Social Security Tips for Singles

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Not married? Here are some strategies to help you maximize your Social Security benefits.

Figuring out when and how to take Social Security can be a complicated decision, even if you are single. Here are some strategies to consider to help make the most of your Social Security benefits if you're widowed, divorced, or have never married.

Things to consider...

1. The longer you delay Social Security, the higher your monthly benefits.
2. Divorced: Your benefit can be based on your ex-spouse's work history.
3. Widowed: Consider claiming survivor's benefits or your own, and switch later.
4. Consider all your income sources when making a decision on Social Security.

First, some basics

You can start taking Social Security, receiving reduced benefits, when you reach age 62, rather than waiting until your full retirement age (FRA). FRA ranges from 65 to 67, depending on when you were born. (See your full retirement age.) If you take benefits before you reach FRA, Social Security will reduce your monthly payments. If you delay collecting until you reach FRA, the amount of your monthly benefit will increase until you reach age 70.

Generally, the longer you delay taking Social Security, the higher your monthly benefits may be, and the gains from waiting can often be significant. Indeed, millions of Americans could help ensure a brighter financial future for themselves simply by hitting the pause button on Social Security for a few years.

Of course, if you wait to collect, you may not live long enough to enjoy the added value of increased payments. Because none of us knows when we will die, you need to make some reasonable assumptions about your life span, based on your health and family history. To help you estimate when you may break even, use the Social Security Administration Retirement Estimator.

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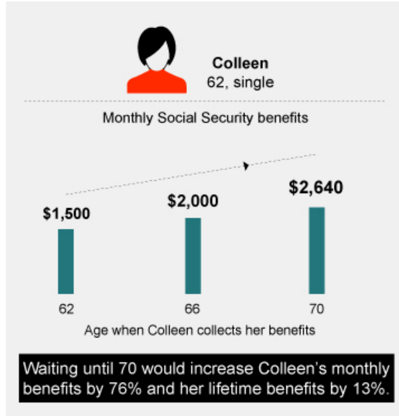
If you are single

Some people want to retire as soon as they can for health reasons. But if you don't need to, consider what you may be giving up if you take Social Security at age 62. Taking benefits before your FRA can cost you now and in the future. Consider the following hypothetical example. Colleen's FRA is 66. If she starts taking benefits at age 62, she will get $1,500 a month. If she waits until she is 66 (her FRA) to collect, she will receive 33% more, or $2,000 a month. If she waits until age 70, her benefits will increase another 32%, to $2,640 a month.[1] And if she were to live to age 89, her lifetime benefits would be about $47,000, or 13%, greater if she had waited until age 70 to collect benefits.[2] (*Note*: All figures are in today's dollars and before tax; the actual benefit would be adjusted for inflation and would possibly be subject to income tax.)

The longer you wait, the higher your benefit.



Note: All lifetime benefits are expressed in present values, calculated using an inflation-adjusted discount rate and life expectancy of 89. The numbers are sensitive to, and would change with, the discount rate and life expectancy assumptions.

But that is only part of the story. If you are working, you don't have to live on your savings. And if you stop working full time and leave a job with good pay and benefits, it may be difficult to ever regain that level of compensation if you need to return to work later. Also, as you approach retirement, you're often at the peak of your earnings and your ability to build retirement savings. Keep working and you can make “catch-up” contributions to tax-deferred workplace savings plans. Catch-up contributions enable you to set aside larger amounts of money for retirement. For example, the limit on pretax contributions to 401(k) plans is $17,500 in 2014, but if you are age 50 or older, you can invest an additional $5,500 each year. *Note*: These amounts are subject to cost-of-living adjustments (COLAs).

