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SOCIAL SECURITY
'SECRETS' ALL BABY
BOOMERS AND
MILLIONS OF CURRENT
RECIPIENTS NEED TO
KNOW - REVISED!

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FOREWORD

You have downloaded one of the most important tools you will need to be able to maximize your Social Security benefits. It is critical you learn these three facts so that you understand how important the rest of this eBook is to the decision you will make about claiming Social Security.

The Social Security Administration provides you with:

- 567 ways to claim your benefits
- ZERO employees to advise you on the best strategy
- One chance to get this right (after twelve months, there are no “do-overs”)

While this eBook and our website will equip you with much of the information you need to know and understand about Social Security, they cannot replace a personal meeting with a qualified advisor like myself. Your visit with us can take into account your full retirement picture so that we can provide you with a Social Security Maximization Report that is built specifically for your situation.

The information in this eBook is taken from Dr. Laurence Kotlikoff’s article, “44 Social Security ‘Secrets’ All Baby Boomers and Millions of Current Recipients Need to Know – Revised!” with permission from Dr. Kotlikoff.



Social Security's Handbook has 2,728 separate rules governing its benefits. And it has thousands upon thousands of explanations of those rules in its *Program Operating Manual System*, called the POMS, which provides guidance on implementing the 2,728 rules. Talk about a user's nightmare!

As a young economist, I did a fair amount of academic research on saving and insurance adequacy. At the time, I thought I had a very good handle on the rules. Then I started a financial planning software company, which makes suggestions about what benefits to take from Social Security and when to take them to get the best overall deal. (Ask your advisor about completing a Social Security Maximization Report for your specific situation).

At that point, I realized I needed to quadruple-check my understanding of Social Security's provisions. To do this, I established contacts with experts at Social Security's Office of the Actuary. I also hired a specialist whose only job was to audit my company's social security, Medicare premium, and federal and state income tax code.

The problem with this strategy is you can only check on things you know about. Over the years, I discovered things I had never heard of. I would then check with the Social Security actuaries who would say, "Oh yes, that's covered in the POMS section GN 03101.073!"

Mind you, a large share of the rules in Social Security's Handbook rules are indecipherable to mortal men and the POMS is often worse. But thanks to patience on the part of the actuaries, **I've learned things which almost no current or prospective Social Security recipient knows, but which almost all should know.**

The reason is that taking the right Social Security benefits at the right time can make a huge difference to a retiree's living standard.

Unfortunately, Social Security has some very nasty *gotcha* provisions, so if you take the wrong benefits at the wrong time, you can end up getting the wrong, as in smaller, benefits forever.

Also, the folks at the local Social Security offices routinely tell people things that aren't correct about what benefits they can and can't receive and when they can receive them. Taking Social Security benefits – the right ones at the right time – is one of the biggest financial decisions you'll ever make, so you need to get it right.

Getting it right on your own, however, is nigh well impossible. One of my engineers and I calculated that, for an age-62 couple, there are over 100 million combinations of months for each of the two spouses to take retirement benefits, spousal benefits, and whether or not to file and suspend one's retirement benefits. There are also Start-Stop-Start strategies to consider. Each combination needs to be considered to figure out what choices will produce the highest benefits when valued in the present (measured in present value). For some couples who are very different in age, survivor benefits also come into play. In that case, the number of combinations can exceed 10 billion!

Fortunately, your advisor has access to my proprietary calculator, which can help you find the right





answer. It does execute exhaustive searches of all combinations of months in which you can take actions, but thanks to modern computing power and careful programming, our program can run through millions upon millions of combinations of decisions incredibly fast.

Whether or not you meet with your advisor and request your personal maximization report, it's important to have as full a handle on Social Security's provisions as possible. Listed below are Social Security *secrets* I've learned over the years that you may not know or fully understand.


