# Advice IQ: Making the most of Social Security

**Harold Wong, Advice IQ** *8:02 a.m. EST November 9, 2014*


*(Photo: Thinkstock)*

Your retirement income hinges on a seeming paradox: People increase dependence on Social Security even as the long-term solvency of the government golden years' program reportedly dwindles. What tricks of timing and finances can give your benefits checks the biggest boost?

Waiting to collect is the key. Examples may give you a good idea.

Let's say Joe and Mary are both age 66, the Full Retirement Age (FRA) for anyone born between 1943 and 1954. Joe's primary insurance amount (PIA), the amount he receives when filing for benefits at FRA, is $2,500 per month and Mary's is $1,000 per month.

If Joe waits until 70 to file for benefits, he gets 8% more in benefits for every year he waits past age 66. This makes his benefit $3,300 per month at 70.

**Spousal benefits:** Mary qualifies for either her full benefit or half of Joe's, whichever is greater at her FRA. If she takes benefits earlier, she gets less.

Joe can also file and suspend to get a spousal benefit for Mary. She can receive $1,250 per month, half of Joe's $2,500 monthly benefit at his FRA of 66. Because Joe does not claim benefits at age 66, he receives his maximum of $3,300 per month at 70.

Another benefit for Mary: Her own benefits of $1,000 per month at 66 (based on her work history) continue to grow 8% annually from 66 to 70 because she filed for only her spousal benefits. At 70, she can claim based on her own work record and switch to a possibly higher benefit ($1,320 per month after 70).

Note: Spousal benefits do not earn what are called Delayed Retirement Credits (DRCs) after the spouse reaches FRA.

These credits range from a 5.5% increase in your eventual benefits per year of delay if you were born in 1933 or 1934 to a 7.5% yearly increase if you were born in 1941 or 1942. Joe and Mary can earn an 8% annual DRC because they were born after 1943. The DRC increase no longer applies when you reach age 70 even if you continue to delay taking benefits.

When Joe eventually dies, Mary also qualifies for her widow benefit: If Joe dies at 70, she gets his full $3,300 of benefits.

**Inflation:** Let's assume that Joe and Mary do not know about the file-and-suspend or spousal benefit strategies and that they both retire at 66. In addition to their $3,500 monthly benefit, assume that their $800,000 in life savings only provides $5,000 of investment income. Let's also say their total after-tax income is $45,000 ($42,000 Social Security plus $5,000 investment income less $2,000 taxes) and that they spend it all each year.

Most retired couples fail to factor in possibly high annual inflation when filing. In 20 years, 4% yearly inflation means that $98,600 will buy what $45,000 buys today. Let's assume that at that time, Joe and Mary's Social Security income remains $3,500 per month (ignoring, to simplify analysis, cost-of-living increases in their benefits, which most recently were 1.5% annually).

Waiting for Joe to collect his benefits until age 70 (but having Mary collect half of what Joe's benefit amount was at age 66) means our couple gets $4,550 monthly instead of the $3,500 total if both had filed at age 66. Especially considering the erosion of inflation, that extra $1,050 will come in handy every month.

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