This Special Report was written exclusively for *Kiplinger's Retirement Report* subscribers.

Boost Your Social Security Benefits

When to start taking Social Security is a decision with lasting consequences in retirement. If you apply at the youngest age possible, 62, your monthly benefit will be 25% to 30% less for the rest of your life than if you had waited until your full retirement age. Delay until the latest age possible, 70, and that monthly benefit increases 8% each year you wait past your full retirement age, a bonus of 24% to 32% depending on your birth year.

Your birth year matters because the full retirement age is rising—from 66 for people born between 1943 and 1954, to 67 for those born in 1960 or later. If your birth year falls between 1955 and 1959, the full retirement age rises by two months every year.

The retirement age isn't the only thing that's changing. The rules for claiming Social Security are different for those born after Jan. 1, 1954, which includes the majority of people filing for benefits today, and the changes especially affect married, two-earner couples.

First, the basics: Individuals pay into Social Security their entire working life in order to receive a steady stream of income in the form of a monthly benefit once they retire. The benefits are based on the person's 35 highest years of earnings. If you have only 29 years of earnings, zeroes are entered in for the remaining six years, reducing the monthly benefit.

As pensions disappear and life expectancies rise, a guaranteed lifelong income that isn't tied to the stock market has tremendous value. "Social Security is the best deal out there," says Diane M. Wilson, a claiming strategist and founding partner of My Social Security Analyst in Shawnee, Kansas. "It's an annuity that lasts a lifetime, and it's indexed to inflation."

Maximizing that benefit has produced a cottage industry of claiming strategists to help retirees determine the best time to start taking benefits, but it's not a simple calculus. "In the end, it's a longevity decision," says Kurt

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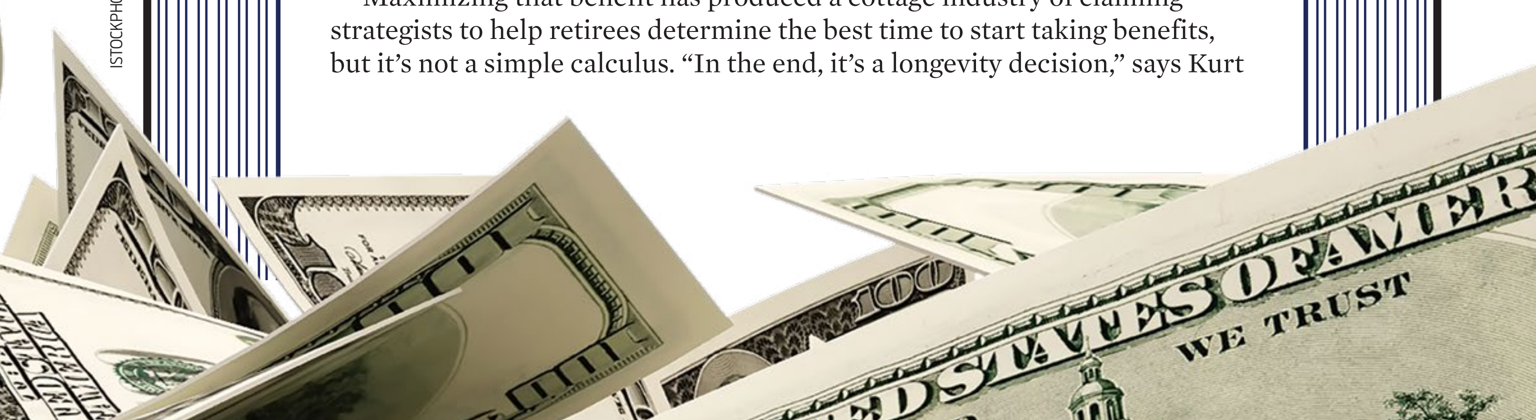


Czarnowski, who counsels clients about Social Security at Czarnowski Consulting in Norfolk, Mass. "If you knew when you were going to die, all this would be a snap." Instead, people should understand their choices and the financial impact, and then make an informed decision, he says.

The New Rules

For married couples, that decision involves accounting for two people's earnings and benefits, as well as the likelihood of one spouse outliving the other. Spouses are not only entitled to the benefit based on their own work history, but they also may be eligible for additional money when the spousal benefit is factored in, what Wilson calls "add-ons." The spousal benefit equals 50% of the higher-earning spouse's benefit if the lower-earning spouse takes it at full retirement age. The amount is reduced when taken early, and you can't claim the spousal benefit until your spouse begins taking Social Security. To be clear, you do not get to take two benefits, but rather Social Security tops up your benefit to equal half of your spouse's if the one based on your own work history is smaller.

People born on Jan 1, 1954, or earlier can maximize benefits while still receiving some Social Security. By taking whichever benefit is lower—their own or a spouse's—when they first apply, they let the larger benefit grow before switching to the higher benefit at a later age. That option, known as "restricted filing," doesn't exist for people born after Jan. 1, 1954. For them, there's no choice. Social Security simply bestows their own benefit and any add-ons the person is eligible for when they first file for benefits, a practice known as "deemed filing."

