Kiplinger's RETIREMENT REPORT
Your Guide to a Richer Retirement

SPECIAL REPORT

Boost Your Social Security Benefits

These little-known strategies will help you add thousands of dollars to your annual income.

THERE IS NO PERFECT TIME TO APPLY FOR Social Security. You can claim early and take a smaller monthly payment for a longer period of time. Or you can claim later, collecting a larger benefit that is based on a shorter life expectancy. Your decision depends on many things beyond your need for the money: whether you're married, your spouse's earnings compared with yours, how much you have saved and your health.

Your goal is to maximize your Social Security benefits, but not all beneficiaries understand how to make the most of this guaranteed source of inflation-adjusted income.

Before we review the strategies, you need to know some Social Security basics. If you were born between 1943 and 1954, you can claim your full benefit, called the primary insurance amount, at age 66. The earliest you can claim Social Security is 62. But your benefit will be permanently reduced by a certain percentage for each month you claim before your 66th birthday. For instance, if you claim at age 63, you'll get 80% of your full benefit. If you claim at 64 and 6 months, you'll receive 90%. For each year you delay claiming benefits between 66 and 70, your benefit will increase by 8%. Hold off all four years, and you earn a 32% bonus, plus all accumulated cost-of-living adjustments.

A lower-earning spouse can claim a benefit based on his or her work record at age 62. Or the spouse can claim a "spousal" benefit, as

CHRIS SHARP

long as the higher-earning spouse has started collecting benefits. If the lower earner is at full retirement age, he or she can collect a benefit that's 50% of the higher earner's primary insurance amount.

However, if the lower earner collects a spousal benefit before reaching full retirement age, the benefit will be reduced by a set percentage. For instance, if the spouse claims at 64 and 3 months, the spousal benefit will be 42.7% of the higher earner's benefit. And if the lower-earning spouse collects his or own benefit early and then "steps up" to the spousal benefit later, that spousal benefit will also be reduced.

Now let's turn to the strategies. We'll refer to the higher earner as he and the lower earner as she, only to help cut some of the confusion in explaining the strategies. The rules remain the same if the higher earner of a couple is female.

■ **First, if you're single.** It usually makes sense to wait until full retirement age to start claiming benefits, unless you expect to die early or need the money sooner. This is especially true for women, who are more likely to reach the "break-even age," when the total value of full benefits equals what you would have received by claiming reduced benefits earlier.

Unless you have significant savings, it generally pays for singles to claim at 66, says Henry Hebeler, creator of the Web site AnalyzeNow.com. Many singles will not have enough savings to support a delay until age 70, Hebeler says. But a single person who collects at 62 is more likely to run out of money at an earlier age than someone with the same amount of savings who waits until 66, he says. "It usually works out that a single person should take benefits at full retirement age," he says.

You can use a free program on Hebeler's site to make your own calculations. Plug in your savings, tax bracket, annual spending and assumptions on investment growth. You can see how long your money will last based on when you start taking your benefits.

■ **Married higher earners should delay.** Married couples can maximize total benefits by coordinating their start dates. The top goal is to increase the benefit for the surviving spouse, who gets 100% of the higher-earning spouse's benefit when he dies. If the higher-earning spouse delays until 70, his survivor will get an extra 32% plus cost-of-living adjustments.

There are two ways that the surviving spouse would get less than 100% of her spouse's primary insurance amount. If he collects Social Security before age 66, his benefit—and his wife's survivor benefit—will be lower. Also, the survivor benefit will be reduced if the husband dies and the wife collects the survivor benefit before turning 66. If she waits until her full retirement age, she'll get 100% of the survivor benefit. The size of her survivor benefit, however, will not be affected if she collects her own benefit or a spousal benefit early.

For many couples, a husband should claim at 70 while the lower-earning wife should start collecting at 62, according to a study by Boston College's Center for Retirement Research. Because the husband is likely to die earlier, the study says, he will increase the value of the survivor benefit by delaying. As for the wife, even though her benefit will be reduced about 25%, the authors figured that her reduced benefit is only temporary. After her husband dies, she will step up to the higher survivor benefit. In the meantime, the household is bringing in extra income.