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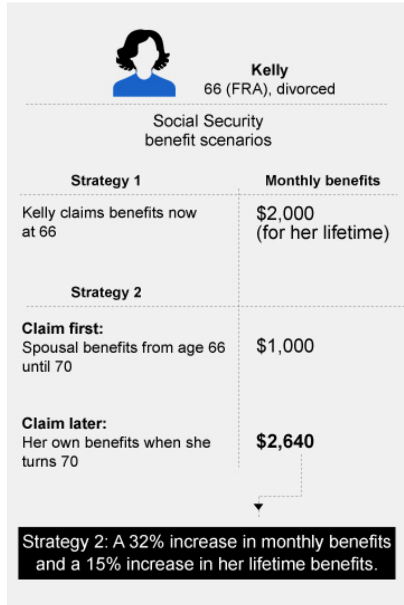
If you are divorced

Just because you're no longer married doesn't mean that your former spouse's work record stops giving your retirement a boost. Once you reach age 62, you may be eligible to receive benefits based on your ex-spouse's work history—with some stipulations. You must have been married for at least 10 years, and you must still be unmarried. These payments are equal to 50% of your spouse's FRA benefits if you start collecting at full retirement age—less if you take Social Security early.

What if you also worked? If you are eligible for Social Security benefits based on your own work history, Social Security will pay your amount first. But if your ex-spouse's benefit is higher, the difference will be added to your benefit. The benefit will be reduced if you haven't reached FRA. If you have reached FRA, you can choose to receive only your ex-spouse's benefits, let the amount of your own Social Security payments grow, and then switch to claiming your benefits later.

Claim your spousal benefits now, and switch to your own later.



Note: All lifetime benefits are expressed in present values, calculated using an inflation-adjusted discount rate and life expectancy of 89. The numbers are sensitive to, and would change with, the discount rate and life expectancy assumptions.

Finally, you can claim survivor benefits if your ex-spouse dies, so long as your marriage lasted 10 years or longer. These rules are complex, however, especially if there's any possibility that you could marry again. So it's always wise to contact the Social Security Administration (800-772-1213).

Also, the fact that you collect Social Security will not affect your ex's benefits, even if he or she remarries. To familiarize yourself with all the rules, read the Social Security Retirement Planner: If You Are Divorced.

Consider this hypothetical example: Kelly and her ex-spouse, John, are both 66 years old. They are both eligible for their own retirement benefits of $2,000 a month at age 66 (their FRA). Because their marriage lasted more than 10 years, Kelly is also eligible for $1,000 in spousal benefits, which is less than her own. She can claim her benefit today and collect $2,000 a month for the rest of her life. Alternatively, she can elect to collect $1,000 of spousal benefits only for the first four years and delay her own benefits to age 70. By then, her benefit would have grown to $2,640 per month, a 32% increase. If she lives to age 89, under the second scenario, her lifetime benefit will be $64,000 higher, which is almost a 15% increase.

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John can also do the same thing—elect to collect his spousal benefits at age 66, and then switch to his own benefits at age 70.[2]

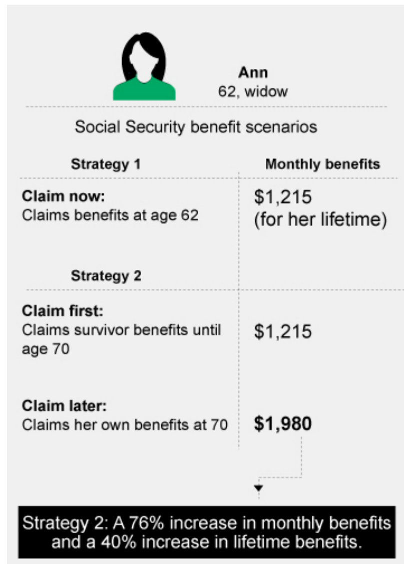
If you are widowed

If you are a widow or a widower, you are eligible to collect your former spouse's Social Security payments as a survivor benefit. Again, if you wait until FRA to take payments, you can receive 100% of that benefit—less if you collect before your FRA. (The rules for survivor benefits and regular Social Security benefits differ. Read Survivors Planner: How Much Would Your Benefit Be?) You can also take whichever payment is larger: a monthly check based on your own work history, or the survivor's benefit.

Your choice doesn't have to be permanent. There are two strategies worth considering:

Claim survivor's benefit, then switch to your own. First, you can claim a survivor's benefit, let the amount of your own Social Security payments grow, and then switch to claiming your benefits later. This may work best if you're under age 70 (because your own payments will only increase until you're 70) and have a relatively high benefit at FRA compared with that of your deceased spouse.

Claim survivor's benefit, then switch to your own.