For simplicity, in our examples throughout, we'll refer to the higher-earning spouse as the husband and the lower-earning spouse as the wife. Under deemed filing, when the wife files for Social Security at her full retirement age, she is given the highest amount she is eligible for, which in this instance is 50% of her husband's benefit, assuming he started taking it. If he hasn't, she will be given only the benefit based on her own work history. Once her husband applies for his benefits, Social Security will increase hers so that it equals half of his. If the wife is the higher earner and her benefit is more than 50% of his, she won't get any additional money when he starts claiming Social Security. She will simply continue getting her own higher work benefit.

Filing Strategies for Couples

Deemed filers still have other strategies to consider, such as when to start claiming and which spouse should file for his or her own benefit first, that can change cumulative lifetime benefits substantially. When Wilson advises couples affected by the new rules, she generally recommends the higher earner to delay as long as possible, ideally until age 70, while the lower earner can file, giving the retired couple some income.

The couple's age difference also matters, particularly if the younger spouse is also the lower earner, says Jim Blair, co-owner of Premier Social Security Consulting in Cincinnati. In that case, "if they're five years or more apart in age, you want the younger person filing as early as possible, at 62, and the older person delaying as long as possible," he says. "Odds are the younger person is going to receive a survivor benefit before they reach their breakeven point, which is about 12 years past retirement age." The breakeven point is the age at which the total value of cumulative benefits, whether taken early or at full retirement age, are roughly equal. A survivor benefit is a widow(er)'s benefit.

If the situation is reversed and the younger spouse is the higher earner, "we'll look at what the younger individual will need in retirement," Blair says. "If taking that benefit early at age 62 means a 25% reduction, they're going to have to live with that for the rest of their life." There will need to be other income to compensate for the reduction, he adds.

Couples who straddle the 1954 birth year, with one spouse falling under the old rules and the other under the new, have more options. Let's say it's the wife who is the younger, lower earner. It may make sense for her to apply early, taking her own reduced benefit, which would allow the husband, who was born before the 1954 cutoff date, to use a restricted application and request only a spousal benefit. Meanwhile, his benefit based on his own work history continues to earn delayed retirement credits of 8% per year from his full retirement age until he turns 70. He can switch to his own higher benefit at a later date, whether at 70 or sooner.

Survivors Have More Options

Couples should try to postpone taking whichever spouse's benefit is higher to ensure a larger survivor benefit. This is particularly important when the lower-earning spouse is younger and likely to outlive the higher earner by many years. "You want that higher benefit to take care of the survivor," says Wilson, who warns clients of expenses, like home health aides, that someone living alone will almost certainly have.

A spousal benefit turns into a survivor benefit when a spouse dies, but the benefits are not the same. A surviving spouse who is at least full retirement age can receive 100% of the deceased spouse's benefit, as opposed to 50% for a spousal benefit. The amount is reduced if the surviving spouse claims the benefit before full retirement age. You can claim a survivor benefit as early as age 60 (50 if you are disabled). But you don't have to take it early, and you may not want to if you're still working.

Social Security imposes an annual earnings limit for anyone younger than full retirement age who collects benefits, a rule that also applies to surviving spouses. For every $2 earned above the limit, which is currently $18,960, Social Security will deduct $1 in benefits, with the money restored later in the form of a higher benefit when you reach full retirement age. The earnings limit is higher—$50,520—the year of your full retirement age, with no limit on earnings after this age.

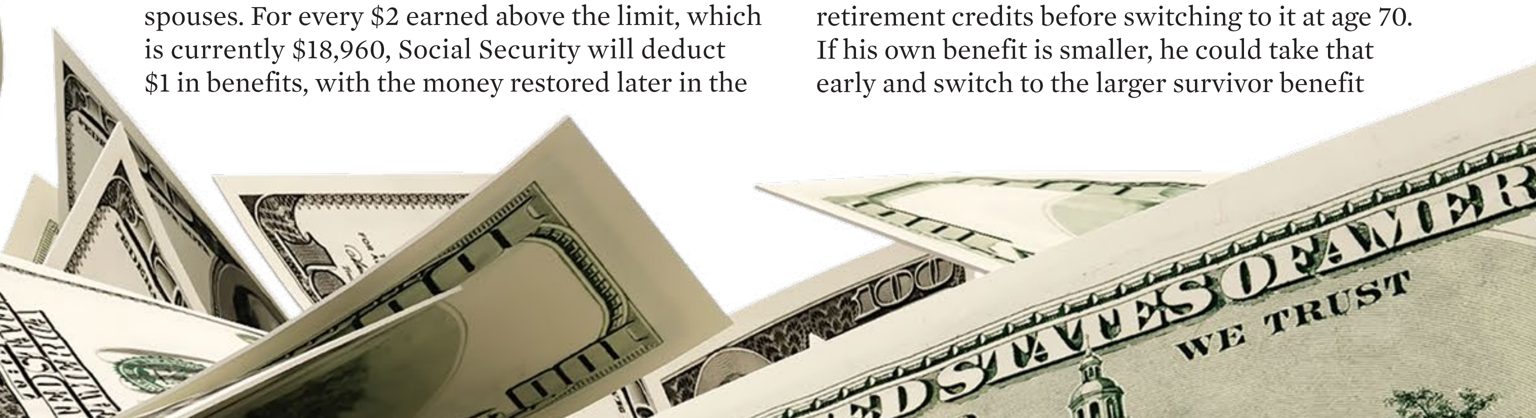
A widow who is, say, 60 when her husband passes away could hold off and take the survivor benefit when she reaches her full retirement age and stops working. There's no reason to wait beyond that age because the survivor benefit won't increase.

