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Bolstering Your Benefits

By KELLY GREENE

As retirees look to squeeze the most from their Social Security benefits, financial firms and advocacy groups are offering more advice on maximizing payouts.

Mick Wiggins

Many variables affect Social Security benefits, from age and the timing of retirement for spouses to taxes, income from continuing work and income from tax-deferred retirement savings. By tweaking any of these, retirees might be able to boost or cut their payouts significantly. The permutations are confusing—even to people who consider themselves financially savvy.

Asset manager T. Rowe Price Group is rolling out a Social Security benefits evaluator that lets retirees compare their payouts depending on their retirement date and financial goals. Insurance and financial-services giant Prudential Financial in November posted a white paper and video on its website that highlight new claiming strategies for divorced spouses, widows and widowers, while AARP, the advocacy group for older adults, last fall rolled out an in-depth Social Security section as part of its suite of retirement-planning tools.

Retirees and aspiring retirees can find other low-cost and free Social Security tools at Analyze Now (click on "Computer Programs."), Social Security Choices and Social Security Solutions.

Here's how to use the newest resources.

Choosing your strategy. T. Rowe Price has spent almost two years developing a new "Social Security Benefits Evaluator" designed to help individuals and couples sort through the results they would get using different strategies.

The tool is geared toward people on the verge of retirement and their advisers. It points them to strategies that can help them reach their particular goals. Some couples, for example, might want to claim benefits as early as possible, while others seek to collect the maximum cumulative benefit over both lifetimes. Surviving spouses might want to minimize the drop in income after their spouse dies or get the maximum income available.

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After deciding on a goal, users are guided to a strategy to make it happen, along with the estimated cumulative and annual benefits for the husband and wife.

The tool also demonstrates what happens to benefits if one spouse dies at age 83 and the other at 95—and users can switch to see the potential results of the opposite scenario.

"We picked those ages because it's educational," says Christine Fahlund, a senior financial planner at T. Rowe Price who developed the tool. "We wanted to remind people how much income drops for the surviving spouse."

Fine-tuning the plan. Most Social Security planning focuses on married couples' ability to "file and suspend," a strategy to help a couple get the most total benefits.

Typically, the higher earner claims his or her benefit at full retirement age, then suspends it. The higher earner can delay the benefit up to age 70, earning another 8% a year in delayed retirement credits. Meanwhile, the lower earner, at full retirement age, could take a spousal benefit and wait to file for his or her own benefit up to age 70, also earning another 8% a year.

But what if you are divorced or widowed?

James Mahaney, vice president of strategic initiatives at Prudential Financial, has published research on similar, but largely overlooked, strategies that work for retirees who can collect Social Security from the earnings record of a divorced or deceased spouse.

People who were married for at least 10 years before getting divorced "earned a lot of rights that those in married couples have in terms of spousal benefits and survivor benefits," Mr. Mahaney says. "It doesn't really matter what your ex does or what your ex's new spouse does."

Keep in mind that if you have been divorced for at least two years and you are filing for a benefit based on your ex-spouse's work record, that ex has to be at least 62 and eligible for Social Security. It doesn't matter whether your ex has applied for that benefit, says a spokeswoman for the Social Security Administration.

For example, if you are near retirement age and your own benefit is similar in size to your spousal benefit, you could take your spousal benefit at your full retirement age and delay your own benefit until age 70, Mr. Mahaney says.

Widows and widowers also can play one benefit against the other, he says. You could start your survivor's benefit at age 60, and then flip to your own retirement benefit from age 62 on, although the benefit would be reduced if you started it before your full retirement age.

In earlier research, Mr. Mahaney highlighted another benefit to deferring benefits until later: If you expect much of your retirement income to come from tax-deferred savings, you might be better off using those assets first and delaying all, or a large chunk, of your Social Security.

Collecting while you work. AARP's tool has answers to more than 150 Social Security-related questions. It is free at aarp.org/ssqa, but it requires users to register.

Three of the top five most-viewed questions involve working while collecting Social Security in retirement. If you get those benefits while working, you are subject to what is called the "annual earnings test."

In the years before you reach your full retirement age, if you have more than $15,120 a year in earned income, your Social Security benefit would be reduced by $1 for every $2 in earnings over that limit.

In the year you reach your full retirement age, there is an upper limit of $40,080, but only for the period before the birthday month. Your benefit still would be reduced, but not by as much—$1 for every $3 in earnings over $40,080.

When you reach your full retirement age—you can find it at ssa.gov/retire2/agereduction.htm—your benefits are recalculated and you get credits for any month they were reduced.

AARP points out that if your benefit were effectively wiped out from work for the four years leading up to your full retirement age, you would be given credit for those months your benefit was reduced and would get a full retirement benefit—not a permanently reduced one for claiming early.

It also is possible that working after 62, the youngest age at which you can claim early Social Security retirement benefits, could raise your benefit another way—by improving your lifetime earnings.

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