Getting the Most Out of-Your Social Security

Most AFSA members now retire under FSPS, of which Social Security is a major component. Among other things, the new 2015 Social Security law ended the popular "file and suspend" option in which a lower earning spouse could draw half of the higher earning spouse's benefit while the higher earning spouse delayed collection of his or her own benefit until age 70, thus maximizing their combined lifetime benefit. So on March 2nd, AFSA hosted Social Security expert Ed Zurndorfer, frequent contributor to Federal publications on benefits, to advise over fifty AFSA members on how to get the most out of their Social Security retirement benefits under the new rules.

Social Security is more than just a retirement benefit. Mr. Zurndorfer began by stressing that Social Security is not just about the well-known retirement benefit**;** it also includes disability, family**,** survivor and Medicare benefits. For example, survivor benefits can be paid to multiple family members. A widow/widower could be eligible to receive the deceased spouse's entire benefit. Surviving children could receive up to 75% of a deceased parent's benefit until age 18 (age 19 if still in high school). Surprisingly, any former spouse married to a SS beneficiary for at least 10 years and divorced for at least 2 years may be eligible to collect a spousal benefit equal to half of his or her (living) former spouse's Social Security benefit if both individuals are at least 62 and if the former spouse claiming the spousal benefit has not remarried. There is no limit as to how many former spouses may be eligible for this spousal benefit, provided they meet the eligibility requirement. A former spouse (married at least 10 years, divorced at least 2 years) is also eligible to receive all of a deceased former spouse's SS benefit provided he or she does not remarry before age 60. As an example, Mr. Zurndorfer described a case where a father died leaving three kids under 8 years old. The kids could get up to 75% of their dad's calculated Social Security retirement benefit at the time of the dad's death until the children are age 18 (19 if still in high school). A non-working surviving spouse is eligible to receive the entire survivor benefit, known as a "father" or "mother" benefit taking care of children under the age of 16.

How to qualify to receive Social Security (SS) retirement benefits. In order to be eligible to receive a Social Security retirement benefit, you must have earned at least 40 credits of SS - thereby being "fully insured". SS credits are earned when an individual is employed by a job covered by Social Security (almost all jobs today are) and paying the FICA tax (currently 6.2%) on gross salary/wages. It used to be you had to physically work each calendar quarter of the year. But starting January 1978, you could get credit for a Social Security quarter ("quarter of coverage") for every $250 (now, $1,300 for 2017) earned in any time period. So if you earn $5,200 ($1,300 x 4) in a week or month during 2017, you would earn a maximum of four Social Security "credits", even if you didn't actually work and pay the FICA tax during the rest of 2017. That means you would have to work a minimum of 10 years in order to obtain your minimum 40 credits to be "fully insured". Your Social Security statement (can be obtained at www.socialsecurity.gov/myaccount) shows your Social Security earnings history that are used to calculate your Social Security benefits. The Social Security Administration obtains an individual's earnings history via a copy of the individual's W2 that his or her employer sends. Unfortunately, sometimes employers send wrong W2 information. Employees are therefore encouraged to check their statements annually and if there are any mistakes, have their payroll office issue a new W-2 and then send a W-2c (corrected W-2) to the Social Security Administration.

When to start collecting Social Security. While you can begin collecting Social Security starting at age 62, benefits are permanently reduced if taken before you reach your full retirement age (FRA). Traditionally that was 65 years old, but the FRA was increased for (then) future retirees by the 1983 Act reforming Social Security. For anyone born between 1943 and 1955, FRA was raised to 66 years old. For those born in 1955, FRA is 66 plus 2 months, and 2 months are added for each subsequent year to 66 plus 10 months for anyone born in 1959. For those born in 1960 or later, FRA is 67 years old. If one takes Social Security early before one's FRA - perhaps due to a financial need - then one locks in a lower life-long benefit and survivor benefit. But one can change one's mind within one year and "reset the benefit clock," provided one pays back the benefits already received.

