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JOURNAL REPORTS

## What You Don't Know About Social Security—but Should

*A Look at Claiming Strategies, Tax Angles and More to Help You Make Sense of a Complicated Program*

By GLENN RUFFENACH

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Guy Billout

Imagine that you're about to accept a new job, and it's time to talk salary. You sit down with your boss, who begins as follows:

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"Actually, our payroll system is impossibly complicated. You can pick from dozens of different ways to be paid and hundreds of different start dates, and each will produce a different salary. We offer some guidance, but we're short-handed. As such, deciding when and how to collect a paycheck is essentially up to you.

"So...what would you like to do?"

Welcome to Social Security.

Each day, thousands of Americans apply for the first time for Social Security benefits. And each day—if questions from our readers and the stories we hear from financial advisers are any

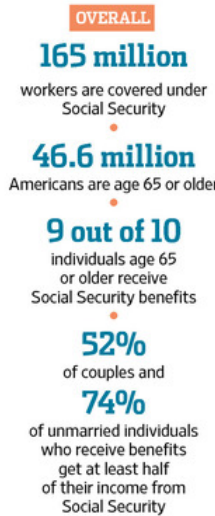
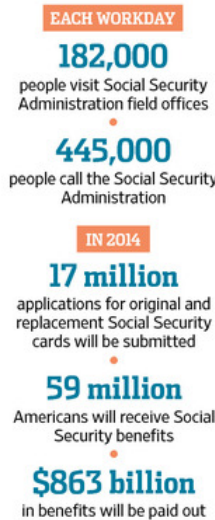
indication—many applicants have no idea what they're getting into. They know little or nothing about the program's complexity, the myriad ways to collect benefits and the Social Security Administration's staffing and service problems.

As such, they're putting their retirement—and, in many cases, their spouses' future—at risk.

"People spend more time planning a vacation than they do planning for 20 or 30 years of Social Security benefits," says Barry Kaplan, chief investment officer for Cambridge Wealth Counsel in Atlanta. Those benefits, he notes, are insurance against market downturns, hyperinflation and living longer than you anticipate. But would-be beneficiaries, he says, typically "go into this without a clue."

**On Overload**

How big—and busy—is the Social Security program?



Source: Social Security Administration

The Wall Street Journal

If you and/or your spouse are weighing your options about Social Security, here's a look at some of the biggest issues—involving both the agency and the benefits program—that could shape your retirement for better or worse.

*The Social Security Administration isn't your financial adviser.*

A fair amount of the mail we receive from readers with questions or complaints about Social Security goes something like this: "My Social Security office never told me about..." About a particular strategy for claiming benefits. About a little-known rule. About the consequences of starting one's payouts at a particular point in time.

No, the Social Security Administration isn't perfect. (More about this in a moment.)

But its primary job is delivering a service, paying 59 million beneficiaries, and not financial planning. The agency provides loads of information about benefits on [its website](#) and does its best to answer the public's questions in its field offices and by telephone. But a comprehensive talk about the nuances of Social Security and your financial future? That's not going to happen.

Indeed, the Social Security Administration doesn't know about—and it isn't the agency's job to know about—your household budget, your health, your savings, life insurance, plans you might have to work in retirement. In short, all the variables that should go into a decision about filing for benefits, says Mr. Kaplan in Atlanta.

So, the onus is on you to learn about, or find help in deciphering, the basics: how benefits work, claiming strategies, possible pitfalls. And if you're hellbent, for instance, on grabbing a payout at age 62 (the earliest possible date for most people) and locking yourself—and perhaps your spouse—into a permanent reduction in benefits, the agency isn't going to stop you.

*The Social Security Administration is stretched increasingly thin at the worst possible time.*

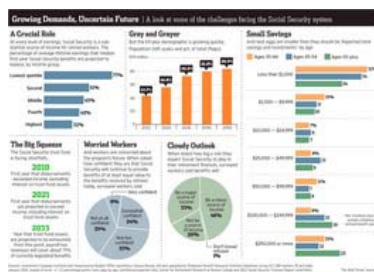
In March, Carolyn Colvin, the agency's acting commissioner, didn't mince words in a report tied to President [Barack Obama's](#) request for additional funding for the Social Security Administration.

