

Episode 65: The Ins, Outs, and everything in between of Social Security Claiming Strategies with Mary Beth Franklin

00:00

Bob French

The purpose of Retire with Style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to risaprofile.com style and sign up to take the industry's first financial personality tool for retirement planning. When it comes to all things Social Security, there's Wade, there's Chat GPT, and then there's Mary Beth Franklin. Listen and find out why.

00:49

Alex Murguia

Hey, everyone. Welcome to yes, Wade. I said I would start it, and look at me. Welcome to Retire with Style. I'm Alex. I'm here with Wade Pfau, and we have actually a very special guest, and this time, we really mean it. Sorry, Bob. We have Mary Beth Franklin, who's really I can't stress enough how much I've enjoyed my interactions with her over the last year or so. Right, Mary? When we kind of met Mary Beth when we first connected.

01:17

Mary Beth Franklin

That's right. You took me out for hot dogs at the Vienna Inn, the famous Vienna Inn.

01:22

Alex Murguia

Chili dogs at that. Chili and cheese. Here she is, Mary Beth, captain of the industry. When I take her to lunch, we're having chili dogs and a beer. I think. I don't know, at least I would, but she's literally a force of nature. She's been in the industry, in the financial advice industry. She knows it all, I mean, for quite a while. More importantly, she's just at the top of her game. I can't stress that enough. And we're so thrilled to have her. A force of nature. Mary Beth Franklin, thank you for joining Wade and myself. It's awesome.

02:00

Mary Beth Franklin

Well, thank you so much. Happy cinco de mayo to both of you.

02:04

Wade Pfau

Yes, thank you. It's clear that Alex didn't review your bio before we started. Mary Beth Franklin, the retirement editor from kiplinger. That's where many listeners may recognize your name from initially and for the last ten years as well, writing for investment news. Also you and I run in the same circles in terms of speaking at various conferences. You've really established yourself as the go to expert on Social Security, and in particular, an area that I personally have trouble explaining without sounding incredibly boring, but you've figured out a way to make it fascinating is just the rules around the different claiming strategies.

02:46

Mary Beth Franklin

I love sharing my tips and strategies of how people can maximize their Social Security benefits, because I have found this is a topic that people care more about than any other part of retirement income. Why they have paid for it their entire lives through their FICA taxes, and they want what they have feel like they are owed. People are very protective and they want to know, yes, how do I get the most out of my benefits?

03:16

Wade Pfau

Yeah. Also, there's many quirks and anomalies and tricks that people can fall into. You've done a great job at just helping spread the education around, avoiding those missteps. We're really glad to have you on the show to walk through some of those issues in a fascinating and engaging manner, which is where we would struggle on our own to try to do that. So thank you very much.

03:37

Mary Beth Franklin

Thank you both.

03:38

Wade Pfau

I know were just talking briefly before the show started that you have a quiz that just came out on Social Security and it sounded like a great way to really frame the conversation is to give ourselves this quiz and to have that as a lead and to talk about some of these different topics. Otherwise there isn't any work here.

03:57

Mary Beth Franklin

Let's see how good you are at this. In fact, each year, Mass Mutual Insurance Company puts together a quiz

for pre retirees. How Social Security fits in their overall retirement income and how much do people know about their benefits. Frankly, year after year, they find that many Americans are lacking in basic knowledge. But some things they know pretty well. For example, in most cases, if I take benefits before my full retirement age, they will be reduced for early filing. Is that true or false?

04:34

Alex Murguia

I'm looking at Wade here in a school, I would sit, like, strategically Wade. Would it be at my 11:00 or 01:00 position?

04:46

Mary Beth Franklin

Go ahead. Wade.

04:47

Wade Pfau

Yes, as the first question on the quiz, we have talked about this aspect on the show with the philosophy of claiming that would be true. Although, just to add a detail, you and I had lunch together at the Morningstar Conference just recently, and you shared something with me that I didn't know about this, which we have talked on the show already about the 8% delay factor after full retirement age. I knew that was part of the 1983 reforms, but I didn't realize it was phased in over time. Could you just tell us about the history of the fact that you get a bigger benefit as you delay your benefits past age 62?

05:23

Mary Beth Franklin

Sure. I love talking Social Security history. So, way back in 1983, the last time Social Security was in financial decline and possibly was not going to be able to pay full benefits for the first time in its history, congress appointed a bipartisan commission to come up with a solution. Because just like now, it was really hard to get Congress to agree to do anything. This bipartisan commission came up with a bunch of solutions, one of which was, hey, Americans are living so much longer, but everybody is collecting Social Security at 62 and taking this permanent haircut. What can we do to encourage people to delay collecting their Social Security benefits until they're worth more? Well, back in 1983, take you back in the time machine, interest rates were really high. They hit 18% prime rate way back when. The delayed retirement credits we talk about now, that's 8% per year for every year you postpone collecting benefits beyond your full retirement age up until age 70.

06:36

Mary Beth Franklin

They're 8% now, but in 1983 they weren't 8%, they were 3%. Interest rates were 18%. Who in their right mind would delay collecting Social Security benefits to get a measly 3% a year? Didn't make sense. The

Bipartisan Commission, which by the way was led by a guy who at the time most of us had never heard his name, but he came more familiar in later years. He was Alan Greenspan, the guy who was the chairman of the Federal Reserve Board once upon a time was the original head of the Bipartisan Commission on Social Security. Greenspan said, well what about if we raise the delayed retirement credits? Let's gradually boost them like half a percentage point every year until we get to a certain cap. What do you think guys? 8% sounds pretty conservative to me. After all, interest rates are 18% and everything. Yeah, sure, that's great.

