SPECIAL REPORT

Secrets to Boosting Social Security Benefits

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by Robert Carlson

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Irreversible Decisions, Long-Term Effects

Suddenly, Social Security benefits have moved to the forefront of retirement planning for many Americans.

For decades, most people, and even many financial advisors, paid little attention to Social Security retirement benefits. Instead, many advisors either simply sent clients to the Social Security Administration to learn about their benefits and options, or they applied rules of thumb to everyone. Social Security benefits generally were considered an inconsequential part of retirement income, and many people believed there was little they could do to alter the amount of benefits that they received.

Maybe the bearish turn of the stock market in 2000, followed by the financial crisis of 2008 caused the change. Or maybe it was the first Baby Boomers turning 65 years old in 2011 that led to the change. Probably, it was a combination of these and other factors.

In any case, the views of many pre-retirees and financial professionals began to change. Many of them started to realize that there are a lot of details about Social Security benefits that are worth knowing, because learning the details can lead to decisions that will improve retirement cash flow.

Retirees and advisors realized, as I've been saying for years, there is some flexibility in the rules for Social Security benefits. Thus, a retiree can substantially increase his or her lifetime benefits by making the right decisions about Social Security benefits. In addition, married couples can dramatically increase benefits by carefully coordinating their choices.

It is critical for a near-retiree to spend time carefully analyzing the Social Security benefit options as the best choices often are not intuitive. Also, the income-maximizing options have changed over time. Last decade's rules of thumb are not ideal for today's retirees.

Taking Social Security benefits doesn't always involve one decision. Sometimes a series of decisions should be made. While most decisions about Social Security benefits are irreversible and have long-term effects on the retiree's income, contrary to what many people believe, Social Security benefits can sometimes be changed. The traditional rule is that once selected, benefits are fixed. However, there are at least two instances when a Social Security beneficiary can change his or her mind and restart his or her benefits.

Few people are aware of these options.

Just a few of the decisions are: At what age should benefits begin? When should a spouse begin benefits? Should benefits be based on your earnings record or your spouse's record?

Do you want to maximize income now or in the future? Are survivor's benefits important to your decision?

Maximizing Social Security benefits can greatly enhance retirement financial security. The benefits are an important part of many retirement plans today as Social Security generally becomes more important in the later years of retirement. As the decisions that are made early on in retirement greatly affect the retirement standard of living for many people, it no longer is appropriate to treat Social Security benefits as an afterthought and "bonus income."

Social Security benefits are one of the foundations of retirement income. The lower one's working years' income, the more important Social Security benefits become to retirement cash flow. At lower incomes, Social Security can replace around 90% of the annual income of one’s working years. As income rises, the Social Security replacement ratio declines. Yet, even at the highest incomes, an increase in Social Security benefits can enhance the retirement years.

Social Security is the only part of retirement income that is both guaranteed and inflation protected for many people. These are two benefits that many people only begin to appreciate after a few years of retirement.

In this report, we discuss how to get the most from Social Security. Like most government programs, Social Security can be complex. I aim simplify this complex subject without leaving out important information and carefully lead the reader through the key decisions that need to be made and the available options. Most importantly, I do not advise the reader to rely on outdated rules of thumb. I also show how these decisions should be different for different people.

Pre-retirees and even retirees need a working knowledge of Social Security benefits as the program requires them to make important decisions. You do not want to leave money on the table, especially thousands of dollars of lifetime income for you and your spouse. With the guidance of this report, you won't.

The Future of Social Security

It is no secret that the Social Security system is not in great financial shape. Each year the trustees of the Social Security Trust Fund issue a report describing the system's financial condition. For many years, the report has been negative.

The total expenditures of the program exceeded its non-interest income beginning in 2010, and that is expected to continue indefinitely. Beginning in 2018, the annual deficit began to increase steadily as the number of retirees is growing faster than the number of workers paying taxes into the fund. The trust fund consists of special bonds issued by the Department of the Treasury for the Social Security taxes it borrowed in the past. The solvency of Social Security depends on the Treasury Department being able to make good on those bonds when the system needs the cash.

While details of the annual cash flows and when Social Security might run out of money change from year to year, depending on economic growth, inflation and other factors, the general conclusions are the same. The key conclusion is that once the reserves are exhausted, Social Security tax revenues will finance 75% to 80% of scheduled benefits almost indefinitely. That means without an action by Congress, the program won't be able to pay 20% to 25% of promised benefits.

For many years, Baby Boomers and those younger generally assumed they would receive no Social Security benefits as the system would be bankrupt. The facts above, however, should lead the reader to a different conclusion.

Social Security will continue to pay benefits for many decades. But the payments likely will be on different terms than they were in the past. There's a gap of 20% to 25% of promised benefits, and the gap must be covered through lower benefits, higher taxes, or both. We have seen a sample of the likely changes in Medicare. It used to be that every Medicare beneficiary paid the same monthly premiums. That changed in 2007. The premiums now are "means-tested." Those with greater incomes pay higher premiums. Social Security already is partly means-tested, because higher-income beneficiaries have part of their benefits subject to income taxes. We can expect more means-testing in future.

It is a mistake to assume at some point there will be no benefits from Social Security, especially for middle- and lower-income people. If you assume that there will be no Social Security benefits, then you'll have to save more money for retirement and likely will save far more money than you need to. That will reduce your pre-retirement standard of living. Upper-middle-income people and those who are better off, however, should realize that changes are likely to be made in the program. This means that you need to have some flexibility in your planning to allow for more means-testing of benefits, higher taxes or both.

Consider some or all of the following changes that are likely to happen in the coming years:

- In the year that any changes are made, it is likely that few people who are receiving Social Security benefits or are age 55 or older at that time will face reductions in benefits or increases in taxes. There might be exceptions for those with higher incomes. Of course, the longer Congress waits to act, the fewer people will be protected from these changes.
- The lower the income in your working years is, the greater is the percentage of that income that you will receive in Social Security benefits. For example, someone who earned less than $20,000 annually is likely to receive 90% or more of that amount in Social Security benefits. This is called the replacement ratio. The replacement ratio declines as income increases. For higher incomes, the replacement ratio is likely to decline from its current levels when Congress decides to act.

- Through a complicated formula, the initial benefit payment is determined by taking a worker's lifetime annual earnings and inflating them based on average U.S. wage growth during his or her career. Historically, the Consumer Price Index (CPI) rises at a much lower rate than wages. Some people say that this artificially inflates Social Security benefits. They have proposed adjusting career wages based on the CPI instead of wage growth. While this would effectively reduce benefits, few people would notice. The change would also only affect those who are not yet receiving benefits. Furthermore, few people would know the benefits they would have received under the old formula instead of the new formula. Only those who have followed their projected benefits over the years would notice lower estimates. Also, those people who are near retirement probably would be grandfathered and have their benefits calculated under the old rules. A criticism of this approach is that it hurts lower-income people the most, and they are the ones for whom Social Security is their sole or primary source of retirement income.

Payroll taxes could rise. This would affect those who have not already retired. The most likely change would affect higher-income workers by raising or eliminating the annual cap on the compensation on which Social Security taxes are imposed.

