“An indispensable and surprisingly entertaining guide for anyone who is retiring or thinking of retiring with *all* of the Social Security benefits they’ve earned.” —JANE PAULEY

GET WHAT’S YOURS

Laurence J. Kotlikoff,
Philip Moeller, and Paul Solman

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THE SECRETS TO MAXING OUT YOUR SOCIAL SECURITY

Laurence J. Kotlikoff,
Philip Moeller, and Paul Solman

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I dedicate this book to the flower of my life—Bridget Jourgensen.

—LAURENCE KOTLIKOFF

To Cheryl and the joy of seeing you every day.

—PHILIP MOELLER

To my grandchildren: Bella, Joe, Will, Finn, Bridget, Anderson, and Hadley.

—PAUL SOLMAN

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GETTING PAUL NEARLY $50,000 IN EXTRA BENEFITS OVER TENNIS

This book was born of a simple question—How old are Paul and his wife?

Larry and Paul were taking a break from what they call tennis, shooting the breeze, since talking is easier than running after errant shots. Larry launched into a harangue, as he often does; this one was about Social Security's impossible complexity. Paul was listening, as usual, with his skeptical journalist's ear. Or, maybe, since it was Larry, just half-listening.

Then Larry asked, How old were Paul and his wife and when were they planning to take their Social Security benefits?

Proudly, Paul told Larry not to worry: he and his wife had it all figured out. They would both wait until 70, when Paul would get something like $40,000 a year instead of the $30,000 or so if he took his benefits at 66, his "*full*"—but not "*maximum*"—retirement age, which was coming right up. Paul had been reading and saving those annual green statements from the Social Security Administration for years with their "Estimated Benefits." He'd been reading his wife's, too. As the family's financial planner, he knew just how much they were entitled to.

But how old are you and Jan? Larry asked.

What difference does it make? said Paul. Like I say, we're both waiting until 70.

It makes a big difference, said Larry.

Okay, Paul's wife would soon turn 66; he, 65.

Here's what you do, said Larry, never at a loss when it comes to speaking in the imperative. Jan should apply for her Social Security retirement benefit when she turned 66, but then "suspend" it. That is, she would make herself eligible for the benefit but wouldn't take it.

Then, said Larry, when you (Paul) turn 66, you apply *just* for a *spousal* benefit. When you each hit 70, you do as originally planned—you each take your own retirement benefits, at which point they will start at their highest possible values.

Or, Larry continued, clearly thinking aloud, *you* apply and suspend at 66 and *Jan* begins taking the spousal benefit, since you earned more than she did, didn't you?

Paul can be quite dismissive of what he considers Larry's flights of fantasy, Larry being the epitome of "often overstated, but never in doubt." Yet Paul had begun to pay close attention. Having reported on business and economics on public television for decades, Paul understood the intricacies of business, finance, and economics better than most Americans (though admittedly, that may not be saying much). The exceptions, however, were the professional economists he'd befriended in the course of his career. Larry was one of them, and among the most deeply versed in financial planning.

Spousal benefits? Paul had vaguely heard of them. He had, however, never imagined he or his wife were eligible for any, though, had you asked him why not, he couldn't have told you.

Spousal benefits for four years. That should be almost $50,000, Larry quickly estimated.

An aside is in order here. Larry is a world-famous scold or, he will tell you, a dead-on Cassandra, with respect to Social Security's insolvency. Advising people like Paul to take extra benefits from the system while himself decrying the system's funding shortfall was not what Paul expected to hear. (More on that in Chapter 18.) But Larry believes it's not fair that some beneficiaries get more than others simply because they *know* the system's rules. And Paul and Phil agree with him.

Fifty thousand dollars? Explain, Paul said.

Well, if Jan's Social Security full retirement benefit were, say, $24,000, you'd be eligible to get half that as a spousal benefit: about $12,000 a year. And if you get $12,000 a year from age 66 to age 70, that's $48,000. If, on the other hand, Jan takes the spousal benefit on *your* Social Security earnings record, she'll get more per year but for only three years instead of four, because she'll be 67 by the time you become eligible, only three years from 70. But still, that would mean . . . etc.

However number-laden the trees, the forest was plain to see: there seemed to be an unambiguous strategy for maximizing benefits that Paul and Jan were eligible to collect, having contributed for decades, but had been entirely unaware of.