1. If you are already collecting your retirement benefit and are at or over full retirement age, you can tell Social Security you want to suspend further benefits and then ask them to restart your benefits at a later date, say age 70. Social Security will then apply its Delayed Retirement Credit to your existing benefit once you start collecting again. Hence, this is a means by which current Social Security recipients who aren't yet 70 can collect higher benefits, albeit at the cost of giving up their check for a while. But this trade off will, on net, often be very advantageous. For example, if you started collecting at 62 and are now at your full retirement age, i.e., 66, you can suspend benefits until 70 and then start collecting 32 percent higher benefits for the rest of your life. This benefit collection strategy can be called Start-Stop-Start.

2. If you aren't now collecting and wait until 70 to collect your retirement benefit, your retirement benefit starting at 70 can be as much as 76 percent higher than your age-62 retirement benefit, adjusted for inflation. The reason is that your benefit is not reduced due to Social Security's Early Retirement Reduction; moreover, it's increased due to Social Security's Delayed Retirement Credit. For many people, the increase in the retirement benefit can be even higher if they continue to earn money after age 62 thanks to Social Security's Re-computation of Benefits.

3. But if you are married or divorced, waiting to collect your retirement benefit may be the wrong move. If you are the low-earning spouse, it may be better to take your retirement benefit starting at age 62 and then switch to the spousal benefit you can collect on your current or ex-spouse's account starting at your full retirement age. But beware of the *Gotcha* in item 5.

4. If you're married, you or your spouse, but not both, can receive spousal benefits after reaching full retirement age while deferring taking your retirement benefits and, thereby, letting them grow. This may require having one spouse file for retirement benefits, but suspend their collection. This is called the File and Suspend strategy.

FOR AN AGE-62 COUPLE THERE ARE OVER 100 MILLION COMBINATIONS OF MONTHS FOR EACH OF THE TWO SPOUSES TO TAKE BENEFITS.



5. Be careful! If you take your own retirement benefit early and are below full retirement age, you will be forced to take your spousal benefit early and at a permanently reduced level if your spouse collects his/her retirement benefit before or in the month in which you apply to collect your retirement benefit. If your spouse is not collecting a retirement benefit when you apply for an early retirement benefit, you will not be deemed to be applying for your spousal benefit. Hence, you can start collecting your spousal benefit later with less or no reduction. (See item 33)

6. Start-Stop-Start may also make sense for married workers who aren't already collecting and whose age differences are such they can't take advantage of File and Suspend. Take, for example, a 62-year-old high earner, named Sally, with a 66-year-old low earner spouse, named Joe. By starting retirement benefits early, Sally permits Joe to start collecting a spousal benefit immediately. The reason is that spouses aren't eligible to collect spousal benefits unless the worker is either collecting a retirement benefit or has filed for a retirement benefit, but suspended its collection. If Sally starts her retirement benefit at 62, Joe can apply just for his spousal benefit at 66 and then wait until 70 to collect his own retirement benefit, which will be at its highest possible value thanks to Social Security's Delayed Retirement Credit. As for Sally, she can suspend her retirement benefit at 66, when she reaches full retirement, and then restart it at 70, at which point her benefits will be 32 percent higher than what she was collecting. Even single workers may opt for Start-Stop-Start to help with their cash flow problems.

7. If your primary insurance amount (your retirement benefit available if you wait until full retirement) is less than half that of your spouse and you take your own retirement benefit early, but are able to wait until full retirement age to collect your spousal benefit, your total check, for the rest of your life, will be less than one half of your spouse's primary insurance amount. Nonetheless, this may still be the best strategy. This reflects another *Gotcha* explained in 8.

8. On its website, Social Security states, "Your spouse can receive a benefit equal to one-half of your full retirement benefit amount if they start receiving benefits at their full retirement age." This is true only if your spouse isn't collecting his/her own retirement benefit. If your spouse is collecting her own retirement benefit, his/her spousal benefit is calculated differently. Rather than equaling one-half of your full retirement benefit, it's calculated as half of your full retirement benefit less your spouse's full retirement benefit. This difference is called the excess spousal benefit. The total benefit your spouse will receive is her retirement benefit, inclusive of any reduction, due to taking benefits early, or increment, due to taking benefits late, plus the excess spousal benefit. The excess spousal benefit can't be negative; i.e., its smallest value is zero.