These possible changes should be incorporated into retirement plans. The best way to incorporate the potential changes is to have a cushion or some flexibility in your plans. Your plan should be able to adapt to lower Social Security benefits or higher taxes. That means saving more money than would be needed under the current rules or having a retirement spending plan that can be adjusted for lower Social Security benefits. An alternative is to take more risk with the investment portfolio to try to earn higher returns, offsetting higher taxes or lower benefits.

How to Value Social Security Benefits

Most people fail to realize that Social Security retirement benefits are an asset. Since Social Security is a promised stream of inflation-adjusted income, it is an asset similar to an insurance or pension annuity. While the right to Social Security can be reduced or eliminated by Congress, just as an annuity might be lost in bankruptcy, it does have value.

Most people don't consider Social Security and other pensions and annuities when planning their investment portfolios. Even most financial planners and other investment professionals do not include Social Security and other pensions when determining a portfolio's allocation. Social Security makes its way into income projections, but often it does not figure into asset allocation.

Because Social Security is not incorporated into the retirement portfolio, many people have more conservative portfolios than they realize.

A pension such as Social Security has many of the characteristics of a high-quality bond. You receive regular payments from it, and the payments usually are considered safe or reliable.

Yet, a major difference between these annuities and a bond is that a pension or Social Security cannot be sold on the market.

You should try to put a value on Social Security benefits and count this as part of your bond or fixed income allocation when determining how to invest your portfolio. Since Social Security and other pensions have the characteristics of bonds, ignoring pensions means your investment portfolio is probably over-weighted to favor bonds and might be more conservative than you need it to be.

In addition, many people save too much or worry too much about retirement income because Social Security wasn't valued and considered.

Younger people believe that they cannot count on Social Security and prefer to ignore it in their planning. That is not a reasonable approach for anyone age 50 or older, and even younger people should count on receiving some level of Social Security benefits.

While you might not want to assume the current level of payments will be maintained, for the reasons stated in the previous section, you should consider some level of benefits to be likely. Otherwise, you'll be saving more money than you need.

Valuing a fixed-payment pension (such as most corporate pensions or insurance annuities) is fairly simple. You need an estimated life expectancy and a discount rate (interest rate). For life expectancy, you can start with the IRS tables for a single life that are used for the required minimum distributions and included in Publication 590. Or you can use the Period Life Table on the Social Security website or as part of the Trustees Annual Report. Various other websites also have life expectancy tables. Ideally, the interest rate is the current yield on a treasury bond with the maturity date closest to the life expectancy. However, you might want to use a higher interest rate. After obtaining these numbers, simply look up the "annuity factor" in the table.

For example, suppose a 70-year-old is receiving a Social Security benefit of about $900 monthly. He decides to use a life expectancy of 14 years. Let's say the current treasury yield on a comparable debt is about 3%. Consulting the annuity factor table, you should interpolate the difference between 13 and 15 years, or 10.635 and 11.938. You can use 11.29 to make things easier. Multiply 11.29 by the annual income of $10,800. The result is a current value of $121,932 for the benefits.

Annuity Factor Table						
	Interest Rate					
Years	**2%**	**3%**	**4%**	**5%**	**6%**	**7%**
5	4.713	4.580	4.452	4.330	4.212	4.100
7	6.472	6.230	6.002	5.786	5.582	5.389
9	8.162	7.786	7.435	7.108	6.802	6.515
11	9.787	9.253	8.760	8.306	7.887	7.499
13	11.348	10.635	9.986	9.394	8.853	8.358

15	12.849	11.938	11.118	10.380	9.712	9.108
17	14.293	13.166	12.166	11.274	10.477	9.763
19	15.678	14.324	13.134	12.085	11.158	10.336
21	17.011	15.415	14.029	12.821	11.764	10.836
23	18.292	16.444	14.857	13.489	12.303	11.272
25	19.523	17.413	15.622	14.094	12.783	11.654
27	20.707	18.327	16.330	14.643	13.211	11.987
29	21.844	19.189	16.984	15.141	13.591	12.278

What if you aren't receiving the benefits yet?

Then, another step with some higher math is involved. First, use the method above to determine the value the benefits will be at the age you'll begin receiving them, using your life expectancy at that age. Then, divide that benefit value by one plus the interest rate raised to the number of years between now and when the benefits will begin.

Suppose your benefits will be valued at $135,000 at age 65, but you are age 60, and the appropriate interest rate is 5%. The present value of your benefits is $135,000/(1.05) raised to the fifth power. To raise 1.05 to the fifth power, multiply 1.05 by itself five times. The resulting value for the benefits is $105,776.03. That means at age 60, your future Social Security benefits are worth $105,776.03.

While this a simple way of estimating the value of your benefits, there are other ways you can determine the value of your benefits. The method you choose depends on how comfortable you are with math, the computing power available to you and how theoretically accurate you want the estimate to be.

Social Security benefits really are worth more than under this method for a couple of reasons.

Social Security benefits are not fixed-payment benefits as the level of benefits rises each year with inflation. That makes them more valuable than a fixed payment annuity. In addition, if you are married, some level of payments will continue to your surviving spouse after you pass away. Again, that makes the benefits more valuable than the simple calculation would have you believe. This second factor is easy to adjust for by using a joint life expectancy instead of a single life expectancy in the initial calculations.

The inflation-indexing of benefits can be adjusted through a couple of ways. One way is to use a financial calculator that is programmed to determine the present value of an annuity with rising payments. Select an inflation rate of 2% to 3% to determine value.

Another option is to use the first method that was presented, but instead of the regular treasury bond yield, use the yield on the appropriate TIPS (Treasury Inflation Protected Securities) bonds. This yield factors in the marketplace’s expectations for inflation and will be less than the regular treasury yield. The result will be a higher value for the benefits.

Some people, after valuing their Social Security retirement benefits, reduce the value because of the financial uncertainty of Social Security. While how much the value should be reduced is a guess, some analysts believe a reduction in value is appropriate.

As I said, more sophisticated and potentially more accurate methods are available for those who want to delve into higher math. The methods that are given here, however, are significantly better than not assigning any value to the benefits and will get you off to a good start.

What is the point of valuing Social Security benefits and other pensions?

It might cause you to reconsider your investments. When the benefit values are coupled with existing bonds, an investment portfolio might be more heavily weighted to bonds than previously thought. This is particularly true for those who retire with significant defined benefit pensions, such as government and military retirees. An investor might realize that he or she is able to take more risk in the portfolio because of the existence of Social Security and other benefits.

The benefits should be re-valued periodically to reflect new life expectancies and interest rates. Otherwise, the investment portfolio will become out of balance as time passes.

Which Age to Take Benefits — The Basic Choices

Each person who is eligible to receive benefits can choose to begin collecting Social Security retirement benefits at age 62 or any time thereafter. The age at which benefits begin determines the level of benefits. The earlier the benefits start, the lower the initial payment is. I’m going to explain how you can decide when you should begin receiving Social Security benefits. We’ll start by explaining how single taxpayers can make the decision, and then move on to the more complicated situation of married couples.