Maximize Social Security benefits by waiting? If one does not begin to take Social Security benefits at FRA, then the benefits will increase by 8% each year until they reach a maximum at age 70, a guaranteed 8% rate of return which one could not possibly guarantee through investing on one's own. Mr. Zurndorfer recommended considering delaying the start of Social Security benefits until age 70 in order to maximize both the retirement as well as the survivor benefit. For example, a $1,000 monthly benefit at Full Retirement Age (FRA) of 66 would be only $750 per month at age 62 but would be $1320 per month at age 70. Of course, how long to wait to start taking your Social Security benefit depends a certain extent on your estimation of your own longevity, health, and personal financial situation. Another factor is that before reaching one's FRA, if one is still working, then there is an "earnings test" by which one's earned income could result in a reduction, if not an elimination, of one's Social Security monthly payment if the earned income exceeds a set amount, an amount that changes from one year to the next. (For example, in 2017, anyone younger than FRA receiving Social Security could earn a maximum of $17,690 with no reduction; for every $2.00 earned above $17,690, Social Security benefits are reduced by $1.00.) He also explained how the WEP (Windfall Elimination Provision) could reduce the SS benefit for those who receive a CSRS/FSRDS pension from which FICA taxes had not been deducted.

What about starting Social Security benefits earlier? Kids under 18 can get a Social Security benefit equal to half of what a parent is receiving. If the parent waits to file for benefits, those kids get nothing. Family benefits (this includes for a spouse, children and dependent parents and does not include the primary recipient's monthly benefit) are capped at 150% of the primary recipient's benefit (the primary insurance amount or PIA). In some cases, this family benefit for a few years, on top of the primary recipient's benefit, may outweigh the benefits of waiting to maximize the amount of one's Social Security payment. It ends up being a very personal family decision which even financial planners probably can't decide for one.

What funds should one draw on if delaying filing for Social Security benefits? If one needs funds now but wishes to delay filing for Social Security to maximize the benefit long term, what other funds should one tap? Ed Zurndorfer cautioned against drawing down non-taxable accounts such as Roth IRAs and the Roth TSP, because these accounts grow so robustly tax free. Roth IRA's and Roth TSP's can be kept for a "rainy day," because withdrawals will not be taxed. That's an important consideration when one's taxable income presumably peaks after age 70, especially if one has maximized one's Social Security benefit by waiting until 70 to start drawing it and because at 70, one must take the required minimal withdrawal (RMD's) from TSP's and IRA's, potentially pushing one into a higher tax bracket. Neither will one's heirs be taxed on tax-free Roth IRA's or Roth TSP's. But heirs are taxed on the regular withdrawals they are required to take from traditional TSP's and IRA's which they inherit. So drawing down those traditional retirement accounts first may be advisable, leaving lower balances in taxable accounts for one's heirs. By contrast, heirs of non-retirement investments will benefit from the "stepped up basis," which essentially eliminates any capital gains that can be taxed when inherited.

Draw down balances in taxable accounts before income peaks at age 70. If in good health, one might start drawing down one's TSP balance in one's late 60's, because in the year one becomes 70 and ½ years old, and every year thereafter, one is forced to take a Required Minimum Withdrawal (RMD) which may put one in a higher tax bracket, particularly if one waited to start taking one's maximum Social Security benefit at age 70. Furthermore, tax-free Roth TSP and IRA withdrawals do NOT contribute to one's income for the purpose of raising one's Medicare Part B premium. So again, drawing down the accounts first which will be counted as income for calculating one's Medicare Part B premium is usually advisable.

"File and Suspend" no longer an option for couples to maximize Social Security benefit. Changes to the Social Security law in 2015 ended the popular "File & Suspend" option, by which the higher earning spouse could file for his or her benefits when they reached FRA but then suspend them, so they could grow at that great, guaranteed 8% annual rate until they reached the maximum benefit at age 70. But the lower earning spouse could file to receive half of that suspended benefit, enjoying it for years, until the higher earning spouse ended the "suspension" to collect the maximum benefit at age 70 (as much as 32 percent higher). At that point, the lower earning spouse could refile for half of his or her spouse's higher, maximized benefit. But this "file and suspend" option is no longer possible.