Take Sue and Sam. Suppose they are both 62 and a) Sue opts to take her retirement benefit early and b) Sam opts to file and suspend at full retirement and take his retirement benefit at 70. Between



ages 62 and 66 (their full retirement age), Sue collects a reduced retirement benefit, but is not forced to take her spousal benefit (which would be reduced) because Sam isn't collecting a retirement benefit during the years that Sue is 62 to 66. Now when Sue reaches age 66, she starts to collect an unreduced spousal benefit because Sam has qualified her to do so by filing and suspending for his retirement benefit. Okay, but her unreduced spousal benefit is **calculated as $1/2 \times \text{Sam's full retirement benefit less Sue's full retirement benefit}$** . Sue ends up getting a total benefit equal to her own reduced retirement benefit plus her unreduced excess spousal benefit. This total is


less than half of Sam's full retirement benefit. To see this, note that the total equals half of Sam's full retirement benefit plus Sue's reduced retirement benefit minus Sue's full retirement benefit. The last two terms add to something negative.

567 NUMBER OF WAYS TO CLAIM

9. Are there two different formulas for spousal benefits depending on whether the spouse is collecting his/her own retirement benefit? It sure seems that way because when the spouse is collecting a retirement benefit, the excess spousal benefit (potentially reduced for taking spousal benefits early) comes into play. And when the spouse isn't collecting a retirement benefit, the spousal benefit equals half of the worker's full retirement benefit. (Note: The spouse has to collect a retirement benefit before full retirement age if she applies for her spousal benefit.) The answer, in fact, is no. There is only one formula.

The formula for the spousal benefit is always the excess benefit formula. But here's what happens to the application of that formula if the spouse is not collecting a retirement benefit. In that case, the spouse's full retirement benefit (also called the Primary Insurance Amount) is set to zero in calculating the excess spousal benefit. The reason, according to Social Security, is that a worker's Primary Insurance does not exist (i.e., equals zero) if the worker has not applied for a retirement benefit (and either suspended its collection or started to receive it). In other words, your Primary Insurance Amount is viewed as non-existent until you apply for a retirement benefit. This construct — the primary insurance amount doesn't exist until it's triggered by a retirement benefit application — lets Social Security claim to have one formula for spousal benefits. But there are, in effect, two spousal benefit formulas and which one you — the person who will collect a spousal benefit — faces will depend on whether or not you take your retirement benefit early.

10. If you are divorced, both you and your ex can collect spousal benefits (on each other's work histories) after full retirement age while still postponing taking your own retirement benefits until, say, age 70, when they are as high as can be. This is an advantage for divorcees. But there's also a disadvantage. A divorcee who applies for spousal benefits before full retirement age will automatically be forced to apply for retirement benefits even if his/her ex isn't collecting retirement benefits. (But see 36 for an exemption to this rule if you are older than your ex).



11. There is no advantage to waiting to start collecting spousal benefits after you reach your full retirement age.

12. There is no advantage to waiting to start collecting survivor benefits after you reach your full retirement age.

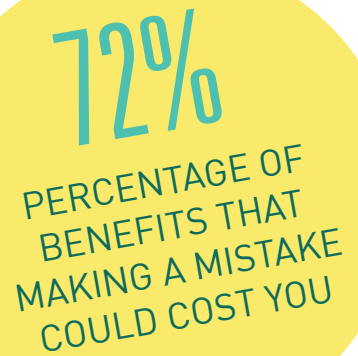
13. If you started collecting Social Security retirement benefits within the last year and decide it wasn't the right move, you can repay all the benefits received, including spousal and child benefits, and reapply for potentially higher benefits at a future date.

14. If you wait to collect your retirement benefit after you reach your full retirement age, but before you hit age 70, you have to wait until the next January to see your full delayed retirement credit show up in your monthly check.


15. Millions of Baby Boomers can significantly raise their retirement benefits by continuing to work in their sixties. This may also significantly raise the spousal, child, and mother and father benefits their relatives collect.