07:31

Mary Beth Franklin

8%. This 8% would gradually be phased in until it would apply to people born in 1943 or later when they reach their full retirement age, which for those people was 66 years old. So here's a quick math lesson. 1943 birth year plus 66 full retirement age. That adds up to 2009. What else happened in 2009? Worst stock market crash we had seen since the Great Depression. For the first time the government says I'll give you 8% a year if you wait. That's where Social Security claiming strategies were born. Where else could you get a risk free 8% return? For the past decade we have lived in a near zero interest rate environment. For those people who are healthy enough because you want to actually live long enough to collect the delayed benefit and wealthy enough, what do you do for money in between? People who could afford to delay an 8% per year delayed retirement credit was a smoking hot deal.

08:35

Mary Beth Franklin

Even as interest rates are now creeping up, you still can't get 8% on a risk free investment. Any place that I know of anyway.

08:45

Wade Pfau

No, definitely not. You got that one Alex.

08:50

Alex Murguia

You know what I was thinking? What she was talking and maybe this is completely off here. Well, it probably is, but is it in the government's best interest in a selfish kind of way to get people to claim early so they don't have to pay the 8%? Are there competing incentives here?

09:07

Mary Beth Franklin

Part of it is I choose to delay and maybe I die early. The way Social Security benefits are calculated is they are actuarially fair in that if you collect reduced benefits early at 62 versus full benefits at your full retirement age, which may be anywhere between 66 and 67 depending on your birth year and you live till average life expectancy, it doesn't matter.

09:36

Alex Murguia

It was actually fair when it was set in 1983. Right now life expectancy has okay, gone.

09:43

Mary Beth Franklin

Sorry, but that 8% a year. That's a separate issue. Okay, that's what I was 62 to full retirement age, reduced benefits, early full benefits, full retirement age. You live till average life expectancy doesn't matter. You're essentially going to collect the same amount of money over your lifetime, but the longer you live, the better off you would have been delaying to get a bigger benefit over your lifetime. You would have collected more in Social Security benefits, and then you have this 8% per year in delayed retirement credits. Again, you can't get that anyplace else. People get very hung up on what's the break even age? How long do I have to live to make it worthwhile for me to delay? Well, essentially the difference between claiming at 62 versus full retirement age is you have to live to about 78 less than average life expectancy, which is around 85 for a 65 year old.

10:41

Mary Beth Franklin

The difference between collecting at 62 and 70 have to live till about 83, still less than average life expectancy. The key is, I think the idea of delaying up until age 70 is so critical for a married couple, where at least one spouse, preferably the one with the bigger benefit, who tends to be the man, who tends to be older, who tends to die first, collects the biggest benefit, because then that is likely to become the survivor benefit. In that scenario, you are spreading that break even age over two lives because somebody's going to get that bigger survivor benefit.

11:22

Alex Murguia

Got you. Wade.

11:24

Wade Pfau

I think that is an area that can add a lot of confusion. Just the rules are quite different for the spousal benefit versus a survivor benefit. I'd really love to hear your take on that. I don't know if there are questions on the quiz that are on those specific topics or if we just kind of delve into that conversation.

11:42

Mary Beth Franklin

Let's ask you a couple of questions from the quiz. If I have a spouse, he or she can receive benefits from my earnings record, even if she or she has no individual earnings history. Is that true or false?

11:56

Alex Murguia

Wade, hit me up on the chat. Wade, hit me up on the chat.

12:00

Mary Beth Franklin

I'll distract.

12:01

Alex Murguia

Mary Beth, can you repeat the question? Mary Beth, can you repeat the question?

12:10

Mary Beth Franklin

It is true that if I'm married to somebody who was eligible for Social Security and say I stayed home and took care of kids my whole life and didn't have an earnings record, I didn't work long enough to accrue the necessary 40 credits that I needed a minimum to be able to claim Social Security on my own record. If I'm married to somebody who's eligible for Social Security, yes, I am entitled to what is called spousal benefits. In this quiz, only about 72% of people knew that.

12:42

Alex Murguia

Really?

12:42

Mary Beth Franklin

I find that frightening because this is so important as part of overall retirement income. I always tell people who are married they should think of their Social Security claiming decision as a household decision rather than just an individual decision. Under current rules, when one spouse claims a Social Security benefit and if the other one is not entitled on their own record, once the working spouse claims, it can now trigger a benefit for the spouse. A spousal benefit is worth up to half of what the worker's full retirement age benefit is. Now, that assumes that the person, let's say the wife, the non working wife who's collecting the spousal benefit, she is at least her full retirement age. She can claim earlier once her husband claims his, but it's going to be permanently reduced. While we all like to talk about the value of delaying benefits up until age 70 to create the biggest benefit possible for some married couples, it makes a lot of sense to have one spouse claim reduced Social Security benefits early.

13:55

Mary Beth Franklin

And let me explain why. Again, I'm going to use husband and wife. Husband slightly older, bigger, earner bigger Social Security benefit. Wife in this case has a benefit, but it's not real big. And I'm going to make up numbers. Husband's benefit is \$3,000 a month. In theory, a spousal benefit. If his wife never worked, she would be entitled to half of that \$1,500 a month if she claims at a full retirement age, less if she claimed earlier. Let's say in this case she has her own benefit. It's \$1,000 a month. It's smaller than her spousal benefit, but it's her own. They have decided as a couple the main goal of them claiming Social Security is how do I create the largest survivor benefit possible for the spouse left behind? We do that by having the husband with the bigger benefit wait up until age 70 to get his biggest benefit.

14:54

Mary Beth Franklin

He was entitled to \$3,000 a month at full retirement age. His full retirement age is 66. He waits four years, he's going to get an extra 8% a year. Times four, that's 32%. He's going to get 132% at age 70 when he claims the wife in the meantime, has her own benefit, it's \$1,000 a month. She's not working. She may want to go ahead and claim her own retirement benefit early at 62. So now she's claiming four years early. She's not going to get \$1,000 a month. She's going to get 750. She's going to bring cash into the household for all those years. While her husband's waiting to collect his big benefit and he finally collects his big benefit, she'll step up to a slightly larger spousal benefit. It won't be worth half of his full retirement age because she claimed hers early. That doesn't matter because he's probably going to die first.