A key concept of Social Security is Full Retirement Age (FRA). If you choose to begin benefits at this age, you receive the full or normal benefits under the program's formula, also known as the Full Retirement Benefit (FRB). Begin benefits earlier, and your monthly checks will be reduced. Begin benefits after FRA and your benefits will be increased for each month you wait until you reach age 70.

The FRA was 65 at the inception of Social Security, but after reforms were enacted in 1983, it changed for anyone who was born after 1937, which means for anyone who turns 65 after 2002. This means that FRA rises roughly two months for each year you were born after 1937, with a break from 1943-1954, until it becomes 67 for those born in 1960 or later. The schedule can be found on the Social Security website or in my books, *The New Rules of Retirement, Second Edition* (Wiley 2016) and *Where’s My Money* (Regnery 2021).

The 1980s reforms also made adjustments to the formulas for computing benefits that begin before or after FRA. There is a bigger reduction for taking benefits before FRA than under the previous law, and the bonus for delaying benefits after FRA increased.

This report won't devote much space to how Social Security benefits are calculated or determined, except when the information is useful to determining your benefits strategy. Details of how benefits are determined are readily available on the Social Security website at www.socialsecurity.gov and in *The New Rules of Retirement* and *Where’s My Money*.

The easiest way to decide when to begin benefits is to compute the break-even point. Start with your estimated benefits. For a while, a statement of estimated benefits was mailed to everyone over age 25 a few months before his or her birthday each year. Then, the mailings were suspended to save money.

However, the Social Security Administration (SSA) has changed its policies a few times and began mailing them to select categories of people at different times. The SSA probably will change its policies again. Whatever the policy for mailing benefits is, you can obtain an estimate of your benefits and a record of your earnings history any time by establishing a “my Social Security” account at www.socialsecurity.gov , by calling 800-772-1213, or by visiting a local Social Security office.

Suppose your normal benefit at FRA would be $1,400 per month. Waiting until age 70 would entitle you to $1,820 monthly or 130% of the normal benefit. Waiting until 70 gets you an extra $420 monthly. When your FRA is 66, taking benefits at your FRA means you receive payments 48 months earlier than waiting until age 70.

To find the break-even point, multiply the normal retirement benefit by the number of extra months you'll receive it than if you wait until 70 (or whatever age after FRA you select).

Let's say your FRA is 66 and you want to compare that with waiting until age 70. In this example, that is $1,400 times 48 for a total early payment of $67,200. Divide that by the increased monthly benefit for waiting until age 70 ($420). The result is 160. That is the number of months it will take for the total lifetime payments after age 70 to catch up with the lifetime payments you would receive from starting benefits at FRA. That comes to 13⅓ years.

Around age 83 and four months, the decision to delay benefits will begin to pay off. If you die before then, you and your family have lost money. Live at least that long, and you come out ahead.

Another simple way to consider the break-even point is to calculate how much has been received in lifetime benefits at different ages.

Using this method gives a similar result. In this example, at the end of the year you are 82, taking benefits early still generated about $2,000 more in lifetime benefits than delaying until age 70. By the end of your 83rd year, however, waiting until age 70 put you $3,000 ahead in lifetime benefits.

The formula for determining the benefits paid at different ages was set up to closely follow the actuarial tables that were in existence in 1983. The increase for waiting is just under 8% per year for those born before 1943 and 8% per year for those born in 1943 and later. The system should come out whole on average, regardless of when people choose to begin benefits.

Individuals will come out ahead or behind depending on when they choose to begin benefits and how long they live. Those who outlive the average life expectancy will come out ahead by delaying benefits, and those who die before the average life expectancy will lose money by waiting.

Here's another example. Suppose you turn 62 this year. Your benefits payable at 62 would be 77.5% of normal retirement, meaning you'll receive $1,085 monthly at 62 if your FRA benefit were $1,400.

Let's say FRA for you is 66. By taking benefits at 62, you will receive the benefits for an extra 48 months. That means total benefits received by FRA would be $67,200. Divide that amount by the $315 additional benefit you would receive by waiting until FRA. You'll find that it will take 231⅓ months, or 17.78 years, for lifetime benefits from waiting to FRA to catch up with starting benefits at 62. That means you will have to live until almost age 80 to break even after waiting until normal retirement age to begin benefits.

As in the other example, the break-even point is designed to be around normal life expectancy for the age group. (Remember, each year you live increases life expectancy. So, your life expectancy at age 66 is higher than at age 62.) Using the alternate breakeven method yields a similar result, finding that delaying benefits until 66 begins to accumulate higher lifetime benefits between ages 78 and 79.

Those are the basic rules, trade-offs and ways to calculate simple break-even strategies related to the timing of your Social Security retirement benefits, but there are some more details that might help you.

The monthly increase for delaying benefits isn’t uniform from month to month. As William Meyer of the website Social Security Solutions pointed out in an article in *The Wall Street Journal*, the monthly increase changes, and that can cause the break-even age to change a bit.

From age 62 to 63, benefits increase 0.42 percent of the benefit per month of delay. From 63 through 66, they increase at 0.56 percent. From 66 through 70, benefits increase 0.67 percent for each month of delay.

Because of this unevenness, there are optimum times and suboptimal times for singles to begin retirement benefits. Unfortunately, Social Security data indicate most people are making the wrong choices.

Many people take benefits either when they’re first eligible or at normal retirement age, and those are among the worst times. The worst times for singles to begin benefits, said Meyer, are between 62 years, one month and 63 years, 11 months and from 65 years, five months and 66 years, seven months.

He says the break-even age is 78 years when benefits begin from 62 to 63 but falls to 76 years at ages 63 to 64. The break-even point from then is on a roller coaster through age 70. (Keep in mind that the optimal and suboptimal ages will change as FRA changes.)

Because of this issue, you might want to compute the break-even point more precisely. That’s easier to do now thanks to some websites that charge modest fees. I have listed them in the resource section at the end of this report.

The simple break-even calculations also do not include other factors.

Your benefits increase with inflation each year. That should push the break-even point of waiting a little further into the future. But there’s a trick. As discussed earlier, when Social

Security computes your benefits, it uses your wage history and adjusts past wages for general wage inflation.

Since wage inflation usually is higher than Consumer Price Inflation, you could benefit more by delaying benefits than is demonstrated by the simple break-even analysis. The wage history adjustment also should override the CPI indexing of receiving the benefits early and reducing the break-even point.

Also, if you're considering postponing benefits, that probably means you don't need the money to pay expenses yet. You could begin benefits at an earlier age and invest the money (or let more of your investment accounts compound undisturbed). Investment returns could increase the advantage of early benefits, and that would push the break-even point of waiting farther into the future.

This is the effect of the time value of money. Receiving money now is more valuable than receiving the same amount later. But keep in mind that the investment returns aren't guaranteed. While your Social Security benefits are guaranteed to increase by 8% (tax free) each year, the money you have invested could earn a lower return or even lose money.

The simple break-even method doesn't take into account the difference in investment returns as well as potential changes in inflation and taxes. When you move beyond the simple break-even method, the calculations become potentially more accurate and also far more complicated.