A survivor benefit is also not subject to the deemed filing rule. Someone born after the 1954 cutoff date can choose which to take when they apply for Social Security: their own or the survivor benefit. That opens a whole new avenue of claiming strategies. A widower, for example, could take the survivor benefit first if he needs the income and let his own larger benefit continue accruing delayed retirement credits before switching to it at age 70. If his own benefit is smaller, he could take that early and switch to the larger survivor benefit

HIT THE PAUSE BUTTON

Social Security also gives people who regret taking a benefit early the chance to reverse that decision. If you change your mind within the first 12 months of claiming your benefit, you can "withdraw the application." All the benefits you received will need to be repaid, including any spousal benefits based on your work record, but you'll get a higher benefit when you restart later on.

The second way is to suspend your benefit, which you can only do once you reach full retirement age. You won't need to repay the benefits you've received, and you earn delayed retirement credits of 8% per year until age 70, enabling you to reverse some of the damage from claiming early. When you suspend a benefit, you also suspend any other benefits based on your work record, such as a spousal benefit. If your spouse was getting $1,500 per month and $500 was based on your work record, she'll only get her own $1,000 benefit when you suspend.



when he reaches full retirement age. The survivor benefit won't be reduced because he took his own benefit early. The survivor benefit is only reduced if he takes it before his full retirement age.

Death, Divorce and Remarriage

A divorced spouse is also eligible for benefits based on a former spouse's earnings history. If your ex is still alive and both of you are at least age 62, you can collect a spousal benefit even if your ex hasn't started collecting, provided that the marriage lasted at least 10 continuous years, the divorce was two or more years ago, and you haven't remarried. Your ex won't know you're taking the benefit. A divorced spouse who is full retirement age can get 50% of the former spouse's benefit; it's reduced if taken early. Deemed filing rules still apply if you were born after New Year's Day 1954, with the highest benefit amount given to you.

If your ex has passed away, you can collect a survivor benefit as early as age 60, but the other requirements—a marriage that lasted at least 10 years and a divorce that was finalized two years ago—remain. You also can't have remarried before age 60.

If you remarry after age 60, you are allowed to keep the survivor benefit from a former spouse whether you were divorced or not, but timing is everything. Wilson had a client, a widower, who was two months away from turning 60 and collecting a survivor benefit. He was also about to remarry. "I told him about the rule, and he said, 'I can't reschedule this now.'" He went ahead with the marriage, though Wilson points out that her client could collect a survivor benefit from his first marriage if the second one ends for any reason.

As with any survivor benefit, there's no deemed filing. A divorced spouse has the option of choosing which benefit to take first—their own or the survivor benefit—and let whichever is larger earn delayed retirement credits.

Remarriage brings other options, such as applying for a spousal benefit based on the new spouse's work record, but there is a waiting period. To collect a spousal benefit, you generally need to be married one year, Czarnowski says. An exception is made for someone who is already collecting a spousal or survivor benefit and remarries. Then the waiting period is waived. For example, a widow over age 60 who is collecting a survivor benefit and remarries is "immediately eligible to collect 50% of the new husband's benefit, assuming he is collecting his benefit," Czarnowski says. You will need to choose which benefit you want—the survivor benefit from an earlier marriage or the new spousal benefit.

Longevity and Singles

For single people who never married, there's no survivor to consider so the decision of when to claim is based on the need for income and how much they'll get at any given age between 62 and 70. "It's really which point along this continuum makes sense," Czarnowski says. Social Security's quick calculator (ssa.gov/OACT/quickcalc) estimates your benefit based on your current earnings and the age you plan to retire. You can also enter your earnings history for a more precise estimate.

Most of Wilson's single clients start claiming at full retirement age so that benefits aren't reduced. Should they wait until age 70 and earn delayed retirement credits? "They may want to if they're still working and they don't need Social Security," Blair says. "The flip side is when they pass away, the benefits end. If they pass away at 72, they didn't collect very long." **K**