15:49

Mary Beth Franklin

When he does, she steps up to his full survivor benefit. That \$3,000 a month plus four years of delayed retirement credits, an extra 32%, plus every other cola that is awarded from the time up to the time he dies. And she collects. She steps up to that full Survivor benefit, and then her smaller benefit goes away. From a joint claiming strategy for married couples, your first question is, how do I maximize the Survivor benefit? I do that by having them want the biggest benefit. Wait as long as possible, but in the meantime, the other spouse may want to collect benefits.

16:29

Bob French

Have you signed up for Retirement Researchers, Retirement Income Challenge yet? It starts next week, Monday, May 22, at noon Eastern, and it's filling up fast. Don't miss your chance to join Wade, Alex and I in this free four day challenge where we walk with you and discover how you approach retirement income, where you stand relative to your retirement goals and what you can be doing to bridge that gap and make sure that your retirement is on track. Think of it like a pop quiz for your retirement plan. We can only accept a limited number of participants for this challenge and we're filling up fast. Head over to Risaprofile.com/podcast to learn more and find out how you can join Wade, Alex and I. Again. That's Risaprofile.com/podcast. See you in the challenge.

17:19

Alex Murguia

It's interesting, Mary Beth, you mentioned that Wade actually we got into this in the last podcast or one of the previous podcasts, and he caught himself. I don't know if you remember, Wade, because we knew you were coming on. Wade said, yeah, it doesn't always make sense, especially when there's a spouse, to maybe claim delays. Sometimes the spouse, you're better off claiming early because the older spouse will delay. He said, but let's not get into it because we have someone coming in to explain it. And here it was. Yeah, here it is.

17:50

Mary Beth Franklin

Let me give you two exceptions to this.

17:53

Alex Murguia

Even better. Now we have the prestige.

17:55

Mary Beth Franklin

Yes. I just gave you a scenario for a husband and wife. He's got the bigger benefit. She has one of her own. It's slightly smaller. It made sense to have this split strategy. He waits, she collects early. Then maybe we have the same situation. But she's still working. She probably doesn't want to claim early because now she's subject to earnings restrictions. You make too much money, about \$21,000 this year, you're going to start losing some or all of your benefits, at least temporarily. In that case, I'd say she should not claim until either she reaches full retirement age when the earnings restrictions go away, or if she stops working.

18:40

Alex Murguia

Before that, she was only doing for the cash flow. If you get you reworking, who cares, right?

18:44

Mary Beth Franklin

Exactly. And here's another scenario. Now we have a stay at home wife. She does not have any earnings record of her own. Yes, she's entitled to a spousal benefit, but she can't get one until her husband claims. Now in this case, it may not make sense for him to wait all the way till 70 because it means his wife has to wait until he turns 70 until she gets a spousal benefit. That's when you work with your financial advisor of let's look at all the other sources of retirement income. We have what makes sense from a cash flow standpoint. Now we know that the husband is probably not going to delay until age 70, which means that

ultimate Social Security survivor benefit is going to be smaller than it would have otherwise. What other sources of income would there be for the spouse that's left behind?

19:38

Mary Beth Franklin

She the designated beneficiary of his IRA? Does she get survivor benefits on his pension? Other things like that? Because you always have to protect the spouse that's left behind.

19:49

Alex Murguia

You have effectively, just because there's a lot of information, there's three scenarios. There the older spouse is going to delay his claiming, but you're saying in this case, then the younger spouse normal working history, et cetera. There's a strong case to be made for that person to collect early if.

20:12

Mary Beth Franklin

She's not working because of the earnings.

20:15

Wade Pfau

Perfect.

20:15

Alex Murguia

There's the middle scenario where if she's already working, there's no need to claim because you have the cash flow. Just push it on because of the restrictions will kick in. The last one where she's never worked doesn't have employment history or this or that, and she has to wait for the hut or he or she I don't mean to mix pronouns here. Gender indifference, it could be whatever. Yeah, the younger person can't claim until the older one does. At that point, then there's a break even. You're saying there's a lot more moving parts that may need further analysis.

20:49

Mary Beth Franklin

Right. And here's another situation. I get a lot of questions from financial advisors and consumers, particularly where they have married someone who's not a US citizen and maybe the person has come to the US later in life, doesn't have any US earnings history. That would be a case where non working wife can't get a benefit until the husband turns on his to trigger a spousal benefit. So here's a quiz question for you. I must be a us. Citizen to collect Social Security retirement benefits. True or false?

21:32

Wade Pfau

I'm going to say false on that one.

21:34

Mary Beth Franklin

That's correct. Only 29% of the people on this quiz got that right. You just need to be a legal resident. You do not have to be a US. Citizen.

21:44

Alex Murguia

Wow. How many people do you think know about the other scenario that we just discussed? It's not always good for both spouse to wait, that kind of dynamic. That's probably a low frequency as well.

22:00

Mary Beth Franklin

People tend to think in extremes. Either I'm going to grab benefits as early as possible because one, I don't believe Social Security could be in the future. So I'm going to grab it. Now, we can talk about that or both of us are going to wait until 70 to get it, and some people can afford to do that. I like the idea of this split. Okay.

22:27

Alex Murguia

I didn't mean to take you away from the other one. I was curious about the frequencies on that.

22:31

Wade Pfau

Before we move off the spousal benefits, you wrote a great book on Social Security claiming if you want to mention the precise title of it for the audience, that's really where I went.

22:42

Mary Beth Franklin

Maximizing Social Security Benefits, which you can find at [Maximizing Social Securitybenefits.com](http://MaximizingSocialSecuritybenefits.com). Now let me say right up front, this is an ebook. It is not a hard copy. You can print it out. It's only 50 pages because I don't think anybody should have to read 300 pages about Social Security. And in fact, some of the complaints.

23:06

Alex Murguia

Very bad. You're going to say, I don't think anyone should read 300 pages on financial planning and Wade's coming in at, what, 400 pages?

23:14

Wade Pfau

No. Maybe there are some Social Security books that run 300 plus pages just on.