They're also speculative, because they depend on assumptions about the future. Fortunately, the New York Life Insurance Company published a paper in 2015 that did the calculations. The paper concluded that net effect of incorporating the additional factors made delaying benefits even more attractive in most cases. So, there's probably no need to venture beyond the simple breakeven analysis.

Historically, most Americans begin receiving their Social Security benefits earlier rather than later, and many begin acquiring benefits as soon as they can. The percentage of recipients delaying benefits has increased in recent years, which is probably the result of more financial advisers and writers learning about Social Security and showing people how to maximize their benefits. Even so, a high percentage of people still take benefits early.

About 37.5 percent of men and 42.4 percent of women claimed their retirement benefits at age 62, according to the 2013 Social Security Administration's Annual Statistical Supplement. Yet, about 50 percent claimed benefits at 62 10 years earlier. About 31.5 percent of men and 25.2 percent of women now wait until their FRA to claim benefits. Far fewer than 10 percent wait until age 70, when benefits are maximized, and that number has held steady for decades.

Don’t Leave Money on the Table

As I’ve said, the key to remember about the way retirement benefits vary as you age is that anyone who lives to life expectancy receives the same lifetime payouts regardless of the age benefits begin. That makes the normal life expectancy the "break-even point." Live beyond that point and you will benefit by waiting to receive benefits.

Your lifetime benefits will exceed what you would receive by starting at age 62. So, if you are the roughly half of people born in the same year who live beyond average life expectancy, delaying benefits will pay off.

Of course, no one can be certain about living longer or shorter than average life expectancy. You have to decide which risk to take. One risk is that you delay your benefits but don’t live to the average life expectancy.

Then, you and your heirs end up being shortchanged. The other risk is that you live beyond the life expectancy. Then, as your other assets end up being spent and your cost of living rises with inflation, you realize that your Social Security retirement benefits would be higher if you’d waited a few years before applying for them.

There’s another important fact that makes delaying benefits attractive for more people. The formulas were set in 1983, the last time Social Security was reformed, and used the life expectancy tables that were available at the time.

Life expectancies have increased considerably since then. For example, about half of men that are currently age 65 will live past age 85, which was not the case in 1983. Since life expectancy now is longer than is reflected in the tables that are used by Social Security, more than half of people who begin benefits now are likely to live beyond the average life expectancy. That means more than half of new Social Security beneficiaries will come out ahead by delaying benefits.

Another factor is that the annual wage history adjustments also increase the initial benefit for those who delay benefits. If you wait until age 70 to begin benefits, you should receive a higher benefit than the one estimated when you were age 62, because your wage history will be adjusted for the wage inflation during all of those years.

There also can be tax benefits to delaying Social Security and using retirement accounts early to pay for expenses. Required minimum distributions (RMDs) from qualified retirement accounts such as IRAs begin after the age of 72, and the percentage of the account that must be distributed increases each year as you age.

By the time that someone reaches his or her late 70s, RMDs often are more than people need to pay their expenses. The excess RMDs increase annual income taxes, reduce the tax-deferred compounding of income and gains in the account and can diminish the amounts that are available for one's heirs to inherit.

If your RMDs will reach a point that they will exceed what you need to pay expenses, one way to deal with that is to delay Social Security retirement benefits and draw down qualified accounts early. This will allow taxable accounts and Social Security benefits to increase.

Another reason to delay benefits to at least full retirement age is that you might return to work between the age of 62 and FRA. Returning to work causes the benefits to be reduced when the earned income exceeds the amount allowed under the law. (We discuss the details later in this report.)

But at Full Retirement Age and after, Social Security benefits are not reduced regardless of the amount of earned income. Working also could trigger income taxes on the benefits that are received.

Despite the advantage of delaying Social Security benefits, this course of action is not for everyone.

Some people simply need the income before the benefits can be maximized. They have left their employment and are unable or unwilling to seek other work. They also do not have enough savings to delay benefits or are uncomfortable drawing down their nest eggs to that extent so early.

Another reason to not delay benefits is that health or other reasons can raise doubt a person will reach their normal life expectancy. If that is the case, the only reason to delay benefits is to increase benefits for a surviving spouse, which we discuss immediately below.

Introducing Spousal Benefits

So far, we have analyzed when a single person should begin to take Social Security benefits. Yet, Social Security retirement benefits also come with benefits for a spouse. There is a spousal benefit that is available when the primary beneficiary is alive.

There also is a survivor's benefit that is available after the primary beneficiary passes away. These benefits can be substantial, especially when the spouse doesn't have substantial earned benefits based on his or her own earnings history. The age the primary beneficiary begins retirement benefits affects the benefits available as spousal and survivor's benefits.

Also, when married couples consider their benefits in tandem, coordinating the benefits can increase the family's total lifetime benefits compared to what would be received if each spouse independently considered when to begin taking benefits. Substantial changes were made in the strategies for spouses in the Bipartisan Budget Act of 2015.

Since the law basically eliminated the ability to use several profitable strategies for married couples, this change makes it more important for spouses to carefully coordinate their choices.

The important rule is that a married person qualifies for Social Security benefits based on either his or her own earnings or the spouse's earnings.

A person who earned wages (or self-employment income) for at least 40 quarters (10 years) qualifies for his or her own Social Security benefits. A married person also is eligible for a retirement benefit that is 50 percent of his or her living spouse's benefit at FRA.

When a married person is eligible for benefits under both his or her own earnings history and the other spouse's earnings history, the person is paid the higher of the two benefits. Both benefits aren't paid, only the higher of the two is. Keep in mind that a spousal benefit can't be received until the other spouse actually files to begin receiving benefits.

If the higher-earning spouse hasn't filed to receive benefits, the lower-earning spouse can't begin receiving a spousal benefit yet.

A surviving spouse is entitled to receive 100 percent of his or her deceased spouse's retirement benefit that was being received at his or her time of death if it is higher than the survivor's own benefit. Again, the survivor will receive only one benefit. This means that when a married couple was receiving two Social Security retirement benefits and one of the two passes away, the survivor will receive only the higher of the two benefits. The other benefit is terminated.

Let's look at an example. Suppose Max and Rosie Profits each work until eligible for full retirement benefits. Max is entitled to a monthly benefit of $1,000 based on his earnings history, and Rosie is eligible for $300 based on her earnings history.

Because Rosie's earned benefit is less than 50 percent of Max's earned benefit, she'll receive the $500 spousal benefit based on Max's benefit. Together, they'll receive $1,500 in monthly benefits if they apply for benefits today at FRA.

Suppose Max dies before Rosie. Then, Rosie can change her benefit to the $1,000 per month she is entitled to as Max's widow--100 percent of Max's retirement benefit. She receives only the $1,000 and stops receiving the $500 spousal benefit she was receiving. So, her household income will decline to $1,000.

If Rosie dies first, Max continues to receive his $1,000 benefit, because it is higher than

100 percent of Rosie's earned benefit when compared to his survivor's benefit. (This example ignores the inflation adjustments that occur while they are receiving benefits.)

Because your spouse's retirement and survivor benefits depend on your benefits, they are something to keep in mind when choosing the starting date for your Social Security benefits.

For example, let's assume a married couple in which the husband earned more than his wife. The husband might decide, considering only his situation, that it makes sense for him to begin benefits at age 62.

