The Washington Post

As one Social Security strategy disappears, consider other smart options

By Rodney Brooks December 4

Columnist

Checks are stacked at the U.S. Treasury printing facility in Philadelphia in this July 2011 photo. About 63 percent of Americans are not confident they will get their promised Social Security checks, a survey says.

Congress unexpectedly took away a popular Social Security strategy last month — one financial planners frequently advised their clients to take.

The strategy, called "file and suspend," allowed married couples to make the most of their Social Security benefits. The higher-earning spouse could file for benefits but delay taking them. This allowed the other person to claim spousal benefits (up to 50 percent of a partner's full retirement-age benefit).

Congress says eliminating it closed an unintentional loophole, one that the Center for Retirement Research at Boston College says cost Social Security $9.5 billion a year.

It was a highly touted and effective strategy. Now it's gone. That makes it even more important to know the best Social Security strategies going forward. Here are a few tips to prepare you:

1 **Get advice.** "To me, it seems that the most important thing a person could do today is to get advice about Social Security planning," says Terry Dunne, a managing director at Millennium Trust Co. in Oak Brook, Ill. "The choice of taking it at 62 or 65 or 70 matters. It matters particularly if someone feels that they will have short longevity or long longevity. It could make a big difference."

"If anyone's situation is unusual — if divorced, remarried or if someone wants to work — they want to get some advice," Dunne says. "But make sure you are getting good advice."

2 **Do a budget.** A key part of any retirement plan is figuring out how much income you need. That means looking at expenses and all your income sources, including IRAs, 401(k)s, pensions and other savings. That helps you determine when, exactly, you need to receive Social Security.

"Social Security is extremely complex," says Germi Cloud, a financial adviser with Cloud Financial in Huntsville, Ala. "It's kind of like dealing with the IRS. Figure out how much you will need, then investigate all your options."

3 **Consider delaying your benefits.** This one gets me lots of emails, pro and con. But the fact is, many people claim benefits as soon as they are eligible, at age 62. That's why the average monthly Social Security check is about $1,300.

"Patience in benefit collection can pay off big time," says Willie Schuette, a financial planner for the JL Smith Group, near Cleveland. "There is a 76 percent increase if you wait until 70, versus 62, in taking the benefit."

The early claimers are effectively locking themselves into a permanent reduction in benefits. And each year they wait until full retirement age — 65 or 66, depending on when you were born — the benefits will increase by roughly 8 percent.

For those who really don't need the money at full retirement age, waiting until 70 will up your benefits an additional 30 percent. There is no added benefit to taking Social Security benefits after age 70.

This strategy is sometimes used more to benefit your survivor, Schuette says. "The higher my benefit is, the higher my survivor benefit is. For example, if I don't take it at 62 at $1,200 and wait till 70, it's $2,000. My survivor will receive a higher benefit during their lifetime."

4 **Stop and start.** Some people retire unexpectedly and file for Social Security. Then they get a new job. So what should they do?

You can actually suspend your benefits and take them later. Two requirements, though: You must do it in the first year, and you must repay any benefits you have received.

“People recognize if they wait, they will have a higher benefit in the future, and they want to get a higher benefit in the future,” Schuette says.

Of all the tips, the most controversial tends to be the waiting strategy. Some financial advisers recommend waiting until 70 to take the benefits. Some strongly disagree.

Larry Rosenthal, president of Rosenthal Wealth Management Group in Manassas, Va., is in the latter group. “Going forward, the big debate in Social Security is, should you take it when you retire, or wait till 70 to max it out?” he says. “Often, it is better to take it when you retire.”

The key is that it depends on how much money you need.

A good example are those who are 62 and defer Social Security. Instead of claiming $2,000 monthly in Social Security benefits, they draw down $2,000 a month from their savings. “That’s a lot of money they are spending from their own dollars,” he says.

“We run scenarios to see which gives them the most principal to pass on to their heirs,” he says. “You can’t pass Social Security on to the heirs. That’s the new face of Social Security after this ‘file and suspend’ goes away.”

David Fromme, 75, a retired IRS analyst in Farmington Hills, Mich., thinks it’s a horrible idea to wait to take Social Security. In fact, he feels so strongly about it that he has created a website with charts and graphs to prove his point —ssmisconceptions.solutions.

“If you are planning on retiring soon, I am sure that someone has told you that you should wait as long as you can (preferably age 70) to start drawing Social Security benefits,” he says. “If you do, you can increase those benefits by almost one-third. And, this is true, but if something sounds too good, there must be a catch. In this case, the catch is you are gambling on whether you will live long enough to recover the postponed benefits.”

The real question, he says, is not “Will you receive more money after age 70?” but, “Will you be able to recover the money you did not take for four years?”