InvestmentNews DAILY
October 04, 2011

Tips on tapping Social Security

Maximize your payout

(Story: Bloomberg News)

Social Security is under increased scrutiny as the nation's biggest retirement program shows signs it may need an overhaul to extend its life. While the debate over how to best manage Social Security continues, there are ways to ensure that you're taking every step you can to get the maximum payout. Here's some background, as well as strategies to put you on the right track.

First, there's what you pay in

Practically everyone in the U.S. pays 6.2 percent of income, up to $106,800, into the Social Security Trust Fund. Employers match that with another 6.2 percent. In 2011 the employee contribution rate was cut to 4.2 percent, though the employer's share remains at 6.2 percent. For 2012, President Barack Obama has proposed dropping the employee's and employer's contribution to 3.1 percent each. Social Security payments started at 1 percent of income in 1937 and gradually increased until they hit 6.2 percent in 1990. Self-employed workers contribute the full 12.4 percent.

Cost-of-living adjustments

When benefits begin, Social Security makes a cost-of-living adjustment (COLA) based on the percentage increase in the Consumer Price Index. "This is a fairly unique benefit of Social Security," says Merton Bernstein, professor emeritus at Washington University in St. Louis. "There is a tremendous reluctance among other pension funds to offer full cost-of-living adjustments because it is regarded as a burden on the pension." Annual cost-of-living-increases have ranged from more than
14 percent in 1980 to 1.3 percent in 1998. Last year marked the first time that there was no adjustment. For 2012, the estimated increase in the Social Security cost-of-living adjustment is 3.5 percent.

Alternative state plans

(Photo: Bloomberg News)

When Social Security was enacted in 1935, state and local government employees were excluded from coverage. It was believed that the federal government should not have the authority to tax state and local governments. Today, Social Security is available to state and local government employees but many states, including New York, California and Texas, instead provide alternative plans. Contribution rates and employer matching rates vary. Washington University's Bernstein says that while state plans often provide better returns, public employees who withdraw contributions before retiring forfeit their employers' contribution and greatly reduce their benefit.

Limits on earnings

If you have reached full retirement age — 65 to 67 — there is no limit to what you can earn and still keep your Social Security benefits. However, if you get Social Security and are younger than full retirement age you can only earn up to $14,160 a year before you begin to lose benefits. For every $2 you earn above that amount, Social Security will deduct $1 in benefits.

Waiting's big benefits

The Social Security benefits you receive can differ greatly depending on the age at which you start taking them. Say you were due to receive $1,000 a month at age 66. If you claim at age 62, your first opportunity to start claiming benefits, your monthly payment will be $750. If you wait until you're 70, the monthly benefit rises to $1,320—an increase of 76 percent. Keep in mind that after you reach full retirement age, which is 65 to 67, you get an increase of 8% for every additional year you wait to claim, until age 70.

The marriage benefit

If your spouse has earned a bigger Social Security benefit than you, you can claim 50 percent Social Security benefits on your spouse's income — as long as that amount would be more than your own Social Security payments would be if you were to claim. You can then wait until after you reach full retirement age to switch to your own Social Security claim, thereby receiving the maximum payout.

The twice-divorced benefit

You can collect on your former spouse's Social Security benefits as long as you were married for at least 10 years, are 62 or older and the benefit you'd receive from your ex-spouse is greater than the benefit you'd receive from your own work. If you remarry, you lose that benefit unless your second spouse dies or the marriage ends in divorce. In that case, you can claim benefits from the ex-spouse who would generate the **greatest payment.**

Double dipping

If you recently started collecting Social Security but now wish you'd waited so you would receive a higher monthly benefit, you can turn back time. As long as it has been under 12 months since you claimed, you can pay back the benefits you received and the government won't charge you taxes. If you have already paid taxes, you can request a refund. Then you can do it all again later, when your payout will be higher.