The decision might change, however, if he considers the effect on his wife. As a woman, she is statistically likely to live longer than her husband. If she survives her husband, her survivor's benefit is going to be based on the husband's benefit, unless her earned benefit is higher.

Also, during her life she'll receive the higher of her own benefit and 50 percent of her husband's benefit at FRA. For the husband in some situations, delaying Social Security retirement benefits can be a cheap form of life insurance that maximizes his wife's income after he's gone.

More on Spouses and Benefits

Now, we will look in more detail at how spouses' earnings and decisions can affect each other's benefits and how they can coordinate the timing of their benefits to maximize their household income. There are options for each spouse that could greatly influence the lifetime Social Security earnings of both spouses and of the family. You'll learn that it is beneficial for spouses to coordinate when each begins benefits instead of separately considering their decisions.

Note an important difference between the benefits of a spouse and a surviving spouse. While the higher-earning spouse is alive, the lower-earning spouse's retirement benefit is half of the higher-earning spouse's FRA benefit, regardless of the age he or she begins to take his or her benefits.

But after the higher-earning spouse passes away, the lower-earning spouse's survivor benefit is the retirement benefit the higher-earning spouse was actually receiving, if he or she was already receiving benefits. (The survivor's benefit is the FRA benefit if the deceased spouse wasn't already receiving benefits.)

The amount of that benefit will depend on the age when the higher-earning spouse chose to begin benefits. If the higher-earning spouse began receiving benefits before FRA, the surviving spouse will receive less than the full retirement benefit as a survivor benefit.

There is an additional step in the computation of a spouse's benefit. The benefit that is received is based on a combination of the other spouse's benefit at FRA and the age at which the lower-earning spouse actually begins receiving benefits.

There’s a reduction in benefits for starting before FRA whether a person’s benefit is based on his or her earnings record or the spouse’s. If a spousal benefit is begun before the recipient’s own FRA, the benefit will be reduced on the same sliding scale as earned benefits. If age 62 is selected to begin a spousal benefit, the benefit received will be about 35 percent less than what he or she would receive at FRA.

Summarizing Spousal Strategies

We will build on the rules that have already been discussed to develop strategies that might further boost the guaranteed retirement income of your spouse and yourself.

For a spouse to receive a spousal retirement benefit, the other spouse must first be receiving retirement benefits. Let’s assume the wife is the lower-earning spouse, and the husband is the higher-earning spouse. If the wife is ready to retire and wants to receive benefits before her husband is ready to, the wife’s benefits will not be based on the husband’s earned benefits; she can only receive her earned benefits.

The wife can begin receiving benefits based on her own earnings record when the husband is not yet receiving benefits. After the husband begins receiving benefits, the wife can change to receive spousal benefits based on the husband’s earnings record. If the wife began receiving benefits before her FRA, the benefits received both times will be reduced by the formula that’s used to reduce all benefits received before FRA. Let’s look at some examples.

Rosie Profits has reached her FRA and wants to begin receiving benefits. Her husband, Max, hasn’t reached his FRA and wants to delay benefits at least until his FRA. Rosie is entitled to $500 monthly at FRA based on her own earnings. When Max reaches FRA, he will be entitled to $1,800 monthly, and he plans to begin benefits then. Rosie can begin receiving $500 now. When Max begins benefits at his FRA, Rosie will receive an additional $400 to bring her total to $900 monthly--half of Max’s benefits. (The example also doesn’t consider inflation adjustments.)

Let’s assume the same circumstances play out except Rosie begins receiving her benefits before her FRA. She will receive a reduced benefit based on her earnings history and the age she begins benefits.

Let’s say her reduced benefit is $400 monthly. When Max retires at FRA, Rosie still will be able to switch to a spousal benefit and receive the additional $400. That will bring her monthly benefit to only $800. By beginning benefits before

FRA, she permanently reduced her monthly benefit, even after Max retired at FRA and she began the spousal benefit.

Now suppose Max begins benefits before reaching his FRA, and Rosie already began receiving $400 monthly before her FRA. Rosie can begin receiving the spousal benefit when Max begins receiving his benefits, but Rosie's benefit will be reduced again.

It's reduced once because Rosie began receiving benefits before her FRA, and it's reduced again because Max is taking his benefits before his FRA and is receiving less than his full benefit. She should receive less than the $800 monthly in the previous example. The exact reduction will depend on when each of them began receiving benefits.

As you can see, the rules and scenarios can get complicated but the Social Security website calculators can help explore the results under different scenarios. There are other tools available to help make the decision, and they are listed at the end of this report. Also, I discuss some general strategies that can help married couples review their options later in this report.

Advanced Strategies for Spouses Curtailed by 2015 Law

Until the Bipartisan Budget Act of 2015, Social Security benefit rules has allowed some interesting planning strategies for married couples because Congress snuck a major change to Social Security benefit claiming strategies into the new law. The change will cost retirees who could have planned carefully tens of thousands of dollars over their lifetimes.

First, the law eliminated or curtailed two claiming strategies that were becoming popular. Apparently, some people in the administration and Congress had been opposed to these strategies and aimed to eliminate them.

Instead of the usual process of proposing laws and having them discussed in committees, the provisions were inserted into the budget deal that was negotiated between the president and congressional leaders. The strategies were created in a law that was passed in 2000, and opponents of the strategies believe they were unintended loopholes or effects of the 2000 changes.

The two strategies are known generally as *restricted application* (or *claim now, claim more later*), and *file and suspend*. Here's a summary of the strategies:

Restricted filing. A married person generally receives the retirement benefits of the higher of his or her own earned benefit and 50 percent of the amount his or her spouse would receive at FRA.

But a special rule allowed anyone at normal retirement age or older to file an initial claim for spousal benefits only. This allowed the person to receive some Social Security benefits while either continuing to work or simply allowing his or her own Social Security benefits to increase 8 percent annually up to age 70.

A person was allowed at any time after FRA to switch from spousal benefits to earned benefits. However, one spouse had to have already filed for earned retirement benefits in order for the other to file a restricted application for spousal benefits only.

File and suspend. Spousal benefits can be received only if the other spouse has filed to claim retirement benefits. The file and suspend strategy allowed the lower-earning spouse to receive the spousal benefit while the higher-earning spouse continued to defer receiving benefits and also accrued the 8 percent annual increase from delaying benefits.

The higher earning spouse would file for retirement benefits at FRA or later and then immediately suspend the benefits. Filing for benefits allowed the other spouse to file for the higher of his or her earned benefits and the 50 percent spousal benefit.

While suspending the filing didn't affect that, the suspension reinstated the monthly increase from deferring benefits until the higher-income spouse decided to begin benefit payments. While these strategies were largely eliminated in the 2015 law, but since the changes were phased in, some people still had the opportunity to take advantage. Here are the changes:

Restricted filing. The ability to file a restricted application for spousal benefits at FRA or later has been eliminated for those who turn 62 after 2015 (those born in 1954 or later). Everyone in that age group will be treated as applying for the higher of his or her earned benefits and the spousal benefit whenever they apply for benefits.
File and suspend. This strategy was allowed for six months following the enactment of the law. So, if the higher earning spouse was age 66 or older within the six-month period, the strategy still was available to the couple. The Social Security Administration set the filing deadline as April 29, 2016.