■ **Claim a spousal benefit.** Let's say you're 66 and you want to delay until 70. You may still be able to collect some cash now—in the form of a spousal benefit. If your lower-earning spouse is at least 62, she could claim her own benefit. You can then apply for a spousal benefit only. At 70, you switch to your own higher benefit. This strategy offers you and your spouse several advantages: Your wife's survivor benefit will be higher if you die first, and you'll be bringing extra income into the household until you reach 70. At that point, your wife can switch to a spousal benefit based on what you would have received at 66.

If the wife's benefit at full retirement age is $1,000 a month, for example, the husband would be eligible for a spousal benefit of $500. If his own benefit was $2,000 a month at 66, waiting until 70 would push his benefit (and the survivor benefit for his wife) to $2,640, plus inflation adjustments.

Note that this opportunity is being phased out. Only those born on or before January 1, 1954, can use this strategy, and you must be at least 66 to do so.

■ **Take a do-over.** Say you claimed your benefit, but now wish you had waited until 70 to take it. There are two ways to take a mulligan. Within the first 12 months you claim benefits, you can "withdraw the application." You will need to pay back all the benefits you received, including any spousal benefits based on your record. But you can later restart your benefit at a higher amount.

Early claimers can also choose to suspend their benefit at full retirement age. Say you took your benefit at age 62. Once you turn 66, you can suspend your benefit. You don't have to pay back what you've received, and your benefit will earn delayed retirement credits of 8% a year. Wait to restart your benefit at age 70, and your monthly payment will get a 32% boost—which could erase much of the reduction from claiming early.

■ **Claim a survivor benefit.** Widows and widowers can claim a survivor benefit. If you are full retirement age when you collect, the survivor benefit will be 100% of the deceased spouse's benefit. The benefit will be reduced if you claim it earlier. You can start receiving a survivor benefit as young as age 60, or age 50 if you are disabled. If you are already receiving a benefit based on your own earnings record, you will continue to receive your benefit plus a check for the difference between your benefit and the survivor benefit.

But widows and widowers who qualify for their own retirement benefit, but haven't yet claimed, may want to consider whether they should claim their own retirement benefit or a survivor benefit first.

A widower could choose to claim a reduced survivor benefit as early as age 60. Meanwhile, his own benefit could grow, earning delayed retirement credits of 8% a year from full retirement age until age 70. At age 70, he could then switch to his own boosted benefit.

Or, a widow might want to take her own reduced benefit at age 62 and then switch to a survivor benefit at her full retirement age. The survivor benefit will not get any larger if the survivor claims it after her full retirement age.

■ Benefits for the divorced. If you are divorced and were the lower earner, you're probably entitled to Social Security benefits on your former spouse's earnings record. And it won't cost your ex a penny.

To be eligible for a benefit on an ex-spouse's record, you must have been married for at least ten years and be at least 62. If you remarry, you will lose the benefits of your former spouse, unless that second marriage ends in divorce or death.

If that happens, you may be able to select the best benefits among your former spouses. "If you were married two or three times, you can choose the spouse that has the highest benefit," says Sara Stolberg, a Lincolnshire, Ill., certified financial planner who specializes in divorce planning.

For the most part, the Social Security rules for divorced couples are the same as those for married couples. For instance, if you collect a spousal benefit when you are at full retirement age, it's generally 50% of your ex-spouse's benefit. The benefit will be reduced by a certain percentage for each month you collect before you reach full retirement age.

One difference: Even if your ex-spouse has not applied for benefits (or has suspended his benefits), you may be allowed to collect spousal benefits. To qualify, your former spouse must be eligible for benefits, which means he or she must be at least 62, and you must have been divorced for at least two years. Because divorced women tend to be the lower earners, they usually have the most to gain from these rules.

If your ex-spouse dies, you could get a survivor benefit if your marriage lasted ten years or more. And if you were collecting a spousal benefit on your ex-spouse's record, you can switch to a survivor benefit if the ex dies. If you remarry after age 60, you can still receive the survivor benefit.

Timing can be crucial. Barbara Shapiro, president of HMS Financial Group, in Dedham, Mass., had a client who was getting divorced just short of her tenth anniversary. She spoke with the lawyer of her client's husband and they pushed back the date of the final divorce decree.

You will need to provide a certified copy of your divorce decree to claim benefits. To expedite your application, you should have your ex-spouse's Social Security number, too. Social Security will not notify your ex. Your claim will not affect your ex's benefits at all nor the benefits of a new spouse of your ex. K