receipt of the higher-earning spouses benefit, potentially all the way to its max at age 70.

THE REPAY AND STEP UP PLAN

Sometimes we hear that receiving Social Security benefits before full retirement age results in a permanent reduction in the benefit. There is a way, however, that the government will allow for a do over.

Here is how it works: At some point after your 62nd birthday, you file a claim to receive Social Security benefits. At a later date, perhaps not until age 70, you file Form SSA-521 and send a check to the Social Security Administration for the entire amount of Social Security benefits that you (and possibly a spouse) have received. You then start over with benefits equivalent to what you would have earned by waiting until your current age in the first place. Effectively, you've received a free loan from the government and you get higher monthly payments for life. There are no interest charges and you can deduct income taxes that may have been paid on receipt of the original Social Security benefits.

It may seem illogical to write a check for many thousands of dollars back to the government. But if you wanted to generate a larger ongoing income stream by purchasing an annuity, you would pay more for it in a retail scenario than you would by repaying Uncle Sam and starting over.

These options may present a great opportunity for you. Of course, you should thoroughly consider their impact before making a decision.

You can confirm these strategies and access benefits calculators at www.ssa.gov.

Gary Brooks is a certified financial planner and the president of Financial Life Design, a consulting firm in Tacoma. Reach him at gary@yourFLD.com.

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