After the six-month grace period, someone who has filed for retirement benefits still can suspend them any time after reaching FRA. The catch is that benefits also stop for almost anyone else who is receiving benefits based on that person's earnings. That includes spouses, minors and disabled children who are receiving benefits based on the person's earning history. It apparently does not include divorced spouses.

So, a higher-earning spouse isn't able to file and suspend in order to allow the lower earning spouse to receive the higher spousal benefit. Keep in mind that while a spouse is entitled to the higher of his or her earned benefits and 50 percent of the other spouse's FRA benefit, the spousal benefit is payable only after the higher-earning spouse has filed to receive benefits.

Now, the higher-earning spouse has to make a choice: file to receive benefits earlier than planned for the other spouse to receive the higher spousal benefit, or wait to begin benefits so that the benefit payment will be higher.

A reason the file and suspend strategy made sense was the survivor’s benefit. When one spouse died, the surviving spouse would receive the higher of his or her earned benefit and what the other spouse was receiving at the time of death (or was entitled to at FRA if benefits hadn’t already begun).

It made sense for the higher-earning spouse to wait until age 70 to receive benefits if possible, because it ensured that the surviving spouse of the two would receive the highest possible benefit for life. As I’ve said, having the higher earning spouse delay benefits is a cheap form of life insurance.

The survivor’s benefit rule still is in place, and it still makes sense in many cases for the higher-earning spouse to delay benefits until age 70 to ensure the maximum lifetime benefit for each spouse. The lower-earning spouse will have to be content with his or her earned benefits during that time instead of a higher spousal benefit.

Another strategy that hasn’t been affected is that benefits still can be suspended for those who have other reasons to suspend benefits after FRA. Suppose Max Profits is younger than 70 and files to begin receiving retirement benefits. Perhaps he was laid off or intends to retire.

After some time, Max goes back in the workplace and earns enough that he doesn’t need the Social Security benefits. He then decides it makes more sense to suspend the benefits so that they can earn some delayed retirement credits. When Max eventually resumes the benefits, they will be higher than when they were suspended because of the delayed retirement credits.

In that case, he can suspend benefits any time after reaching FRA. But he can’t suspend benefits until he is at least FRA. So, if he begins benefits as soon as possible at age 62, they can’t be suspended until FRA.

The new law doesn’t affect the benefits of divorced spouses. They still can qualify to claim benefits on an ex-spouse’s earnings record without regard to whether the other spouse has filed to receive benefits or suspended benefits. (Benefits for divorced spouses are discussed later in this report.)

Here’s another strategy that has been affected. Suppose Max either didn’t start benefits at FRA or he began benefits and then suspended them. He decides he not only needs to begin (or resume) the benefits but he also needs additional cash. Previously, he effectively could have resumed his benefits retroactively, receiving a lump sum for up to six months of past benefits in addition to having his benefit checks resume. Under the new law, the lump sum for benefits that had been foregone is no longer available.

Finding the Optimal Spousal Strategy

Married couples need to take the time to analyze their Social Security strategies. Though married couples don't have as many options as they had before the 2015 law, there still are options and decisions to be made about when to receive benefits and how to coordinate them between spouses.

Here are some examples of how couples might decide to coordinate their benefits.

Consider the case of a married couple in which each spouse has a work history that qualifies for Social Security benefits. Let's say the lower earning spouse's benefits are more than half of those of the higher earner's benefits. That means each spouse is going to receive benefits based on his or her work history.

In this case, it likely is going to make sense for the higher earning spouse to delay receiving benefits until age 70. This ensures he or she receives the maximum possible benefit, and that whoever is the surviving spouse will continue to receive the highest possible benefit of the two. The probability is pretty high, around 60 percent, that at least one of the spouses will live long enough to justify delaying the higher earning spouse's benefits to age 70.

What about the lower-earning spouse? It makes a lot of sense for that spouse to begin receiving benefits earlier, perhaps as early as when first eligible at age 62. That's because after one spouse dies, the lower-earning spouse's benefit will stop, regardless of which spouse passes first.

Also, there's a less than 50 percent probability that both spouses will live past the break-even point for delaying the lower-earning spouse's benefits to at least FRA. So, unless there is a family or personal history that will raise the expectations of both spouses living past their early 80s, it should make sense for the lower-earning spouse to claim earlier than age 70.

The decision becomes more difficult when the lower-earning spouse's benefit is less than half of the higher-earning spouse's benefit. In this case it probably makes the most sense for both spouses to claim benefits when the younger spouse reaches FRA, or no later than when the higher-earning spouse reaches FRA if that occurs afterwards.

The rationale is that the lower-earning spouse's earned benefit is going to be much lower than the spousal benefit, so the lower-earning spouse will receive the spousal benefit. Claiming any benefit before FRA wouldn't be beneficial because, in addition to being eligible for only a low benefit, the lower-earning spouse's benefit will be reduced by claiming it early. The lower-earning spouse should wait until they reach FRA so that the benefit won't be reduced.

Also, spousal benefits don’t increase after FRA. There is no benefit to waiting any longer to receive a spousal benefit.

A spousal benefit can be received only when the other spouse is already receiving benefits. That means the lower-earning spouse can’t receive the spousal benefit until the higher earning spouse is receiving benefits.

The couple has a choice of receiving no benefits at all until the higher-earning spouse is age 70 and has either maximized his or her benefits or began both benefits at FRA. It probably makes sense for both to begin taking their benefits as soon as the second spouse reaches FRA. It is unlikely that the higher benefits that will come from waiting for the higher-earning spouse to maximize benefits at the age of 70 will be great enough to justify delaying receiving both the higher-earning spouse’s regular benefit and the lower-earning spouse’s spousal benefit.

Various calculators available on the internet can help make these decisions. Be sure a calculator indicates it was updated for the 2015 law before using it. Good calculators that charge fees are at www.MaximizeMySocialSecurity.com and www.SocialSecuritySolutions.com. There also are good free calculators at the websites for T. Rowe Price and AARP.

Benefits for the Divorced and Widowed

Divorced and widowed spouses might be able to collect benefits based on the earnings history of a former spouse.

A divorced ex-spouse who has not remarried might collect benefits based on the former spouse's earnings record. When you have not remarried, you can receive benefits based on your ex-spouse's earnings record if you were married at least 10 years and have been divorced for at least two years. You cannot begin receiving benefits until your former spouse is at least 62 and either collecting benefits or eligible to collect benefits and you also are at least 62.

Also, if you remarried after age 60 and your former spouse has died, you can receive a widow's benefit based on the former spouse's earnings record despite having remarried.

When you qualify for a benefit based on an ex-spouse’s earnings record, your benefit is the same as a current spouse's benefit: half of the ex-spouse's benefit at full retirement age if you wait until full retirement age to begin receiving benefits. If you begin taking the benefits before your full retirement age, the benefit is reduced.

When an ex-spouse is deceased and you have not remarried, you are eligible to receive the higher survivor's benefit at age 60 or later.

