

SAVVY SOCIAL SECURITY

STRATEGIES FOR MAXIMIZING SOCIAL SECURITY BENEFITS

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Social Security is far more complicated than most people realize. The decisions clients make now can have a tremendous impact on their retirement income. Most financial professionals say clients need 70% of their preretirement earnings to comfortably maintain a preretirement standard of living; unfortunately, Social Security will replace only about 40% or less of that income.

For many Americans, Social Security is becoming a larger part of the retirement income puzzle. Here are some strategies that may help maximize those benefits.

1. Determine when to start taking Social Security benefits

Consider taking your benefits earlier if:

- You are no longer working and need the benefit to help with your stream of income
- You earn less than your spouse, and your spouse has decided to continue working to help earn a better benefit
- You are in poor health, and your life expectancy is such that it makes sense to receive your benefit immediately

Consider postponing benefits if:

- You are in good health and can continue working
- You have significant income outside of Social Security
- You earn more than your spouse and want to ensure that your spouse receives the highest possible benefit in the event that you die first

2. Apply for Social Security at the optimal time

Key points to remember when applying:

- If you apply early, your benefit starts lower and stays lower for life
- Cost-of-living adjustments magnify the impact of early or delayed claiming. The longer you live, the more beneficial it is to delay benefits
- Your decision impacts survivor benefits as well: delaying benefits may give the surviving spouse more income

3. Coordinate spousal benefits

Typically, this strategy is used when the lower-earning spouse's Social Security benefit would be more if using the spousal benefit rather than collecting his/her own benefit

- Verify your spousal benefits
- If you are divorced but your prior marriage lasted 10 years or more, you can receive benefits on your former spouse's record if: you are unmarried; you are age 62 or older; your ex-spouse is entitled to Social Security benefits, and the benefit you are entitled to receive on your own is less than the benefit you would receive based on your spouse's work
- If your spouse is deceased, you may be eligible for deceased spouse benefits

4. Maximize taxation benefits

Ways to minimize taxes on Social Security benefits include:

- Reduce other income with tax-advantaged investments (but not municipal bonds)
- Anticipate traditional IRA required minimum distributions, which may put you in a higher tax bracket; consider drawing down traditional IRAs before 72
- Convert traditional IRA(s) to Roth IRA(s)
- Delay Social Security: it reduces the number of years that benefits are subject to tax
- Reduce expenses: pay down debt, adopt a simpler lifestyle
- Continue to manage taxes through retirement

5. Coordinate Social Security with overall retirement income plan

- Consider designating an interest-bearing checking account as a Personal Pension Account to funnel all income through to meet expenses and simplify things. Use this to pay bills, make family or charitable gifts or access cash. Most check-writing accounts typically provide complimentary reporting tools to track expenses to help investors understand spending patterns and the impacts on long-term sustainable cash flow in retirement
- Consider other sources of income via pensions, IRAs, 401(k)s, RMDs, savings accounts and brokerage accounts

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