23:20

Mary Beth Franklin

Social Security because I think the average person just wants to know, tell me when I should claim Social Security benefits. If you go to my ebook, you can even read even less and you can go to the page that says Social Security for married couples, for divorced people, for survivors, for families with young children, for citizens, sector workers that may not be entitled to full benefits.

23:45

Wade Pfau

You have the best explanations about how to the spousal benefit. First you get your own I mean, first you get your own benefit, then you add the spousal top off and you explained really well just the whole issue of ages for all this. The spousal benefit depends on when the spouse claims, not when the worker claims.

24:05

Mary Beth Franklin

Correct?

24:06

Wade Pfau

About, I think, a common question or a common misconception. The spouse doesn't get delay credits for waiting past full retirement age, right. The worker is not delaying because that will help the spouse for the spousal benefit. The worker is delaying because that will help the spouse with the survivor benefit. Could you talk about that ?

24:28

Mary Beth Franklin

I think that is probably one of the most misunderstood parts about Social Security claiming rules is that people get real excited, oh, if I delay till 70, I'm going to get this huge bump in benefits. If my full retirement age is 67 because I was born in 1960 or later and I wait three years till age 70, I am going to get an extra 24%. Most people assume that means that when that older working spouse claims benefit at 70 said, oh, the spouse is going to get half of that. No, they won't. It's called a delayed retirement credit because it only applies to a worker's own retirement benefit. A spousal benefit is based on half of the worker's full

retirement age benefit, regardless of when that worker claims whether he waits till 70 or even if he claims benefits early and they're reduced. The spousal benefit is based on half of the worker's full retirement age benefit.

25:29

Mary Beth Franklin

Assuming the spouse who collects it is also at least full retirement age. Let's say the husband claims he's 67 full retirement age. His wife's 62. She can claim at 62, but if she does, she's not going to get half of his full retirement age benefit. If her full retirement age is 67 and she claims five years early, at 62, she's only going to get 32 and a half percent of his full retirement age benefit. The idea, as we have gradually increased the full retirement age from what was 65 since the beginning of the program to 66 for many baby boomers and up to 67 for people born in 1960 or later, that is a backdoor benefit cut. Moving from 65 to 67 as a full retirement age basically cut benefits by about 13%. There is talk of Social Security reforms in the future. One of the options is, yeah, we could gradually raise the full retirement age to maybe 70.

26:35

Mary Beth Franklin

I say to people, don't worry, we're talking about today's two years old, they're going to live to 120. They'll get used to it. Yes, that may work for future generations, but it is in fact a backdoor benefit cut.

26:49

Wade Pfau

Yeah, it would simply be a 24% benefit cut if your full retirement age is 67 and now it's 70 ranges. Well, one way to cut benefits without necessarily having people realize what's happening, that's an important clarification. Now, survivor benefits are different from spousal benefits. Do you have any clues, questions for Alex on that one before we I think we do.

27:16

Mary Beth Franklin

Let's see, if I have a spouse and he or she passes away, I will receive both my full benefit and my deceased spouse's full benefit. Is that true or false?

27:33

Alex Murguia

Wade, I'm not going to nod your head.

27:34

Wade Pfau

Wait.

27:34

Alex Murguia

Yes.

27:37

Wade Pfau

That one is definitely false. I think that's a common misconception where people feel cheated because they were expecting to get both benefits rather than the larger of the two benefits.

27:48

Mary Beth Franklin

Right, you are correct. That is false.

27:50

Alex Murguia

Do people actually expect to get both benefits?

27:53

Mary Beth Franklin

I cannot tell you how many financial advisors have contacted me and said they think it's added, the widow doesn't really want to give up that extra benefit. Her husband died. I'd say, well, that's fraud. Once the person dies, you have to give back any uncashed benefits since the time that person died.

28:20

Alex Murguia

Advisors ask you this question?

28:22

Mary Beth Franklin

Yeah, when they would beat around the bush about, well, she's got this question, but she doesn't want to really ask it because she doesn't want to lose the benefit. I'm saying, wait a minute, her husband died and she's still collecting his benefit. Well, yeah, we can't do that because when one spouse dies, the surviving spouse, if the survivor benefit, which is worth 100% of that person who just died, 100% of his or her benefit, including any delayed retirement credits, if he waited till 70, that's likely to be the bigger benefit. The widow or widower would step up to that bigger survivor benefit, but their smaller retirement benefit goes away.

29:05

Alex Murguia

They actually think they're getting both.

29:07

Mary Beth Franklin

Some people do.

29:09

Wade Pfau

What percent of people answer that question by that?

29:12

Mary Beth Franklin

Really? Yes.

29:15

Alex Murguia

It doesn't even make sense that they don't realize, hey, wait, something doesn't seem right. Like, just intuitively, they were thinking of.

29:22

Mary Beth Franklin

It as a household. Think of this husband's getting \$2,000 a month. Wife is getting \$1,000 a month. He dies, she would step up to that \$2,000 a month, but her 1000 would go away. They've just lost 33% of their household Social Security income. That freaks people out. Let me tell you.

29:44

Alex Murguia

I think bitcoin fixes this, Mary Beth. I think bitcoin fixes this. Right.

29:50

Mary Beth Franklin

Let me talk Social Security strategies, okay. As far as survivor benefits, the first thing you have to understand is retirement benefits on your own record. Survivor benefits when your spouse, or in some cases your ex spouse dies, are two different pots of money. You might be able to claim one type of benefit first and switch to the larger benefit later. You can do it in either order.

30:18

Alex Murguia

However, it then in this case you said ex spouse.

30:20

Mary Beth Franklin

Well, yeah, let's start no, we're not to that.

30:22

Alex Murguia

I thought she had said that. I misheard.

30:26

Mary Beth Franklin

We're going to start with this.

30:27

Alex Murguia

Okay, I misheard. Okay.