Benefits based on an ex-spouse's earnings record do not depend on whether that spouse has remarried. That means three or more people could receive benefits based on one person's earnings record: the person with the earnings record, his or her current spouse and a former spouse.

Also, benefits for a divorced spouse don't depend on whether or not the other former spouse has filed to begin benefits. You don't have to coordinate benefits or even inform the other ex-spouse that you're applying for benefits based on his or her earnings record.

Widows and widowers might qualify for survivor's benefits. We already discussed the basic rule for a couple that was married at the time of one spouse's death. The surviving spouse receives the higher of his or her own earned benefit and the benefit the deceased spouse was receiving at the time of death.

Also, as has been already mentioned, when you haven't remarried and your ex-spouse passes away, you are eligible to receive the survivor's benefit if that is higher than your earned benefit.

If you have been divorced and remarry before age 60, then you won't qualify for survivor's benefits based on the work history of a deceased ex-spouse. But if you remarried after age 60, you still can receive survivor's benefits that are based on the earnings history of a deceased ex-spouse.

Survivor's benefits can begin as early as age 60 (or age 50 if the survivor is disabled), but the benefits will be reduced for taking them before FRA and will be about 71 percent of full benefits by taking them at 60. Full benefits can be received if the survivor waits until his or her FRA to begin the benefits.

Claiming Benefits

The benefit calculations are supposed to be automatic. The Social Security Administration is supposed to compute the different benefits for which you are eligible and pay the higher of the amounts.

That, of course, assumes the records are accurate. Not only can the records not always be accurate, you might not have entered all the necessary information in the application.

That is why you should be aware of the rules and be prepared to question the amount of benefit checks that you receive. You also should, before claiming benefits, either contact

Social Security or open a My Social Security account on the Social Security web site to check your earnings history and estimated benefits.

Can You Change Your Mind?

For the most part, claiming Social Security retirement benefits is a one-time, irrevocable decision. That's why it is important to carefully analyze your options and make the optimum choice.

Yet, there are a couple of times when a decision can be changed.

One strategy is the complete do-over or fresh start. A complete do-over is possible if you make the decision within the first 12 months of beginning benefits. You file Form 521 with Social Security and repay all benefits received to date. (Interest is not charged on the repayment.) Social Security calls this *withdrawal of benefits*.

After withdrawal, you are treated as though you never filed a claim to begin benefits. Then, you can wait until FRA, age 70, or whatever starting point you want. You'll receive the higher benefit as though it were your first claim.

Before making a decision, it is important to know that the decision to withdraw benefits could affect others who were drawing benefits on your earnings record, such as a spouse or dependent. They might be required to repay their benefits or will stop receiving benefits when yours do.

The second strategy for making a change is not as generous but is available to more people. You simply notify Social Security that you want your benefits suspended. The benefits will stop after about a one-month lag.

Two things happen when you suspend benefits. First, you stop receiving monthly benefit checks while the suspension is in effect. Second, you begin earning delayed retirement credits that increase your future benefits by about 8 percent annually.

Retirement benefits can be suspended only at FRA or later. If you began receiving benefits before FRA, you can't suspend them until age 66 or whatever your FRA is. After reaching FRA, you can suspend benefits at any time.

Suppose you began receiving retirement benefits at age 62, and then at FRA (age 66) suspend them until age 70. Your benefits will increase about 32 percent during the delay. However, you'll never reach the benefit you would have received had you initially waited to receive benefits at the age of 70, because you received benefits from 62 to 66. However, you'll receive monthly benefit credits from age 66 to 70.

There are a couple of additional points that need to be made. You can only suspend your own earned retirement benefits, not spousal benefits. So, if you are receiving spousal benefits early, suspending them isn't an option. (You still can switch from a spousal benefit to your own earned benefit.)

Also, Medicare premiums generally are deducted from Social Security benefits. If you're enrolled in Medicare and suspend Social Security benefits, you'll have to begin making separate payments of the monthly Medicare premiums.

Suppose you made the opposite mistake: You delayed or suspended retirement benefits and then decided to change your hind. You can end the suspension of benefits or apply for benefits at any time. Before the Bipartisan Budget Act of 2015, you also could apply for a retroactive lump sum payment of some suspended benefits. The lump-sum benefit payments are no longer allowed.

The Social Security-Medicare Connection

When you're enrolled in Medicare Part B and also receiving Social Security retirement benefits, the Medicare premiums are automatically deducted from the Social Security benefits unless you specifically elect to pay the Medicare premiums separately.

Social Security benefits also receive an annual cost-of-living adjustment. The COLA is based on the Consumer Price Index for urban wage earners for the 12 months ending in the third quarter of each year.

There's also a "stop-loss" provision in the law. The law provides that people who have Part B premiums deducted from Social Security benefits will not receive a reduced net Social Security benefit because of higher Medicare premiums. That means if the premiums rise more in dollar terms than the COLA boosts your benefits, you won't be charged the full premium increase.

Usually, this doesn't matter, but there have been three times when Part B premiums increased more than the Social Security COLA, preventing the full Part B premiums from being charged to many Social Security recipients: 2010, 2011 and 2016. In these cases, other Medicare beneficiaries would pay the increase in premiums and would actually pay more than they otherwise would have.

The law requires that Medicare premiums cover 25 percent of the estimated cost of the program for the year. When the bulk of Medicare beneficiaries have their premiums paid through Social Security and don't pay their full share of the premium increase, the other beneficiaries make up the difference.

Estimates are that about 30 percent of Medicare beneficiaries don't have their premiums paid through Social Security. When the other 70 percent of Medicare beneficiaries don't pay higher premiums, the entire cost increase for the program that year falls on the 30 percent who don't have their premiums deducted from Social Security.

Three groups are likely to bear these higher costs. One group is those who are enrolling in Part B for the first time that year as they aren't protected by the stop-loss rule.

Another group is composed of those higher income individuals who are subject to the Medicare premium surtax. The third group is composed of those who are enrolled in Medicare Part B because they are 65 or older but haven't yet begun Social Security benefits.

There's a small fourth group who are enrolled in Part B and receiving Social Security benefits but have chosen to pay their premiums separately instead of having them deducted from Social Security benefits.

I bring this up to let you know that if you delay Social Security benefits past age 65 and are enrolled in Medicare Part B, you won't be protected from substantial Part B premium increases the way you would be if the premiums were deducted from your Social Security benefits.

Receiving Retirement Benefits While Working

Your monthly benefits might be reduced if you begin Social Security retirement benefits between ages 62 and your FRA and also receive an earned income. You aren't supposed to continue earning income from working or being self-employed while receiving benefits during that period. While modest amount of earned income is allowed, but the benefits will be reduced if you earn too much money. The limit on earned income depends on your age. As the limits change each year based on inflation, you can find the latest limits on the Social Security website.

From age 62, until the year you reach FRA, your benefits will be reduced $1 for every $2 you earn over the limit. For 2022, the limit is $19,560.

Suppose Rosie Profits is 62 and commenced her Social Security retirement benefits. Based on her earnings record and the reduction for taking benefits early, she had expected to receive $7,200 for the year.