16. If you take retirement, spousal, or widow/widower benefits early and lose some or all of them because of Social Security's earnings test, Social Security will actuarially increase your benefits (under the Adjustment of Reduction Factor) starting at your full retirement age based on the number of months of benefits you forfeited. This is true whether the loss in benefits due to the earnings test reflects benefits based on your own work record or based on your spouse's work record. Consequently, you should not be too concerned about working too much and losing your benefits if you elected to take them early.

17. When it comes to possibly paying federal income taxes on your Social Security benefits, withdrawals from Roth IRAs aren't counted, but withdrawals from 401(k), 403(b), regular IRAs, and other tax-deferred accounts are. So there may be a significant advantage in a) withdrawing from your tax-deferred accounts after you retire, but before you start collecting Social Security, b) using up your tax-deferred accounts before you withdraw from your Roth accounts, and c) converting your tax-deferred accounts to Roth IRA holdings after or even before you retire, but before you start collecting Social Security.



72%
PERCENTAGE OF
BENEFITS THAT
MAKING A MISTAKE
COULD COST YOU



18. Social Security’s online benefit calculators either don’t handle or don’t adequately handle spousal, divorcee, child, mother, father, widow or widower benefits, or file and suspend options.

19. The default assumptions used in Social Security’s online retirement benefit calculators is that the economy will experience no economy-wide real wage growth and no inflation going forward. This produces benefit estimates that can, for younger people, be significantly less than what they are most likely to receive.

20. Some widows/widowers may do better taking their survivor benefits starting at 60 and their retirement benefits at or after full retirement. Others may do better taking their retirement benefits starting at 62 and taking their widow/widowers benefits starting at full retirement age.


21. If you’re below full retirement age and are collecting a spousal benefit and your spouse is below full retirement age and is collecting a retirement benefit, your spousal benefit can be reduced if your spouse earns beyond the Earnings Test’s exempt amount. And it can also be reduced if you earn beyond the Earnings Test’s exempt amount.

22. The Windfall Elimination Provision affects how the amount of your retirement or disability benefit is calculated if you receive a pension from work where Social Security taxes were not taken out of your pay, such as a government agency or an employer in another country, and you also worked in other jobs long enough to qualify for a Social Security retirement or disability benefit. A modified formula is used to calculate your benefit amount, resulting in a lower Social Security benefit than you otherwise would receive.

23. Based on the Government Pension Offset provision, if you receive a pension from a federal, state or local government based on work where you did not pay Social Security taxes, your Social Security spouse’s or widow’s or widower’s benefits may be reduced.

24. If you have children, because you started having children late or adopted young children later in life, they can collect child benefits through and including age 17 (or age 19 if they are still in secondary school) if you or your spouse or your ex-spouse are collecting retirement benefits.

\$250,000 THE BENEFITS YOU
COULD HAVE COMING



25. If you have children who are eligible to collect benefits because your spouse or ex-spouse is collecting retirement benefits, you can collect mother or father benefits until your child reaches age 16.

26. Your children can receive survivor benefits if your spouse or ex-spouse died and they are under age 18 (or age 19 if they are still in secondary school).

27. You can collect mother or father benefits if your spouse or ex-spouse died and you have children of your spouse or your ex-spouse who are under age 16.

28. There is a maximum family benefit that applies to the total benefits to you, your spouse, and your children that can be received on your earnings record.


29. If you choose to file and suspend in order to enable your spouse to collect a spousal benefit on your earnings record while you delay taking your benefit in order to collect a higher one later, make sure you pay your Medicare Part B premiums out of your own pocket (i.e., you need to send Social Security a check each month). If you don't, Social Security will pay it for you and treat you as waiving (i.e., not suspending) your benefit apart from the premium and, get this, you won't get the Delayed Retirement Credit applied to your benefit. In other words, if you don't pay the Part B premiums directly, your benefit when you ask for it in the future will be NO LARGER than when you suspended its receipt. This is a really nasty Gotcha, which I just learned, by accident, from one of Social Security's top actuaries.