30:29

Mary Beth Franklin

My husband has died. I'm 62 years old. I have my own retirement benefit, and I'm not working. The survivor benefit is larger than my own retirement benefit. What should I do? I would tell this widow to go ahead and claim her reduced retirement benefits early. Even though her retirement benefits are permanently reduced for the rest of her life, it has no impact on her survivor benefit if she waits until her full retirement age to collect them. She collect her own reduced retirement benefits first. Let's say her full retirement age is 66. Four years later, she now switches and claims survivor benefits. She gets 100% of what her late husband was collecting when he died or was entitled to collect if he died before claiming and her smaller benefit goes away. Now, let's reverse the scenario. I've got a business executive. He loses his wife to breast cancer young.

31:31

Mary Beth Franklin

He's entitled to a survivor benefit, but it's smaller than his own and he's still working. What should he do? He should wait until his full retirement age when survivor benefits are worth their maximum amount because they do not earn delayed retirement credits, and when the earnings restrictions go away. At full retirement age, he would collect the survivor benefit, but. In the meantime, his own retirement benefit continues to grow by 8% a year, and at age 70, he switches to his maximum retirement benefit.

32:05

Wade Pfau

This is a really important point because you're talking here about filing a restricted application which is still allowed for survivor benefits and used to be allowed for spousal benefits. Yeah, maybe if you're at least 69 right now. If you could clarify about what restricted applications are all about.

32:26

Mary Beth Franklin

I try not to use the word restricted application in this context because we can talk about in a minute how some people may still be able to file a restricted claim for spousal benefits while their spouses are alive. Technically, survivor benefits, retirement benefits, two different pots of money. I counsel people, I say, when you contact Social Security, make sure you make clear that I am collecting my retirement benefits now, but I later plan to collect my survivor benefits, or I'm collecting my survivor benefits now, but later I plan to collect the other benefit. So it's just to have that conversation. The other thing that's tricky is that while I can apply for Social Security retirement benefits or a spousal benefit online, which I encourage people to do, you have to contact Social Security either in person or over the phone to collect.

33:30

Alex Murguia

A survivor benefit now before the podcast and it's not time for it, that's fine as well. We can punt it. But were talking about tips and tricks. When you pick up the phone and get somebody on the line from the Social Security Department because you're actually saying, hey, give them a call, what is the buyer beware kind of issue with that to some extent?

34:00

Mary Beth Franklin

First of all, pack your patience because when you call that number, it might take a long time to get answer. It might be 20 minutes, it might be 40 minutes, it might be longer, and you might get disconnected. It's a bit like calling the IRS. It's a crapshoot, but in some cases it's the only way you can contact Social Security. I would also keep a notebook by the phone and when you get through, you want to note the date, the time, who you talk to, do they have some identification number or name? There a number to call back if we get disconnected? If you're talking to someone and it seems like you can't accomplish what you're trying to do, be polite, be persistent and say, I'd like to speak to a supervisor, because there are different layers of claims reps. Some are answering the phone that are intakes reps, some are more specialists, some are supervisors.

34:58

Mary Beth Franklin

Many things can be handled simply, but more complicated situations may require a higher pay grade to get things fixed. I think it's so frustrating in all these discussions we're having about federal budgets and the debt ceiling debate and whether we're going to raise it and actually pay the bills we've already charged. The

two biggest challenges here, what are the two biggest federal agencies that impact Americans more than anything else? I would argue it's the IRS that collects your taxes and the Social Security Administration that pays out benefits to more than 65 million people. These agencies have been gutted over the last decade as far as personnel and computer technology, they are using computer programs that people haven't seen in 30 years. Of course they can't hire millennials. They don't know what cobalt is. This is where we need to upgrade that customer service. It's desperate and it does not happen when we cut the budgets of these very important agencies.

36:12

Alex Murguia

I find it interesting because didn't the IRS just get some windfall approval? Funny, the agency that's collecting money got.

36:20

Mary Beth Franklin

A huge approval, and you notice some political parties want to take that back. That was just money so they could process four years of back paper return, so they could get scanners to scan tax returns. These things don't exist. We might as well have monks copying things.

36:41

Alex Murguia

But they do have beautiful handwriting.

36:43

Mary Beth Franklin

They do, but it takes a really long time. That's why I encourage people when it comes to Social Security, wherever you can deal with Social Security online, I encourage that. So let me give you an example. Now we're going to talk about that thing called restricted claim that Wade raised a few minutes ago. There used to be this claiming strategy, I call it a disappearing strategy, that married couples and in some cases eligible divorced spouses. Those were people who were married at least ten years divorced and currently single. Up until recently, these people, if a married spouse, if one claimed to benefit, the other one, when they reached full retirement age, could say to Social Security, I want to restrict my claim to spousal benefit. That means don't pay me my own retirement benefit, let it keep growing by 8% a year. In the meantime, because my husband or wife has filed for benefits, I want you now to pay me half of the amount they're receiving my spousal benefit.

37:53

Mary Beth Franklin

That is known as filing a restricted claim for spousal benefit. This was such a valuable claiming strategy for married couples that by timing their benefits and coordinating their claims, they could increase their

lifetime benefits over their two lifetimes, including survivor benefits, by over \$100,000. It was such a great claiming strategy, but Congress decided to shut down the loophole. I always love how they call loopholes of laws that they created in the first place. When people figure out how to use it to their advantage, then it's the loophole and they shut it down. This particular loophole, the ability to file a restricted claim for spousal benefits, the last year that it is available to some people, is this year 2023. It is only available to people who were born on or before January 1, 1954. That means the last eligible group of beneficiaries will turn 70 by the end of this year.

38:58

Mary Beth Franklin

So who could benefit from this? I've actually had a couple of letters from advisors saying, hey, I've got this situation. The wife is 67. She's claimed Social Security. The husband's turning 70 at the end of this year, and he hasn't done anything. What should he do? I can say, okay, because he was born before 1954 and has not yet claimed, and because his wife has already claimed, he can now file a restricted claim for spousal benefits. Collect six months worth, assuming he's born in December of spousal benefits, half of the amount of his wife's full retirement age benefit, and then at 70, he can then apply for his own benefit. It's not automatic. He has to apply for his benefit, and he will receive that maximum amount at his age 70 benefit. And here's another secret. There's this other rule, and by the way, there's more than 2700 rules that govern Social Security benefits.