If this is true, said Paul, I'm buying you dinner. Anywhere in the world.

Boston will do, said Larry, who also lives there. But there are dozens of really important details like this one. What we should really do (we're compressing here) is write a book. And we should include Phil Moeller, a retirement expert who's already spoken with me about such a project. He's been a financial journalist for years, and has written article after article for *U.S. News & World Report* and *Money* about retirees who collectively leave tens of *billions* of dollars in Social Security benefits on the table by failing to claim everything to which they are entitled. Plus, Phil loves the Red Sox (although not as much as the Baltimore Orioles) and the New England Patriots.

Fast-forward. Paul's wife came of age (66). She filed and suspended—by phone. The person she talked to couldn't have been nicer. *Paul* came of age. He filed for a spousal benefit. The Social Security woman on the phone had never heard of file-and-suspend, checked with her supervisor, and came back on the line to thank him for enlightening her about a strategy she could now share with everyone who called. When they hit 70, both Paul and his wife called again, were again reprocessed—graciously, competently, and within minutes, though his wife was nonplussed when asked if she'd ever been a nun. And Paul has since taken Larry to dinner, and a pretty good dinner at that.

SOCIAL SECURITY VERBATIM

YOU'RE RIGHT THERE (AND WE'RE RIGHT HERE)

"The regulations that require a notice for an initial determination contemplate sending a correct notice. We consider that an initial determination is correct even if we send an incorrect notice."

ALL QUOTES FROM OFFICIAL SOCIAL SECURITY RULES

GET WHAT'S YOURS—AND YOU DON'T EVEN HAVE TO BUY LARRY A MEAL

We've written this book to help people maximize the Social Security benefits they have earned and therefore, we believe, deserve to get. We three authors—Boston University economist Laurence Kotlikoff, journalist and aging expert Phil Moeller, and *PBS NewsHour* economics correspondent Paul Solman—have spent years studying the system and making it intelligible to the public.

Why have we bothered to write this book?

Because Social Security is, far and away, Americans' most important retirement asset. And that's not only true for people of modest means. Middle-income and upper-income households actually have the most to gain, in total amounts, from getting Social Security right. Toting up lifetime benefits, even low-earning couples may be Social Security millionaires. And except for the Bill Gateses and Warren Buffetts of the world—whose percentage of the population was exceedingly modest last we checked—Social Security is a *very* meaningful income source.

So, this book is for nearly every one of you who's ever earned a paycheck and wants every Social Security benefit dollar to which you are entitled—entitled because you paid for it. You earned it. It's yours. It can even be yours if you never contributed a penny to the system but have or had a spouse, living or dead, who did. It may even be yours if you spent some of all of your career working for employers who did not have to participate in Social Security.

Perhaps you wondered, when you got your first paycheck, what the huge deduction for that four-letter word "FICA" referenced. If you learned that it stood for the Federal Insurance Contributions Act, you might have been none too pleased at first, but then assuaged by hearing that these "contributions"—week after week, month after month, year after year, out of each and every paycheck (up to a limit)—would lead to higher retirement benefits.

Even those of us who aren't superrich, but have earned and saved a lot, view Social Security as a critical lifeline. We realize, after the Crash of 2008, that no assets—not our homes, not our bonds, and certainly not our stocks—are safe from life-altering declines. We realize that even our private pensions, if we have them, may hinge on our former employer staying in business and inflation not eroding the pension's purchasing power. (It's the rare private-sector pension that boosts payments to protect against inflation.) We also know that we could, with plausible breakthrough medical discoveries, live to 100 or longer.

But isn't Social Security a bigger deal for the poor? Actually, it's not. To be sure, Social Security benefits are a crucial lifeline for lower-income beneficiaries. And, yes, Social Security benefits rise less for higher earners than do their FICA tax contributions. But benefits do rise with both time and earnings and they involve *very* big sums.