But Rosie continued working and expects to earn $35,000. Since she is well over the $19,560 earned income limit, she won't receive any benefits for the year. If she were to earn only $20,000, she would lose $220 of benefits.

That number is determined by subtracting the earned income limit from her earnings of $20,000. She earned $440 too much. She will lose $1 for every $2 of excess earnings, so divide $440 by two. That brings the lost benefits to $220.

Because of the mechanics of the way the limit will be imposed, Rosie won't receive any benefits in January. Since the full monthly benefits will be withheld, not partial benefits, too much will be withheld. She'll receive full monthly benefits from February through

December. Then, in January of the following year, she'll be paid the excess that was withheld the previous January.

In the year FRA is reached, retirement benefits are reduced $1 for every $3 earned over the limit. The earned income limit for the year of FRA was $51,960 in 2022. This also is indexed for inflation, and the current number can be found on the Social Security website. The limit is applied for each month until you reach FRA.

The month you reach FRA, the full benefits are paid regardless of how much earned income you earn. The mechanics of computing and withholding the payments are the same as for the years before reaching FRA.

Earned income is any payment of money, property, or services from a job or self employment. Most sources of income from providing services or selling goods or services count. Things that are not included include sources of investment and passive income such as interest, dividends, capital gains, pensions and IRA distributions. The Social Security website has the details of the types of income that do and don't count toward the earnings limit.

When income is from self-employment, only net self-employment income counts against you. Net self-employment income is gross income minus business-related expenses. For the self-employed, the SSA also looks at the amount of time devoted to self-employment. Someone who works fewer than 15 hours a month on self-employment is considered retired and faces no penalty for excess earnings. Someone who works between 15 and 45 hours a month isn't considered retired if the job requires a lot of skill or the person is managing a sizable business.

Only income that is earned after the date your benefits begin counts toward the earnings limit. When you begin Social Security retirement benefits during the year, all earned income before the benefits starting date is not counted toward the limit. For those years, the earnings limit is prorated and computed on a monthly basis.

You have to tell the SSA before the start of each year the amount of earned income you anticipate receiving in the following year. The SSA then will compute any penalty and withhold the appropriate amount from your benefits. You are required to tell the SSA if your earned income for the year changes in either direction during the year.

The penalty isn't a complete loss. Once you reach FRA, your benefits will be recomputed. You'll be given credit for both the lost benefits in months when the entire benefit was withheld and also for the earnings you were paid during that period.

As a result, continuing to work while receiving benefits might increase benefits over the long term. That's because only your highest 35 years of earnings are used to compute benefits. The years you earn income while receiving benefits could knock out some low-earning years and boost your overall benefit once you reach FRA.

This is because the SSA reviews your earnings history each year even after you begin receiving retirement benefits. An earnings year that exceeds one of the previous high 35 years should result in a higher benefit the following year and could result in a lump-sum retroactive benefit increase for the previous year.

Seeking Help from Social Security

The Social Security Administration (SSA) tries to help in many ways. It has a robust website with a lot of detailed information, calculators and the My Social Security account feature. It has a toll-free telephone number, 800-772-1213 that you can call and ask about any question related to Social Security. The SSA also has offices around the country. I find the web site to be very helpful, complete and accurate.

Based on feedback from individuals who tried to use the SSA's other sources and from advisors who contacted the SSA directly or had clients who did, I do have to issue a warning.

The feedback I've received is that the level of knowledge and expertise of the SSA employees on the telephone and in the offices is uneven. This is especially true for questions and issues that are not among the ones that are asked the most frequently. I've heard of people asking the same question of multiple SSA employees at different times and receiving a different answer each time.

The problems were especially bad in late 2015 and early 2016 after Congress eliminated the two sophisticated claiming strategies for married couples that I discussed earlier.

As a result, I have to urge readers to expect to do research on their own or work with a financial adviser who is well-versed in Social Security strategies. If you're planning a strategy that's not standard, be prepared for some resistance when you submit your documents and be ready to demonstrate why your strategy is allowed.

Resources

Fortunately, there are a number of sources available to help you understand the Social Security rules and plan the best retirement benefit strategy for you.

There is the Social Security helpline, 800-772-1213, which was discussed above, and the SSA offices around the country.

The Social Security website is very helpful. In addition to researching the issues in detail, you can create a personal account. The account also lets you view your earnings history and use an online calculator that estimates the benefits for you and your spouse under different scenarios using your real earnings histories.

Some useful publications are also available from the Center for Retirement Research at Boston College on its website at http://crr.bc.edu.

The most important tools, especially for married couples, are probably the calculators that estimate the benefits under different claiming strategies. Of course, there's the calculator on the Social Security website. Traditionally, there also are good free calculators at the websites for T. Rowe Price and AARP. Good calculators that charge fees are at www.MaximizeMySocialSecurity.com and www.SocialSecuritySolutions.com.

Biography

Bob Carlson is editor of the monthly newsletter *Retirement Watch*, the monthly video series *Retirement Watch Spotlight*, and a weekly free e letter, ***Retirement Watch Weekly*.** In these, he provides independent, objective research covering all the financial issues of retirement and retirement planning. Carlson also is Chairman of the Board of Trustees of the Fairfax County Employees' Retirement System, which has almost $5.0 billion in assets, and has served on the board since 1992. He was a member of the Board of Trustees of the Virginia Retirement System, which oversaw $42 billion in assets, from 2001-2005.

His latest book is *Where's My Money: Secrets to Getting the Most out of Your Social Security* (Regnery 2021). He's also written *The New Rules of Retirement* – Revised Edition (Wiley 2016) and *Invest Like a Fox…Not Like a Hedgehog*, published by John Wiley & Co. in 2007. To be published in 2023 is *Retirement Watch: The Essential Guide to Retiring in the 2020* (Regnery 2023).

He has written numerous other books and reports, including *Tax Wise Money Strategies, Retirement Tax Guide, How to Slash Your Mutual Fund Taxes, Bob Carlson's Estate Planning Files,* and *199 Loopholes That Survived Tax Reform*. He also has been interviewed by or quoted in numerous publications, including *The Wall Street Journal, Reader's Digest, Barron's, AARP Bulletin, Money, Worth, Kiplinger's Personal Finance*, the *Washington Post*, and many others. He has appeared on national television and on a number of radio programs. He is past editor of *Tax Wise Money.*

The Washington Post calls Bob's advice, "smart… savvy… sensible… valuable and imaginative." He's been widely quoted in *The Wall Street Journal, CNN, CBS MarketWatch.com. SmartMoney.com, Reader's Digest, Barron's, AARP Bulletin, Money, Worth* ... just to name a few. You can also hear Bob as a featured guest on nationally syndicated radio shows, such as *The Retirement Hour, Dateline Washington, Family News in Focus, The Michael Reagan Show, Money Matters* and *The Stock Doctor*.

Carlson is an attorney. He received his J.D. and an M.S. (Accounting) from the University of Virginia and received his B.S. (Financial Management) from Clemson University and passed the CPA Exam. He also is an instrument rated private pilot. He is listed in a number of editions of *Who's Who in America* and *Who's Who in the World*.

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