39:56

Mary Beth Franklin

We will not talk about them all today, but one of the rules says if you claim benefits after your full retirement age, you may request up to six months of retroactive benefits in a lump sum that can't start before your full retirement age. So, simple example. My full retirement age is 67. I claim at 68. A year late. I could either claim benefits at 68, which would be my full retirement age benefit, plus one year, 8% of delayed retirement credits, or I could claim as if I was 67 and a half and get paid that level and request six months of retroactive benefits to be paid in lump sum. Normally, you can't double dip. You can't get a delayed retirement credit and a retroactive benefit for the same period of time, except in this case of the guy who wants to claim spousal benefits. Spousal benefits are worth the maximum amount at his full retirement age, he's 69 and a half.

41:04

Mary Beth Franklin

He could restrict his claim to spousal benefits and request six months of retroactive spousal benefits in a lump sum. After the end of 2023, that all goes away. Then going forward, it's really simple. Your Social Security benefits will be based on your average lifetime earnings and the age when you first claim them.

41:26

Bob French

Have you signed up for Retirement Researchers, Retirement Income Challenge yet? It starts next week,

Monday, May 22, at noon Eastern, and it's filling up fast. Don't miss your chance to join Wade, Alex and I in this free four day challenge where we walk with you and discover how you approach retirement income, where you stand relative to your retirement goals, and what you can be doing to bridge that gap and make sure that your retirement is on track. Think of it like a pop quiz for your retirement plan. We can only accept a limited number of participants for this challenge, and we're filling up fast. Head over to Risaprofile.com/podcast to learn more and find out how you can join Wade, Alex and I again, that's Riserprofile.com/podcast. See you in the challenge.

42:16

Wade Pfau

That point you're saying also about the filing suspend doesn't go away. You can get that retroactive six months of benefits not before your full retirement age, but up to six months. That's an interesting planning strategy too, where someone may be thinking, okay, I will delay to 70, but if I have a financial emergency and I need sudden access to some cash, you can just file at that point and get the six months benefits retroactive. There's your pile of cash and then you might even once in your lifetime you're allowed to suspend. You get that six month lump sum, you suspend again and then you file again at 70. It's though you claimed at 69 and a half since you'd received.

42:58

Mary Beth Franklin

We've just made our listeners head explode. But you're absolutely right. I just want you to strike from your vocabulary file and suspend. That was really the strategy that went away in 2016. That's where the husband reached his full retirement age. He filed for benefits to trigger a benefit for his spouse and then he suspended his own so she would get the benefit as the spouse. His would keep growing 8% a year. That was another wonderful strategy, but that disappeared in 2016. What you're talking about is yes, anyone has a right. There are two do over rules. One is if I wait until my full retirement age or later, I can suspend my benefits. Wade, just like you said, all those checks that I've been receiving, stop. Now they start earning delayed retirement credits of 8% a year. That is different than the old rule of I'm filing for benefits, triggering something from my spouse and now I'm suspending mine.

44:03

Mary Beth Franklin

That ability to file and suspend has gone away. You can still suspend your benefits check. Stop. It's a great way to earn delayed retirement credits. The other do over opportunity is anyone within the first twelve months of claiming Social Security has a right to withdraw their benefits. This is a different term. They withdraw their benefits by filing form 521. But there's a catch. I have to pay back any benefits I have received.

44:32

Alex Murguia

Why would I just straight up pay back?

44:34

Mary Beth Franklin

No interest, no penalty, just pay it back. If anybody's collecting on your record like a spouse, you got to pay that back too. Now it wipes the slate clean as if I've never claimed Social Security. At a later date when I'm older, I will claim benefits as if for the first time and get a bigger amount. The do over options are basically you can withdraw a benefit and repay it within twelve months of first claiming Social Security. Or you can wait till full retirement or later and suspend it. You don't have to pay anything back, but it's a way to earn delayed retirement credits. If you claim Social Security benefits after your full retirement age, you can request up to six months of retroactive benefits that cannot begin before your full retirement age. For example, your full retirement age is 66. You claim it's 66 in three months.

45:26

Mary Beth Franklin

You can only request three months of retroactive benefits. That retroactivity can't start before your full retirement age. You can withdraw, you can suspend, or you can ask for retroactive lump sum.

45:40

Alex Murguia

And the retroactive is only six months.

45:42

Mary Beth Franklin

Up to six months, not starting before your full retirement age. One thing I warn people, if you go for the lump sum payout, which may be great, I'm retiring. I want to pay off the mortgage. Lump sum lets me do it. We're going to go on a round a roll cruise for retirement disappearing spouse strategy. Your income is probably going to go up substantially that year, which is going to boost your income taxes, because.

46:09

Alex Murguia

Remember taxable and don't be a downer.

46:15

Mary Beth Franklin

Two years later, your Medicare premium might go up because Medicare premiums are tied to your income and retirement.

46:22

Alex Murguia

A little known fact, as much as Mary Beth can bout out this about Social Security, she can do an equally as efficient job on Medicare.

46:31

Mary Beth Franklin

Just future reference, that's only because I am old enough now that I am using both.

46:38

Alex Murguia

No, but I got to say, you're hearing you even I'm picking up stuff that you're saying in such a way. Wade, just as a nut, isn't it amazing the way she's just.

46:50

Wade Pfau

Yeah, absolutely.

46:51

Alex Murguia

It's talking about this, it's amazing.

46:56

Mary Beth Franklin

I discovered back when I was at Kiplinger's Personal Finance magazine, it was 2008, and a lot of these claiming strategies came into effect with a law in 2000, the Citizens Right to Work, that allowed things like file and suspend and restricted claim. Really, nobody had ever written about them before. My brothers and sisters are much older than I am. In fact, my oldest brother is now 85.