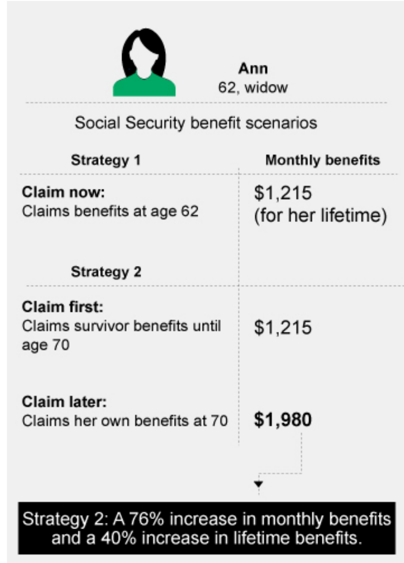
Note: All lifetime benefits are expressed in present values, calculated using an inflation-adjusted discount rate and life expectancy of 88. The numbers are sensitive to, and would change with, the discount rate and life expectancy assumptions.

Consider this hypothetical example. Ann is 62 years old and is eligible to get $1,500 in benefits at her FRA of 66. Her husband, John, started taking monthly benefits of $1,500 at age 62, but died this year at age 66. If Ann claims benefits now, which is before her FRA, she would receive a survivor benefit of $1,215 because it is higher than her own benefit. If you are a surviving spouse, Social Security automatically defaults to the higher amount—your own or your survivor benefit. Alternatively, she can elect to receive survivor benefits to age 70, and then switch to her own benefits. By then her own benefits would have increased to $1,980 a month, a 76% increase in monthly benefits. Ann would earn more than $115,000 in extra payments if she lived to age 88, boosting her lifetime benefits by about 40%.[2] These rules are complex, however, and you should consider speaking with a Social Security representative.

Claim your own benefit now; switch to survivor's later. Many retirees are surprised to learn that survivor benefits can increase after a spouse dies, but they do—until you reach FRA. This strategy may work best if you're younger than full retirement age and you will have a low monthly benefit at FRA compared with that of your deceased spouse.

For example, Mary Ellen is 62 and is currently eligible for $563 a month in benefits and $750 a month at her FRA. Her husband, Patrick, started taking benefits at age 62, was getting $1,500 a month, and died this year at age 66. As in the previous example, if Mary Ellen claims benefits at 62 (before her FRA), she would receive $1,215 a month. If you are a surviving spouse, Social Security automatically defaults to the higher amount—your own or your survivor benefit. But if she chooses her own lower benefits of $563 for the first four years of her retirement, by the time she hits FRA, her survivor benefit will rise to $1,500 a month, a 23% increase. She could then switch to that higher amount, and increase her lifetime benefits by $25,000, or almost 9%, if she lives to age 88.[2]

Claim your own benefit now; switch to survivor's later.



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Find your own strategy

Don't think of Social Security as just a direct deposit once a month; it's an inflation-protected component of your overall retirement income. Consequently, you should not determine your strategy for Social Security benefits in isolation—instead, you should strive to maximize your total retirement income. Delaying your benefits will boost your monthly payments and, potentially, your total income stream later on.

However, if you wait to age 70 to collect benefits and you are not working, you need to make sure your other sources of income, such as pensions, annuities, and investments, meet your expenses. If you don't do so, delaying Social Security could leave you withdrawing from your other assets more quickly than you should, which could be a problem later in retirement. So, take a few minutes and project your future benefits, based on various scenarios, to help determine when it's best to start taking Social Security. Doing so may help you maximize your benefits, which could contribute to your financial well-being in retirement.

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1. The hypothetical examples were calculated by Strategic Advisers, Inc., based on Social Security payout tables, as of May 2014. Strategic Advisers, Inc., is a registered investment adviser and a Fidelity Investments company.

2. Lifetime benefits are determined by calculating the present values of the Social Security payments over time. The present values are calculated by discounting the Social Security payouts by an inflation-adjusted rate of return. The illustrations use the historical average yield of U.S. 10-Year TIPS for discounting.

The benefit calculations and discounting in this article do not account for the effect of taxes. The after-tax discount rate for one individual could be very different from that of another individual depending on multiple factors, including the sources and levels of income. For individualized estimates, try the Retirement Estimator from the Social Security Administration.

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