"Our service and stewardship efforts [have] deteriorated," she said. "In fiscal year 2013, the public had to wait longer for a decision on their disability claim, to talk to a representative on our national 800 number, and to schedule an appointment in our field offices."

The agency, in short, is overextended. In the past three years, it has lost 11,000 employees, or about 12% of its workforce; by 2022, about 60% of its supervisors will be eligible to retire. Meanwhile, budget cuts have resulted in the consolidation of 44 field offices, the closing of 503 contact stations (mobile service facilities) and a delay in plans to open eight hearing offices (where appeals about agency decisions involving retirement and disability benefits are heard) and one call center.

And that 800 number? According to a report in December from the agency's inspector general, wait times in 2013 exceeded 10 minutes, an increase of more than five minutes from 2012.

The point: The Social Security Administration is grappling with its own problems just as the baby-boom generation, with about 75 million members, is moving full speed into retirement. (The oldest boomers are turning 68 this year.) The demands on the agency mean that you might not be able to find, or find in a timely fashion, the information or help you need. That said...



### *More services outside Social Security are offering more help.*

The Social Security Administration is the first to acknowledge that benefits are complicated. The opening paragraphs of the agency's "Social Security Handbook," a guide to the benefits program, state plainly: "The Social Security programs are so complex it is impossible to include information [in the handbook] about every topic."

Fortunately, a growing number of tools and services—some free, others for a cost—are available to help people navigate these waters.

In recent years, AARP, the Washington-based advocacy group for older Americans, and [T. Rowe Price Group](#) Inc., the Baltimore-based mutual-fund company, have introduced sophisticated online calculators that help users determine how and when to claim benefits. Both are free. (The Social Security Administration has several [calculators](#), also free, that can help determine the size of your benefits, but not necessarily when to claim them for maximum effect.)

Among the services that charge a fee: [MaximizeMySocialSecurity.com](#), from Economic Security Planning Inc.; [SocialSecurityChoices.com](#), from SocSec Analytics LLC; and [SocialSecuritySolutions.com](#), all started by academics. Our review of several Social Security tools last fall singled out [Social Security Solutions](#) for its ease of use and Maximize My Social Security for its flexibility.

Finally, check out [weekly columns](#) at the Public Broadcasting Service website from Laurence Kotlikoff, an economics professor at Boston University and the developer of Maximize My Social Security. The articles, published each Monday, address a wide range of issues about Social Security (including numerous "secrets" and "gotchas") and answer questions about benefits. In short, invaluable reading.

### *The earnings test deters people from working in retirement—and shouldn't.*

Social Security's earnings test, in which benefits are reduced if a person is collecting benefits and income at the same time, generates numerous questions and much confusion. But the apparent penalties aren't what they seem.

If you are under your full retirement age when you first receive Social Security benefits and if you have earned income, \$1 in benefits will be deducted for each \$2 you earn above an annual limit. In 2014, that limit is \$15,480. In the year you reach your full retirement age, the penalty shrinks; after you reach full retirement age, the deductions end completely.

The good news: Money lost to the earnings test isn't really lost. Once you reach full retirement age, Social Security recalculates—and increases—your future benefits to account for any dollars withheld.

Most beneficiaries, though, aren't aware of that; as such, they typically "work up to the [annual] limit—and stop," says Andrew Biggs, a resident scholar at the American Enterprise Institute and former deputy commissioner at the Social Security Administration.

The earnings test, Mr. Biggs says, "should not be a disincentive to work." Rather, "think of the test as delaying benefits until later in retirement," he says. "Over your lifetime, your total benefits will come out the same."

### *Spouses, at a minimum, should be aware of three claiming strategies.*

Couples have a tremendous amount of flexibility in how they can claim benefits.

But the options can quickly become overwhelming, which prompts many spouses to default to the easiest choice: grabbing a payout at age 62.

Before you do that, consider these three claiming strategies. Many couples aren't aware of these options or don't think they can benefit from them. Do yourself a favor: Run the numbers. (Fidelity Investments recently did a [nice job of explaining](#) these and other claiming strategies.)

**Maximize survivor benefits:** If you claim benefits before your full retirement age, you could be locking your spouse into a low survivor benefit when you die. The longer you wait to claim, the larger the survivor benefits.