47:23

Alex Murguia

Oh, wow, look at that.

47:23

Mary Beth Franklin

One sister is 82 and one just turned 80. Back then they were claiming Social Security early and continuing to work and complaining to me that they were losing benefits due to the earnings restriction. I said, well, that's stupid, let me look into it. I found a guy at the Social Security Administration in Baltimore who taught me everything about claiming strategies that no one had ever written about. I wrote this story in 2008 for Kiplinger's Personal Finance Magazine, said, four secret ways to maximize your Social Security benefits. Back then, Kiplinger was very subscriber centric. They said, if you get a question from a subscriber, drop

what you're doing and answer the question. Got you. This was back in the days where people still wrote letters rather than email. And every week I got a mail.

48:13

Alex Murguia

Bag full of letters, dear Abby for Social Security effectively.

48:17

Mary Beth Franklin

I spent a year answering those letters. It's amazing the way you're doing that's. What? I knew people cared about this stuff.

48:23

Alex Murguia

It's a heck of a thing. Well, I mean, we said in the earlier podcast, if you really kick back and take a look at Social Security, it's one of the largest present value assets that you're going to have in retirement and something you can readily control.

48:36

Mary Beth Franklin

The outcome that it's cost of living adjusted. Now, this year Beneficiaries received an 8.7% cost of living adjustment, the largest increase in more than 40 years. The other question I got from a lot of advisors at the beginning of 2023 is, wow, 8.7% cola. I guess I should tell my clients to go ahead and claim benefits now to take advantage of the cola. I said, no, don't do that because anyone who is 62 or older in 2023, whether they claim or not, that cola and every other cola that is awarded up to the time they claim benefits is automatically baked into their future benefits.

49:19

Wade Pfau

Yeah, thank you for clarifying that. That's another misconception that people think they have to claim to get the cola and that's simply not the case.

49:25

Alex Murguia

Wade, just for future, because we'll obviously have Mary Beth back at some point. The podcast that we should have had was to have a chat GPT window open and the title would have been Mary Beth versus chat GPT Social Security. Let's go. Honestly, I think that would have had the most views you're on. No, it'd be awesome. Or Mary Beth and Wade tag team versus chat GPT, see what happens.

49:56

Wade Pfau

Social Security claiming would be tough for AI to get some of that.

50:01

Alex Murguia

I think it only goes back, I think chat GPT, it's not up to 2023. I think 2021 or something like that for things that may have changed, but no, it's beyond impressive. So Kudos, are you telling me my.

50:15

Mary Beth Franklin

Job is safe for the foreseeable future?

50:17

Alex Murguia

No, I don't think it wouldn't be as charming as you, but no. What other main kind of things with regards to social, I'd like to maybe try to coalesce all of these little tidbits into what framework can somebody listening take away to get a sense of this? Frankly, since you brought it up and we talked about it in the last episode and I think I know your take, but I'd rather just hear it in your words. You mentioned Social Security, will it last? Because I think that's also a little hot button simply because of political proclivities that everyone has. I'm just curious how you handle that with what type of elegance, because I'm sure it's going to be a great answer.

51:02

Mary Beth Franklin

Well, full disclosure, as I said way back in the day, I was a political reporter in Capitol Hill for United Press International, yet another company I put out of business. I watched the sausage being made on Capitol Hill as they created this Social Security reform legislation. Older people vote in higher percentages than any other voters. By 2033, when the trust funds are expected to be exhausted, you're going to have more than 70 million people receiving Social Security. Do you think members of Congress really want to tick off that many voters? I don't think so. The longer they wait to do something, the harder it gets to fix what will be an immediate problem. Will there be enough money to pay promised benefits? The way Social Security works is FICA taxes that we pay through our payroll deductions are what funds Social Security. By law, Social Security benefits can only be funded by these FICA taxes.

52:10

Mary Beth Franklin

Well, for the last 40 years, there were more FICA tax revenue collected than we needed. We've been stockpiling those in what we call the trust funds. At one point, it was about \$3 trillion in this trust fund.

Now, it's true the federal government did borrow from the trust fund, but it would pay it back with interest. Around 2010, when the first of the baby boomers started to retire and were still recovering from the previous financial crisis of 2008 2009, it was the first time that FICA tax revenues alone were not sufficient to pay scheduled benefits. For the first time, in addition to the FICA tax revenues, then the government started tapping the interest on the trust funds to have enough money to pay the benefits. That worked well for about ten years. In 2021, the FICA tax revenue, the interest on the trust fund was not enough to pay all the promised benefits because now you have a lot of baby boomers retiring.

53:13

Mary Beth Franklin

Now we had to start drawing down on the trust funds. Those trust funds will continue to be drawn down. If Congress does nothing between now and roughly 2033, ten years from now, there would be enough ongoing FICA tax revenues to pay about 70% 75% of promised benefits. Now, no one is going to be satisfied with 75%. There's a lot of things they could do. They could change the benefit formula. Maybe they gradually raise the full retirement age to 70. They could take the cap off the taxable rate wage base. Right now we'd payroll taxes, both employer and employees, 6.2% of gross wages up to \$160,200. Maybe we take the lid off that because here's a critical fact. Back in the 1983 Social Security reforms, the Grants Greenspan Commission said as long as 90% of US. Wages are taxed for FICA purposes, Social Security will never run out of money.

54:17

Mary Beth Franklin

It is funded in perpetuity. Because of our wage inequality, so many people are making so much more than that \$160,200 and they are not paying FICA taxes on that excess amount. Overall, only about 83% of US. Wages are being taxed for FICA purposes. That is one of the key funding problems. I think one of the solutions that they might have to resort to, which has never been done before, is there might have to be this temporary injection of general tax revenue to help fund Social Security, maybe in the short run, maybe for ten years or so. So the checks keep coming. Because the other part of this problem is it's a demographic problem. We have this huge baby boomer generation. There's now about 73 million and a smaller Gen X and Millennials and Gen Z that are paying into the system. When Social Security was first created back in 1935, now it was a pay as you go system.

