



Social Security Maximization-2 Examples

Hans and Tom discuss Social Security using the following document in our video entitled "Social Security Maximization-2 Examples".

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SINGLE - ALICE

- AGE 65, RETIRED
- FRA = 66 + 10 MONTHS
- GOOD HEALTH
- SIGNIFICANT RETIREMENT SAVINGS
- AGE 65 BENEFIT = \$3,292/MONTH
- FRA BENEFIT = \$3,800/MONTH
- AGE 70 BENEFIT = \$4,610/MONTH

RECOMMENDATION - DELAY UNTIL 70
RECOMMENDATION IF ALICE IS IN POOR HEALTH

- FILE IMMEDIATELY AND COLLECT THE \$3,292/MONTH

COUPLE

- BOTH AGE 65, RETIRED
- FRA = 66 + 10 MONTHS
- ONE OR BOTH IN GOOD HEALTH
- SIGNIFICANT RETIREMENT SAVINGS
- MARY FRA = \$3,600 @ 70 \$4,584
- GEORGE FRA = \$2,000

RECOMMENDATION - GEORGE TO FILE @ FRA \$2,000/MONTH

- MARY TO FILE @ 70 \$4,584/MONTH

IF GEORGE OR MARY DIES AFTER 70, SURVIVOR LIVES ON WITH LARGER CHECK

INCOME
ESTATE
TAXES

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Social security planning/maximization for Alice, single, age 65, just retired, has plenty of savings to live from if she chooses to delay social security claiming. Alice's FRA is 66 + 10 months. Alice's 66 + 10 month benefit is \$3800 monthly. Alice is in good health. At what age should Alice file for Social Security?

Given Alice's circumstances—age 65, retired, with sufficient savings to live on and in good health—the optimal strategy for maximizing her Social Security benefits would generally be to delay claiming benefits until age 70.

Here's why:

Key Facts:

- **Alice's FRA**: 66 years and 10 months
- **Alice's benefit at FRA**: \$3,800 per month
- **Health status**: Good health, which implies a longer life expectancy
- **Savings**: Sufficient to cover expenses without needing Social Security immediately

Delayed Retirement Credits:

If Alice delays claiming her Social Security benefits beyond her FRA, she will receive an increase of 8% per year up to age 70. This is known as "delayed retirement credits." The increase applies to the years after her FRA up to age 70.

If Alice waits until age 70, her monthly benefit will increase significantly due to these delayed retirement credits.

Calculation:

- **Increase for delaying**: 8% per year for 3 years and 2 months (or 32 months total)
- **Total increase**: $8\% \times (32/12) = 21.33\%$

So, by waiting until age 70, Alice's benefit will increase by 21.33%.

- **Benefit at age 70**: $\$3,800 \times 1.2133 \approx \$4,610$ per month

Why Delay Until Age 70?

1. **Maximizing lifetime benefits**: If Alice lives beyond her early 80s, she will receive more total benefits by waiting until age 70. Given that she is in good health, this strategy makes sense.

2. **Break-even age**: The break-even age for delaying Social Security to age 70 usually falls in the early 80s. If Alice lives longer than this (which is likely if she's in good health), she will end up with more cumulative benefits over her lifetime.

3. **Longevity risk protection**: Social Security serves as a form of longevity insurance, providing inflation-adjusted income for life. Delaying until 70 maximizes this guaranteed lifetime income.

Summary of Recommendation:

- **Optimal claiming age for Alice**: Age 70
- **Monthly benefit at age 70**: Approximately \$4,610

Delaying benefits until age 70 provides the maximum monthly benefit, which is especially beneficial given Alice's good health and the fact that she does not need immediate income due to her savings.

How would the recommendation change if Alice's health was failing and she didn't anticipate living beyond age 75?

If Alice's health is failing and she doesn't anticipate living beyond age 75, the recommendation for claiming Social Security would change significantly. In this case, the goal would be to maximize her benefits during the years she expects to live, rather than delaying to maximize lifetime benefits.