30. If you are collecting a disability benefit and your spouse tries to collect just his/her Social Security benefit early, she will be deemed to be filing for her spousal benefits as well (i.e., if your spouse takes his/her retirement benefit early, he/she won't be able to delay taking a spousal benefit early, which means both her retirement and spousal benefits will be permanently reduced thanks to the early retirement benefit and early spousal benefit reduction factors).

31. When inflation is low, like it is now, there is a disadvantage to delaying until, say 70, collecting one's retirement benefit. The disadvantage arises with respect to Medicare Part B premiums. If you are collecting benefits (actually were collecting them last year), the increase in the Medicare premium this year will be limited to the increase in your Social Security check. This is referred to as being *held harmless*. Hence, when inflation is low, the increase in your check due to the cost of living adjustment will be small, meaning the increase in your Medicare Part B premium will be limited. But, if you aren't collecting a benefit because you are waiting to collect a higher benefit later, tough



IT'S CRITICAL YOU GET IT RIGHT BECAUSE VERY SOON AFTER YOU CLAIM, YOUR BENEFITS BECOME PERMANENT
THERE ARE NO DO OVERS



noogies. Your Medicare Part B premium increase won't be limited. And that increase will be locked into every future year's Medicare Part B premium that you have to pay. You can wait to join Medicare until, say, age 70, but if you aren't working for a large employer, the premiums you'll pay starting at 70 will be higher and stay higher forever. So much for helping the government limit its Medicare spending!

32. Hold harmless — the provision that your increase in Medicare Part B premium cannot exceed the increase in your Social Security check due to Social Security's Cost of Living Adjustment — does not apply if you have high income and are paying income-related Medicare Part B premiums.

33. The thresholds beyond which first 50 percent and then 85 percent of your Social Security benefits are subject to federal income taxation are explicitly NOT indexed for inflation. Hence, eventually all Social Security recipients will be taxed on 85 percent of their Social Security benefits.

34. If you take your retirement benefit early and your spouse takes his/her retirement benefit any time that is a month or more after you take your retirement benefit, you will NOT be deemed, at that point (when your spouse starts collecting his/her retirement benefit) to be applying for a spousal benefit. In other words, you can, in this situation, wait until your full retirement age to start collecting your unreduced excess spousal benefit. The retirement benefit collection status of your spouse in the month you file for early retirement benefits determines whether you are deemed to be also applying for spousal benefits. This means that you should think twice about applying for retirement benefits in the same month as your spouse if one or both of you are applying early.

35. If you take your spousal benefit early, you will be deemed to be taking your retirement benefit as well with one exception — if you have a dependent child in your care. In this case, you can just take your spousal benefits with no reduction. If you are under full retirement age when your children all reach their 16th birthday or leave your care, your unreduced spousal benefit will stop unless you file a *certificate of election for reduced spousal benefits*. This will permit you to continue to receive spousal benefits which and if you are still below full retirement age, you will automatically be deemed to be applying for early retirement benefits. In addition, your spousal benefit will be reduced based on the number of months left before you reach your age of full retirement.

36. If you're divorced, but were married for 10 years, you can collect spousal benefits based on the earnings record of your ex-spouse, but you have to wait until your ex has reached age 62. This




means that if you are older than your ex and your ex was the higher earner, you'll be able to collect your reduced retirement benefit early without being forced to take your spousal benefit early, which would mean that it would be permanently reduced. Also, you won't be automatically deemed to be applying for spousal benefits when your ex reaches age 62. What's relevant for the deeming is the age he/she was at the time you first apply for your retirement benefit.

37. You need to be married for 10 years in order to collect spousal and survivor benefits from your ex-spouse if you get divorced. It's amazing how many people get divorced just shy of 10 years. Yes, you've had it. Yes, your spouse is the worst of the worst. But stick it out for the extra time if possible. There's potentially a lot of money, which you both can share, if you're just patient. And, by the way, no one at Social Security checks whether you are living together let alone sleeping together.