Take, for example, a 60-year-old couple, who both stop working at that age, each partner having earned Social Security's taxable FICA limit—the maximum taxable amount, starting at age 25. That maximum was $22,900 in wage income in 1979, when they began working; it's $118,500 for 2015, going up every year in lockstep with the nation's average wage increases. Running coauthor Larry's maximizemysocialsecurity.com software, a 60-year-old couple who earned at or above the payroll tax ceiling their entire lives would get $31,972 each or $63,944 a year collectively if they began taking benefits at 66, which is their Full Retirement Age (FRA). (We will have more to say about the FRA and other official Social Security terms in Chapter 3, and key terms like this one also are explained in the Glossary at the end of the book.) If they deferred benefits until age 70, they'd get $42,203 ($84,406), which is 32 percent higher than their age 66 benefits, because for every year you wait, Social Security pays you a benefit that's *8 percent higher* than the year before, even before its annual inflation adjustment.

For such a couple, collecting Social Security at 62 represents a $1.2 million asset. In other words, you'd need a nest egg of $1.2 million to produce the same amount of annual income that you'll get from Social Security, assuming you could safely earn 2 percent a year above inflation on your investments.

Now, $1.2 million is more than many upper-middle-income retirees have saved by retirement age. The net worth of a typical household headed by someone aged 65 to 69 is only a fourth of this amount and much of it is in the value of their home. And all you have to do is stay alive and those Social Security payments will keep coming each and every month—payments guaranteed by the United States government and protected against inflation. That's because every January, you get, by law, annual benefit raises that equal the prior year's rate of inflation.[1]

Moreover, there is a huge amount of money at stake in *maximizing* one's Social Security benefits. The $1.2 million valuation, large as it is, actually assumes our 60-year-old couple makes the *wrong* Social Security benefit collection decisions. It assumes they take their retirement benefits as early as possible and forgo cashing in on what are, to them, free spousal benefits like the one Paul took. If they make the right decisions, they can increase the value of their lifetime Social Security "asset" by more than $400,000, to $1.6 million!

This 33 percent increase may sound hard to believe, but it's true. The couple just needs to apply for the right benefits at the right time, as Larry advised Paul and Jan to do. Simple enough. But figuring out what to apply for and when to do it is not simple. Indeed, Social Security is the most complicated "simple" program you're ever likely to encounter.

One more story, just to drive home the point of complexity. It comes from our Technical Expert, Jerry Lutz.

One day, while Jerry still worked for Social Security, a claims representative approached him with a question. A new claimant's husband had died of a heart attack while they were having sex. They had been married for less than 9 months, the threshold for receiving survivor's benefits from Social Security. But one of the exceptions to the 9-month duration of marriage rule involves "accidental death." Up until then, Jerry had considered "accidental" to mean something like a car wreck. But his job was to research tough cases like this one. So he searched the vast Social Security rule book and found POMS GN 00305.105, which describes an accidental death in part as follows:

> A "bodily injury" occurs whenever the outside force or cause affects the body sufficiently to interfere with its normal function.
>
> The cause of the bodily injury is:
>
> > "External" if it originated outside the body. An external force can include an injury suffered due to weather conditions or exertion.
>
> NOTE: By exertion we mean an activity that involves at least moderate effort for the average person. Routine activities, e.g., standing, do not constitute exertion for purposes of finding accidental death. Circumstances which more readily lend themselves to a favorable finding of accidental death include:
>
> - an unexpected heart attack occurs during moderate exertion;
> - an unforeseen event negates the voluntary nature of an activity, e.g., an exercise machine breaks down while exercising;
> - some unintended, unexpected, and unforeseen result occurs during exertion, e.g., a fall or slip while running; or
> - a crisis or sudden peril requires strenuous exertion.

"Moderate exertion"? Arguably. "Unintended" and "unexpected"? Indubitably. And so, based on the claimant's testimony and her husband's death certificate, widow's benefits were eventually conferred, but the determination was anything but simple.

There are 10,000 baby boomers reaching retirement age every day. Each of them needs to know precisely how to get Social Security's best deal. But Paul's best moves—or Larry's or Phil's, for that matter—aren't necessarily yours. The Social Security system has 2,728 core rules and thousands upon thousands of additional codicils in its Program Operating Manual, which supposedly clarify those rules. In the case of married couples alone, the formula for each spouse's benefit comprises 10 complex mathematical functions, one of which is in four dimensions.

This book contains minimal math, excepting the "simple" formula presented in this endnote.[2] Rather, it explains in the simplest possible terms the traps to avoid and basic strategies to employ in maximizing a household's Social Security retirement, spousal, child, mother/father, survivor, divorcee, and disability benefits. That covers a whole lot of ground, which is why this book is about Social Security and nothing else. And why it's not as succinct as we (and you) might like.