**Claim and suspend:** Once you reach full retirement age, you can claim your benefit and then suspend it. (In other words, you stop payments before they begin.) This allows for two things: Your spouse, if he or she is 62 or older, can begin collecting spousal benefits from Social Security. (This assumes that the spousal benefit is larger than the spouse's own retirement benefit. More on this in a moment.) Second, your own benefit, when you eventually claim it, will have increased in size. (Thanks to "delayed retirement credits.")

**Claim a spousal benefit, then later claim your own benefit:** At full retirement age—if you are eligible for a spousal benefit and your own retirement benefit—you have the option of claiming just the spousal benefit. At a future point in time, you can then jump to your own benefit, which will have increased in size.

And speaking of spousal benefits...

### *"Deemed filing" can box you in.*

It's a frequent question: A husband who is already collecting Social Security (or weighing the claim-and-suspend strategy) asks if his wife can take just a spousal benefit at age 62—and then switch to a (presumably larger) benefit based on her earnings record in the future.

The answer: Nope.

If the wife, in this case, applies for benefits before her full retirement age, she is "deemed"—in the eyes of the Social Security Administration—to have filed for both benefits: the benefit based on her work record *and* a spousal benefit.

She will receive the higher of the two figures, but she will be locked into that reduced benefit going forward. (Reduced because she is claiming

benefits before full retirement age.)

Again, as discussed above, if the wife waits until her full retirement age to file for benefits, she would have a choice: She could apply for just a spousal benefit. Then, a few years down the road, she could switch to a payout based on her earnings history.

William Meyer, founder of SocialSecuritySolutions.com, says the "deemed filing" rule trips up innumerable applicants. "We hear about it all the time," he says.

The lesson is clear and critical: Claim benefits before full retirement age, and your options are limited; claim benefits after full retirement age, and you have more flexibility—and bigger payouts.

### *Divorced spouses and survivors don't know what they don't know.*

Ask almost any financial adviser about Social Security slip-ups, and stories about ex-spouses, widows and widowers come tumbling out.

Mr. Kaplan in Atlanta recalls a woman—age 67, divorced and still working—who walked into his office and simply had no idea that she could have been collecting benefits for the previous five years based on her former husband's earnings.

Prof. Kotlikoff at Boston University tells the story of a friend who had lost his wife and was convinced that he couldn't claim Social Security checks as a survivor.

"He told me, 'I made more [money] than she did,' " Prof. Kotlikoff says. "And based on that, he thought, incorrectly, that he wasn't eligible for a survivor benefit. People just don't know about this stuff."

The point: Always err on the side of telling Social Security about your family circumstances and/or a change in those circumstances.

"Tell them about ex-spouses, tell them if you've lost a spouse, tell them if you have kids," Prof. Kotlikoff says. (A surviving spouse with children could be eligible for additional benefits.)

"If you don't tell them, they won't know. It's that simple."

### *Delaying Social Security doesn't just result in a bigger benefit; it also can make good tax sense.*

You may have heard the advice countless times: Minimize (or avoid) withdrawals from your nest egg (401(k), individual retirement accounts, etc.) for as long as possible to take advantage of tax-deferred growth. Many investors who follow that advice grab Social Security benefits, typically at age 62, to help pay the bills.

But that advice ignores the possible tax benefits associated with following the opposite course: accelerating withdrawals from savings early in retirement so that you can hold off on claiming Social Security.

The thinking here is tied to the fact that Social Security benefits are taxable. As much as 85% of a married couple's benefits are subject to tax when their income exceeds \$44,000 (\$34,000 for individuals); as much as 50% of benefits are taxable at lower income levels.

If you delay claiming Social Security and, as a result, end up with larger benefits, future withdrawals from savings will likely be smaller—a recipe for lower levels of taxable income. (For a detailed discussion of these tax issues, see "[Innovative Strategies to Help Maximize Social Security Benefits](#)," from James Mahaney, vice president at Prudential Financial Inc. )

"Many retirees don't consider the impact of their withdrawal strategy on how their Social Security is taxed," says Mr. Meyer, the SocialSecuritySolutions.com founder. "Missteps in tapping the wrong account and investments to generate income can significantly increase your taxes."

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