Two options remain for couples to maximize their Social Security benefits through the spousal benefit. If the lower earning spouse was born before January 2, 1954 and if his or her own Social Security benefit is more than half of the higher-earning spouse's benefit, at FRA he or she can file for half of the higher earning spouse's benefit (provided, of course, that the higher earning spouse is drawing his or her benefit). Then at age 70, that lower earning spouse can switch to his or her own Social Security benefit, up to 32% larger that it would have been at FRA. In so doing, the lower earning spouse will maximize his or her lifetime benefits. Conversely, the lower earning spouse could take his or her own Social Security benefit at FRA (they could take at 62, but would be penalized 5/9% per month for every month before they reached FRA). They could then "upgrade" to half of the higher earning spouse's benefit when that spouse retired at 70, to maximize his or her own Social Security benefit. Note again that in either case, the lower earning spouse must have been born before January 2, 1954.

Special considerations for those drawing FSRDS or CSRS pensions. Also, those with their own CSRS or FSRDS pensions (for which Social Security tax had not been withheld) could have their Social Security benefit reduced by the Windfall Elimination Provision (WEP). However, WEP does not reduce one's survivor benefit. In contrast, the Government Pension Offset (GPO) does not affect one's own Social Security benefit. The only individuals who are affected by the GPO are those receiving a pension for which they did not pay Social Security tax (such as CSRS or FSRDS annuitants) and who are eligible for Social Security spousal, formal spousal, widow or widower benefit. The GPO essentially eliminates the Social Security spousal and survivor benefit for a CSRS or FSRDS annuitant.

How to file for Social Security benefits when one is ready to file. Mr. Zurndorfer encouraged everyone to file for Social Security online (www.socialsecurity.gov) once they decide to file. But for anyone with active duty military service between 1957 and 2001, he urged them to apply at a local Social Security Office and bring their DD214, in order to receive extra Social Security earnings credit for their military service. Also, those with CSRS or FSRDS pensions, from which Social Security tax hadn't been withheld and whose Social Security benefits will be reduced by WEP, should apply in person to make sure that the Social Security Administration is aware they are receiving CSRS or FSRDS pension. Online applications might not calculate WEP correctly, leaving retirees with huge bills from Social Security later on, when Social Security catches the mistake and "claws back" the overpayments. Also, in retirement, one can actually increase one's Social Security benefit by working a few more years. Social Security calculates benefits based on a worker's top 35 years; by working a few more years at a higher salary than that 35-

year average, a retiree can replace a few lower earning years with higher earning years, increasing the 35-year average.

Three priorities for retirees to consider in order to maximize their lifetime Social Security benefits. In conclusion, Mr. Zurndorfer stressed three priorities for retirees to consider. First, one should compare one's Social Security benefits at different filing ages (between 62 and 70), assess one's needs, and decide the best age for oneself and perhaps one's spouse to file for Social Security benefits. Second, one should draw down traditional TSP's and IRA's wherever possible to enable one to delay receiving Social Security, in order to maximize one's Social Security benefit. Doing so reduces the amount of future RMD's (required minimum distributions), which are taxed and which can potentially put one into a higher tax bracket. One should keep Roth TSP's and Roth IRA's as nest eggs or rainy day funds, because they are never taxed, allowing wonderful financial flexibility. Finally, even though the popular "file and suspend" option has been eliminated, lower earning spouses born before January 2, 1954 can still help maximize Social Security benefits as a couple by pursuing one of two options, whichever fits their situation. One option is taking their own Social Security benefit at FRA but then filing for half of their higher-earning spouse's benefit when that spouse reaches 70. The other option is for the lower earning spouse, at FRA, to file for half of their higher earning spouse's benefit, but then refile for their own benefit at age 70, when it reaches its maximum. It's simply a case of which option best fits their circumstances. Mr. Zurndorfer graciously stayed late to answer a couple dozen questions. **The entire presentation** is on a video under "Medicare and Social Security" at http://www.afsa.org/afsa-retiree-services.

For additional questions or concerns, please contact AFSA Retiree Counselor, Todd Thurwachter via email at Thurwachter@afsa.org or by phone at (202) 944-5509.