38. If you get divorced and then remarry, you will not be able to receive spousal benefits based on your ex's work history. And you also won't be able to receive survivor benefits if you remarry and your ex-spouse dies unless you remarry after age 60. Also, to receive spousal benefits based on your new spouse's work history, you need to stick it out with him/her (stay married to him/her) for 10 years. Hence, you need to think twice about getting remarried if you divorced someone who earned a lot more than you earned and are, say, over 50. And if you are close to 60 and are thinking of marrying a low earner and, again, your ex was a high earner relative to you, waiting until 60 to remarry will at least secure your survivor benefits. Another reason to think twice about remarrying applies if you have young children. If your ex dies while any of your children under your care are under age 16 (i.e., they haven't yet hit their 16th birthday) and you haven't remarried, you (in addition to your kids) can receive survivor benefits until you have no children under age 16 regardless of how old you are when your ex kicks. These benefits can, however, be lost due to Social Security's earnings test if you earn too much money.

THE SOCIAL SECURITY ADMINISTRATION WORKERS
FORBIDDEN BY LAW TO GIVE YOU ANY ADVICE
FOR FILING YOUR CLAIM

39. Father and Mother benefits, available to surviving spouses who have a child under age 16 of a retired worker or a deceased worker, are available at any age and are not reduced based on age. If you reach age 60 and are eligible to receive a father or mother benefit, do not apply for your survivor (widow or widower) benefit, because you will end up getting your survivor benefit, instead of your mother/father benefit, and the survivor benefit will be permanently reduced, whereas, the mother or father benefit will not. This is another nasty Gotcha if you make the wrong move.



40. Mother and father benefits, available to widows/widowers of deceased workers when they have a child of the worker under age 16 under their care are eligible, as indicated in 39, not reduced. But this also means that if they are lost due to the earnings test, i.e., due to the surviving spouse earning too much money, they won't be increased in the future as in the case of retirement, spousal, and survivor benefits (benefits to widows/widowers who don't have a child of the deceased worker under 16 in their care).

41. If you take your retirement benefit early (before full retirement age), it will be reduced and if you die, your spouse's survivor benefit will equal the benefit you were receiving, so it too will be permanently reduced. Furthermore, if your widow/widower takes his/her survivor benefit early, this reduced survivor benefit will be reduced yet again due to the fact that the surviving spouse took her/his survivor benefit early. So this is a double whammy. If you don't take retirement benefits early and die before full retirement age, your surviving spouse's survivor benefit will equal your full retirement benefit. If you don't take retirement benefits until after full retirement, your surviving spouse's survivor benefit will equal the benefit you were receiving or would have received had you applied right before you died, namely your full retirement benefit augmented by the Delayed Retirement Credit.

42. The Government Pension Offset (see 23) provision will decline, in real terms, if your pension from non-covered employment is not fully indexed for inflation. Hence, you can lose all or some of your Social Security spousal or survivor benefits for some period of time, but ultimately start receiving either some benefits or larger benefits.

43. If you take your benefits early and then suspend them at or after full retirement age (you can't suspend them before full retirement age), the spousal benefit you will collect based on your living spouse's earnings record will not be half of his/her full retirement benefit. Instead, it will be what may be called an excess spousal benefit, which will equal half of his/her full retirement benefit less your full retirement benefit with any delayed retirement credits applied (notwithstanding your having suspended its collection multiplied by a reduction factor if you took your spousal benefits early.

44. If you take your benefits early and then suspend them at or after full retirement age (you can't suspend them before full retirement age), the survivor benefit you will collect based on your deceased spouse's earnings record will not be half of his/her full retirement benefit. Instead, it will equal A) his/her actual retirement benefit if he/she died after beginning to collect retirement benefits or B) his/her full retirement benefit if he/she died before reaching full retirement age or C) his/her retirement benefit, which would have been available had he/she started collecting at the time of his/her death, if he/she begins collecting after full retirement age less D) the retirement benefit you were collecting at the time you suspended your benefits. In other words, you will not receive what may be called an excess widow/widower's benefit rather than a full widow/widower's benefit (which would be A, B, or C by itself).