Key Considerations:

- **Shorter life expectancy**: If Alice expects to live only until age 75, delaying benefits until age 70 would reduce the number of years she could collect higher benefits, and she may not live long enough to break even from the delay.
- **Maximizing near-term income**: Given the shorter life expectancy, it's more advantageous for Alice to claim benefits earlier to ensure she receives as much income as possible during the years she is likely to live.

Optimal Strategy:

- **Claim benefits at Full Retirement Age (FRA)**, or earlier if necessary:
 - **FRA (66 years and 10 months)**: Alice would receive \$3,800 per month.
 - **Early filing (age 65)**: If Alice files immediately at age 65, her benefit would be reduced by approximately 13.33% from her FRA benefit.
 - Calculation: $\$3,800 \times (1 - 0.1333) \approx \$3,292$ per month at age 65.

Key Recommendation:

- **Claim immediately at age 65**: If Alice is in poor health and doesn't expect to live beyond age 75, she should start receiving benefits as soon as possible. This way, she can collect the benefits for a longer period (10 years instead of 5 years if she waits until 70).

By claiming now, Alice will secure more monthly income for the years she expects to live, even though the monthly amount will be lower than if she waited until FRA or age 70.

Summary of New Recommendation:

- **If Alice expects to live until 75**: She should claim Social Security **now** at age 65 and receive approximately **\$3,292 per month**.

This approach maximizes the total amount of Social Security benefits Alice receives over her shortened expected lifespan.

Social Security Planning/maximization for a couple both age 65 and retired. Both have full retirement age (FRA) of 66 and 10 months. Mary's FRA benefit is \$3600 monthly and George's FRA benefit is \$2000 monthly. The couple has enough savings to live off if either one chooses to delay claiming Social Security benefits. At what age should each of them apply for benefits?

In order to maximize Social Security benefits for a couple like Mary and George, both aged 65 and retired, a strategy needs to consider factors such as life expectancy, the difference in their benefit amounts, and spousal benefits. Here's an optimal strategy that could maximize their lifetime benefits:

Key Facts:

- **Mary's Full Retirement Age (FRA) benefit**: \$3,600 monthly
- **George's Full Retirement Age (FRA) benefit**: \$2,000 monthly
- **Both FRA**: 66 years and 10 months
- They have enough savings to delay benefits.

Strategy:

1. Mary (Higher Earner): Delay Benefits Until Age 70

Mary's benefit will increase by 8% per year after her FRA due to delayed retirement credits, maxing out at age 70. By waiting until age 70, Mary's benefit would increase by 27.33% (8% per year for 3 years and 2 months).

- **Mary's benefit at age 70**: $\$3,600 \times 1.2733 \approx \$4,584$ per month.

Delaying benefits is particularly beneficial for the higher earner in a couple because after one spouse passes away, the survivor can claim the higher of the two benefits (in this case, Mary's benefit if George passes away first).

2. **George (Lower Earner)**: Claim Benefits at FRA or Soon After

Since George's benefit is significantly lower, he could claim his benefits at or shortly after his FRA of 66 years and 10 months. This allows the couple to start receiving some Social Security income while still maximizing Mary's higher benefit.

- **George's benefit at FRA**: \$2,000 per month.

If George claims at 66 years and 10 months, he will receive his full benefit amount without reduction, and this income can help supplement their savings.

Consideration of Spousal Benefits:

Once George claims his benefit, Mary would be eligible for a spousal benefit, but since her own benefit is higher, she would continue to receive her own benefit amount, making the spousal benefit irrelevant in this case.

Summary of Strategy:

- **Mary** should wait until age 70 to claim her benefit, increasing her monthly benefit to approximately \$4,584.

- **George** can claim at his FRA (66 years and 10 months), receiving \$2,000 per month.

This strategy ensures the couple maximizes their Social Security benefits, particularly Mary's, which will provide a higher survivor benefit if one spouse passes away first.

Would you like to see some numbers in a side-by-side comparison, or explore different scenarios such as life expectancy or variations in the claiming ages?