55:22

Mary Beth Franklin

There were a whole lot of workers, about 35 workers to every one beneficiary over the years, that dropped to ten to one, and now it's about three to one, and it's going to drop to about two to one. It's a demographic problem, but eventually the boomers are going to die off. The smaller Gen X generation is going to be supported by workers who are millennials and Gen Z 2070 or something like that. It will write itself eventually, but I think in between, for the first time, we are going to need some general tax revenue infusion.

55:58

Alex Murguia

It fair to say for somebody listening and again we address this, but it's one of these hot topics, how should somebody view within the constraints of financial planning and they're doing their projections, Social Security. Wade mentioned in the last week that, okay, he cuts when he does his own projections, he just takes 25% off the top just to be conservative. By no means does he think that Social Security is going away. When I say conservative, I mean conservative in the true sense of the word. Wade is doing, worst case, 25% off the top. Not that Wade is like gospel or anything like that, but it's giving you a sense of a very informed person is making a very conservative assumption on Social Security, and he's cutting 25% off the top.

56:44

Wade Pfau

And I'm further from full retirement age.

56:47

Mary Beth Franklin

I think it makes sense to stress test a retirement income plan. Now, certainly there are many people in this country who, unfortunately, their sole source of income in retirement is Social Security. Never designed to be the sole source of income. But that's a fact.

57:03

Alex Murguia

It is what it is.

57:04

Mary Beth Franklin

The reality is for advisory clients, that is not their situation. Social Security is a piece of their retirement income puzzle. I think, Wade, if you were being conservative with your particularly middle aged and younger clients, just say just for the heck of it, let's take your estimated benefit statement of what you would get a full retirement age and cut that by 25% just to see what it does to your overall retirement income plan. We're not saying we're cutting your overall retirement income plan by 25% we're saying, let's cut the Social Security portion by 25%. If that's not enough, let's think about things to do now that might make up for that, but for the people who say, hey, it's running out of money, I'm going to grab my benefits at 62 and get it while I can, my reaction is, okay, your full retirement age is 67.

57:56

Mary Beth Franklin

You're going to claim five years early. At 62, you're taking a 30% haircut off the top. If you're still working,

you might lose some or all those benefits temporarily to the earnings restrictions. And if your worst case scenario that's.

58:10

Alex Murguia

A very good point.

58:12

Mary Beth Franklin

The benefits have to cut by 25% in 2033, which I don't think will happen now. You're taking another haircut on top of that. I tell people there are legitimate reasons to claim reduced retirement benefits early. If you're in poor health, you need the money, go ahead and take it. If you are claiming early out of fear, that is like selling your stocks in a down market. The only thing you have guaranteed is you just locked in a loss.

58:39

Alex Murguia

I think that's agreed.

58:43

Wade Pfau

Yeah. In that regard, we're going to set our longest episode ever. There's a lot of topics we may need to bring you back some point. We haven't really talked yet about divorce benefits, about the windfall elimination provision, the government pension offset.

58:58

Alex Murguia

You thought we're going to cover all of that today?

59:01

Wade Pfau

I was thinking were going to, yeah. Social Security article need to grow.

59:08

Alex Murguia

Let's talk to Mary Beth after the episode.

59:12

Mary Beth Franklin

I would love to come back and talk further, but in the meantime, I want to direct people to my website.

59:18

Alex Murguia

Please. Please. We're practicing Mary Beth, are they? So, Mary Beth, how can someone learn more about you?

59:27

Mary Beth Franklin

They can go to my website, which is Marybethfranklin.com. I have a bunch of free articles there of how to maximize your Social Security benefits based on your marital status, whether you're single, you're married, you're divorced, you're widowed, you have young kids. It tells you the difference between Survivor benefits and Spousal benefits. You can also buy my ebook there. It's just click the button. People who want to hire me to speak at their professional group or client event, both in person and online like this, everything you need to know is right there. For people who are in the Baltimore Washington, DC area, I filmed a 1 hour special called Social Security in you, which you can watch on Maryland public television in that local market. It's channel 32. It will be June 3 at 06:30 p.m. Again on June 8 at 08:00 p.m.. Yes, I'll be in front of all those people dialing for dollars as they're asking for your pledge to support public television.

01:00:34

Alex Murguia

I think it's fantastic. Really?

01:00:38

Wade Pfau

Yeah. You'll be able to watch that, Alex. If you live in the area, you have to record it on your VCR.

01:00:46

Alex Murguia

I'll leave this with one thing, because for whatever reason, I know this because I saw the movie and it just stuck with me. What year did Mario Brothers come out?

01:00:55

Mary Beth Franklin

Oh, gosh, I'm too old to remember that. My kids were playing it.

01:00:59

Alex Murguia
I'm looking at Wade.

01:01:01

Wade Pfau
This is the time I think you're going for 1983.

01:01:10

Mary Beth Franklin
That's the one place where you stumped me. I failed that course.

01:01:15

Alex Murguia
No, but truly, thank you. I think this is a masterclass. I mean, in the true sense of the word. Really appreciate your time. And thank you for listening, everyone. Wade, do you want to take us home? Mary Beth, you want to take us home?

01:01:28

Mary Beth Franklin
Thank you. It was lots of fun. I enjoyed it. Yeah.

01:01:31

Wade Pfau
Thanks, everyone. And I can vouch for your presentations. I've seen you present at a number of conferences. Anyone listening who wants a speaker on Social Security and or Medicare, Mary Beth Franklin is definitely a great opportunity for your event.

01:01:43

Alex Murguia
Not just that, as a general. MC, too. She's been great.

01:01:47

Mary Beth Franklin
Thank you.

01:01:49

Wade Pfau
Take care, everyone.

01:01:51

Bob French

Wade and Alex are both principals of McLean Asset Management and Retirement Researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be appropriate for you, consult your financial advisor. All investing comes with a risk, including risk of loss. Past performance does not guarantee future results.