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Maximizing Social Security Benefits Using Advanced Distribution Strategies

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Planning for your client's Social Security benefits distribution is a much more complex task than many advisors realize. While the timing of distributions is the most common focus, numerous other strategies can be applied to distributions of which few advisors are aware—and even fewer are actively pursuing to help increase their clients' total benefit amount.

By claiming early, not only can benefits be reduced by as much as 25 percent, but cost-of-living adjustments are also eliminated, further decreasing the total benefit amount.

Distribution Timing

That said, let's start with the all-important timing of distribution. While benefits may be claimed as early as age 62, in most situations, there is a significant financial benefit to waiting to file until full retirement age (FRA)—which falls between age 66 and 67, depending on the claimant's birth year. Yet, according to the Social Security administration, over 60 percent of qualified recipients opt to begin receiving benefits before they've reached FRA. By claiming early, not only can benefits be reduced by as much as 25 percent, but cost-of-living adjustments are also eliminated, further decreasing the total benefit amount. In contrast, waiting until FRA—and even delaying filing—provides a significant increase in potential monthly income for the rest of the recipient's retirement years.

it's important to note that the Social Security claiming strategy that produces the greatest benefit according to basic calculations may not, in fact, be the optimal strategy for the client's specific needs.

For every year an individual delays filing for Social Security, benefits receive a delayed retirement credit that increases the dollar amount by 8 percent annually. For example, by waiting as little as four years and claiming at age 70, a 32 percent increase is added to the recipient's lifetime Social Security income, plus any cost-of-living adjustments—a difference that can add an additional $100,000 to $300,000 in retirement income over the long term. If a spouse is also eligible to receive benefits, his or her own delayed benefits will increase at the same rate of 8 percent per year.

For single individuals (never married), distribution timing is the only strategy available. For married, divorced and widowed individuals, the following options can further increase benefits:

• *File And Suspend.* This option gives recipients the flexibility to file for Social Security at FRA, but suspend distribution of benefits until a later date. In the interim, benefits continue to increase at 8 percent year over year. Even better, the recipient's spouse may begin receiving spousal benefits immediately (typically 50 percent of the partner's monthly benefit) while continuing to earn the 8 percent annual increase as a result of delaying his or her own retirement benefits. If the recipient has a need to collect back pay for suspended benefits for any reason, file and suspend offers back pay of up to 24 months, as opposed to only six months of back pay that would be available if the recipient had simply delayed filing.

• *File And Restrict.* This lesser-known option allows married or divorced individuals to file for benefits, but restrict benefits to a spousal benefit amount rather than claim benefits based on their own employment. Using this strategy, the spouse's personal Social Security benefits continue to receive the delayed retirement credit of 8 percent per year. At any time, the individual may terminate the restriction and begin to claim his or her own benefit amount—which will have increased significantly in the interim. If spousal benefits are terminated at age 70, for example, and the spouse begins collecting benefits based on his or her own work record, the monthly benefit will have increased by almost 50 percent (including cost-of-living adjustments) compared with four years earlier. Unlike file and suspend, this option allows both spouses to receive benefits simultaneously.

• *File And Suspend And File And Restrict.* This option allows a couple to combine benefits, with one partner using the file and suspend strategy, and the other applying file and restrict. If both spouses have reached FRA and both have earned a Social Security benefit, this option enables both individuals to file for benefits at FRA, but restrict one of the recipient's benefits to the spousal benefit amount. While collecting spousal benefits, his or her benefit amount continues to receive the delayed retirement credit of 8 percent per year. By delaying benefits for the higher-earning spouse, not only will the cost-of-living percentage increase be higher, but following the death of one spouse, the surviving partner could also receive a higher benefit amount each month.

• *Benefits For Divorced Spouses.* Another surprise to many advisors is that ex-spouses can receive benefits based on the recipient's work record—even if the recipient is remarried. Importantly, the amount of benefits a divorced spouse receives has no effect on the benefits of the recipient or the recipient's current spouse. To qualify, the marriage must have lasted 10 years or longer, and the divorced spouse must be age 62 or older and unmarried (this is true even if the ex-spouse married again but the marriage ended by divorce, annulment or death). If the divorced spouse is eligible for Social Security benefits on his or her own record, that amount will be paid first. However, if the primary recipient's benefit is a higher amount, the divorced spouse will receive a combination of benefits that equals the higher amount (reduced for age). Divorced spouses also have the option to utilize the file and restrict option to take advantage of the Delayed Retirement Credit to increase their own benefit amount by 8 percent annually.

Today the market is flooded with software programs—from very basic to highly complex—designed specifically to help advisors calculate optimal distribution timing based on each client's specific situation and considering myriad factors such as age, differences in age between spouses, benefits at FRA, health and life expectancies, additional sources of income, cash flow and more. However, it's important to note that the Social Security claiming strategy that produces the greatest benefit according to basic calculations may not, in fact, be the optimal strategy for the client's specific needs. When considering the more complex strategies discussed above, advisors may want to work with a specialist in Social Security benefits distribution to help ensure an optimal outcome for each client situation.

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