We will point out Social Security's windfalls and pitfalls—explain obscure benefits and more obscure penalties; benefit collection strategies like *file and suspend* (applying for benefits, but not taking them) and *start*, *stop*, *start* (starting benefits, stopping them, and restarting them), which we bet most of you have never heard of. We'll also get into the details of Social Security's *deeming* rules (being forced, in some cases, to take certain benefits early at a very big cost) and related gotchas that can handicap you financially for the rest of your life.

We'll walk you through Social Security's significant incentives to get divorced, to get married, or to live in sin depending on your circumstances. Do you know about Social Security's hidden payoff to working late in life? About the Earnings Test (loss of benefits at certain ages from earning too much) that may not really be a test at all? How about the Family Maximum Benefit (the limit to the benefits your family can collect based on your work record)? It's actually not a maximum. It's also unfairly low for poor, disabled workers.

Throughout, we'll emphasize the often huge payoff from waiting to collect benefits. But we'll also explain lots of situations where it's best *not* to wait. We'll even throw in the mythical man with four ex-wives who could theoretically collect divorce or widower benefits on each of them. The ever-surprising and often frustrating Social Security Sudoku puzzle goes on and on. We're here to solve it.

We're also relieved that you came to us to learn about Social Security and aren't relying solely on Social Security's advice. Frankly, Social Security is not the first place we'd send you to learn how to maximize your lifetime benefits. With the exception of the system's small number of Technical Experts (including former Technical Expert Jerry Lutz, who reviewed this book for accuracy), many of Social Security's official or phone support staff are insufficiently trained or too beleaguered to dispense information or advice about the system's ins and outs. And they aren't supposed to give advice anyway. We're going to provide specific examples of people losing lots of money by believing or following what the well-meaning folks at Social Security told them. Unfortunately, the local Social Security office is single-stop shopping for most retirees making their benefit decisions. And many of them are waiting pretty late in the game before even thinking about managing what for most retirees is their largest financial asset.

At the surface level, Social Security is complex because it has so many seemingly crazy rules. At a deeper level, its complexity reflects social policy that, when translated into practice, produces results that often defy common sense. An example is paying survivor benefits, based on the work records of ex-spouses, to divorcees who remarry, but only if they remarry after reaching age 60. Get remarried at 59 and 364 days and you're out of luck. Another perversity is paying benefits to mothers (or fathers) of young children if their spouse is collecting retirement benefits, *but only if the parents are married.* If the parents are divorced, too bad.

The result is a government retirement system that few if any can decipher without the kind of help provided here. And yet, for most people, Social Security is their *only* retirement option. Moreover, given the virtual disappearance of company pensions, except for those grandparented under old plans, and the failure of most Americans either to contribute or contribute fully to 401(k), IRA, and other retirement accounts, Social Security is, well, pretty much it for pretty much all of us.

Our book will be organized around general lessons, supporting examples, specific game plans tailored to your situation, and answers to actual questions posed to Larry in his enormously popular "Ask Larry" column, which appears weekly on Paul's *PBS NewsHour* Making Sen$e Business Desk (http://www.pbs.org/newshour/making-sense/).

A warning that we'll issue up front and reiterate throughout the book: we will often repeat ourselves. The worst that can happen, we figure, is that you'll simply skim and skip ahead. Much worse would be your forgetting some of your key options and thus nullifying, at least for yourself, the whole point of *Get What's Yours*. And for those of you who might think the repetitions betray a lack of confidence in our readers, know that we authors ourselves still check our notes on these items when we hit the key age milestones, despite having written about Social Security for years.

PAUL AND JAN GOT WHAT'S THEIRS. TIME TO GET WHAT'S YOURS.

This book was born of Paul's first Social Security encounter with Larry. We wrote it to help people like you, who don't happen to know Larry, get every last penny Social Security owes you. We've spent a huge amount of time trying to come up with clear, correct answers to questions we all face so you don't have to.

Finally, we think it's more than legitimate for you to feel *entitled* to these benefits, a feeling deeply rooted in all those years of FICA payments, buttressed by the annual Social Security statements itemizing your past contributions and projecting your future benefits, and guaranteed by our politicians' unwavering promises to defend the system and what it owes you. You have been forking over payroll taxes your entire working life; you deserve to get what you paid for; and it's the law.