Advanced Social Security Strategies

Understanding all the rules behind Social Security (SS) benefits can be a monumental task.

When to collect?

The age at which you start to collect benefits will determine the size of your monthly checks and, ultimately, the amount of SS income you collect over your lifetime. Benefits are based on your primary insurance amount (PIA), which is the monthly benefit you are eligible to receive at full retirement age (FRA).

Sooner is not necessarily better. You may begin collecting SS benefits as early as age 62 — but with a consequence. By collecting early, you lock in permanent reductions to your monthly benefits. At age 62, you would lock in a reduction of 25% (assuming a FRA of age 66). That reduction decreases for each month you wait after age 62, up until FRA.

Patience can pay. Conversely, SS benefits will increase for every month you wait beyond FRA, maxing out at age 70. These monthly increases are called delayed retirement credits (DRCs) and are equal to 8% yearly (assuming you were born in 1943 or later). If you have an FRA of 66 and wait until age 70 to collect, your benefits max out at 132% of their PIA.

For most people, determining the "best" time to collect SS benefits comes down to the question of timing — now vs. later. You must assess the advantage of higher benefits later versus near-term income. This is where comprehensive financial planning can possibly make a big difference in your retirement income

Beyond the biggest question

Working while collecting benefits: If you collect benefits before FRA and continue to work, you will be subject to an annual earnings test. The result may be that some or all of your benefits are withheld. In its basic form, the earnings test allows you to earn up to $15,720 before the SSA starts to withhold $1 of benefits for every $2 above $15,720. There is a different test applied in the year the individual reaches FRA and in the first year of collection. All forms of the test apply to earned income only.

When it comes to Social Security planning, you may not be alone. Spouses and children may be eligible to collect benefits based on your benefits. This can increase the family's Social Security income — but it also adds a layer of complexity to the decision-making process.

Spousal benefits

At full retirement age (FRA), a married person may be eligible to collect spousal benefits equal to 50% of his or her spouse's primary insurance amount (PIA). If also entitled to individual benefits, you will receive your own PIA plus an adjusted spousal amount. At FRA, the total amount you could receive is your own individual benefit or 50% of your spouse's PIA, whichever is greater.

Important details to know:

- You cannot collect spousal benefits unless your spouse is collecting benefits.
- Your spousal benefits are not impacted by when your spouse collects individual benefits, but are impacted by when they choose to take spousal benefits.
- The reduction for collecting spousal benefits before FRA is greater than the reduction taken on your own benefits.
- Spousal benefits do not grow after FRA (whereas individual benefits can grow to age 70).

Survivor benefits

If your spouse passes away, you may be eligible to collect benefits based on your deceased spouse's earnings history. Unlike spousal benefits, which max out at 50% of the spouse's PIA, survivor benefits are usually equal to the benefits the deceased spouse had been receiving. Therefore, your survivor benefits will be impacted by when your deceased spouse began collecting benefits. This why married couples' strategies should account for the life expectancies of both spouses. If you or your spouse has a high likelihood of substantially outliving the other, the best overall strategy may involve maximizing survivor benefits. Additionally, if you qualify for both individual and survivor benefits you can choose which benefits to collect. This option enables you to collect survivor benefits, potentially as early as age 60, while allowing your own benefits to increase. You can then switch to his or her own benefits at a later date.

Continuing the conversation

Other considerations related to family benefits include:

Divorce: Divorced clients may be eligible for additional benefits. If you were married for at least 10 years and are currently unmarried, you may be eligible for divorced spouse and/or survivor benefits.
Minor children: Children under age 18 (19 if in high school) are eligible for benefits once one or both parents have started collecting benefits.
Dependent parents: Parents who are dependent upon you for at least 50% financial support at the time of your death may be entitled to survivor benefits.
Disability: Additional rules apply if one or both spouses also qualify for disability benefits.