How to Optimize Social Security & Other Retirement Income

9/12/2014 AZ Republic by Dr. Harold Wong

I recently flew to Kansas City and met Mason Morasch and one of the IPG actuaries, who shared some of their strategies on Social Security optimization. This article will use some of their research. We will avoid using cost-of-living increases in SS benefits to simplify the case studies.

Case Study 1: Joe and Mary are both age 66, which is the Full Retirement Age (FRA) for Social Security (SS). Joe's Primary Insurance Amount (PIA) is $2,500 per month of SS benefits and Mary's is $1,000 per month. If Joe waits until age 70, he will get 8 percent more for every year he waits past age 66, his FRA. This would make his SS benefit $3,300 per month at age 70.

Spousal Benefit: Mary is entitled to either her SS benefits or half of her husband's, whichever is greater if she waits until she reaches FRA. If she takes SS earlier, she gets less. Joe will use the ***"file and suspend" strategy*** in order to get this spousal benefit for Mary. She can receive $1,250 per month, which is half of Joe's $2,500 per month SS benefit at his FRA of 66. Because Joe is not claiming his SS benefits at age 66, he will receive the maximum he is entitled to, or $3,300 per month at age 70.

Another benefit for Mary is that her own SS benefits, the $1,000 per month at age 66, based on her work history, will continue to grow by the 8 percent per year factor from age 66 to age 70. This is because she has filed a restricted claim for only her spousal benefits. At age 70, she can claim based on her own work record and switch to a possibly higher benefit. With her $1,000 per month SS benefit at age 66 growing at 8 percent for each year she waits past age 66 until age 70, she would be entitled to $1,320 per month age 70.

At age 70, her $1,320 per month is greater than the half of Joe's, or $1,250 per month she took at age 66. Note: Spousal benefits do not earn Delayed Retirement Credits after the spouse reaches Full Retirement Age (FRA). So, she would switch to her $1,320 monthly SS benefit when she reaches age 70. When Joe eventually dies, Mary is entitled to her widow SS benefit. If Joe died at age 70, Mary would take his full $3,300 of SS benefits.

Assume that they do not know about the "file and suspend" or spousal benefit strategy and they both retire at age 66. In addition to their $3,500 of monthly SS, assume that their $800,000 of life savings only gives them $5,000 of investment income. Their total gross income will be $47,000 and assume their after-tax income is $45,000 and they spend it all.

Now let's look at the effect of a 4 percent annual inflation, which most retired couples don't factor in. In 20 years, it will require $98,600 paper dollars to buy what $45,000 buys today. Their SS income would still be $3,500 per month (again, ignoring any cost-of-living increases in their SS benefits to simplify the analysis). Because their total after-tax income will be $45,000 and their shortfall is $53,600.

Summary: By waiting until age 70, they will get $4,550 of monthly SS instead of $3,500 at age 66 (because they don't understand the spousal benefits strategy). The next article will cover strategies to optimize SS and the cash flow from your life savings to achieve lifetime retirement income.

Free Social Security Workshops: Thurs. 9/25/14, 6:30-8:30 P.M. with light supper 6-6:30 P.M.; and Sat. 9/27/14, 10-12 noon followed by light lunch 12-1 P.M. at Keller Williams University, 2077 E. Warner Road, Tempe, AZ 85284. Please RSVP at (800) 955-1408 or haroldwong1@yahoo.com.

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