AHEAD

TOPIC A

RETIREES WILL GET A BIG RAISE IN 2023

The repercussions of the 8.7% increase in Social Security payments extend far beyond the millions of Americans who receive benefits. BY SANDRA BLOCK

AT A TIME WHEN JUST ABOUT everything costs more, seniors will have more to spend in 2023. Thanks to an 8.7% cost-of-living adjustment in Social Security benefits, the average monthly Social Security check will increase $146 a month, to $1,827, in 2023. The maximum benefit for a worker who retires at full retirement age in 2023 will be $3,627 a month, up

ILLUSTRATION BY DAN PAGE

from a maximum of $3,345 in 2022. In the past, annual cost-of-living adjustments for Social Security beneficiaries have often been diluted by an increase in the cost of Medicare Part B premiums, which are typically deducted from Social Security payments. In 2022, for example, retirees received a 5.9% COLA, but Part B premiums rose 14.5%. (A "hold harmless" provision in the law prevents an increase in Part B from decreasing Social Security benefits.) But in 2023, standard Part B premiums will decline by about 3% from 2022, making the cost-of-living increase even more valuable. In October, the Centers for Medicare and Medicaid Services (CMS) said it lowered the standard Part B premiums because of an unexpected drop in the cost of Aduhelm, which was approved by the Food and Drug Administration as a treatment for Alzheimer's.

TICKING CLOCK

Solvency Concerns

Although an 8.7% cost-of-living increase will be welcomed by retirees, it has exacerbated concerns about Social Security's financial stability. In June, Social Security's board of trustees projected that the program's trust fund will be depleted by 2035 unless lawmakers act to close the projected shortfall. As a result of the higher payouts in 2023, the Committee for a Responsible Federal Budget, a nonprofit research organization, projects that the trust fund will be depleted a year earlier than the trustees' projection. Were it not for the hike in the payroll cap, which generates additional tax revenue for the program, the fund would run out of money even earlier, says Maya MacGuineas, president of the organization. "The problem isn't the COLA," she says. "The problem is that we have promised more benefits than we take in taxes to pay for the program, and we have known this for decades."

If the trust fund is depleted, Social Security won't disappear, but the program will only have enough money to pay an estimated 77% of promised benefits. But given the popularity of Social Security—and the fact that about a quarter of recipients rely on benefits for more than 90% of their income—Congress will likely intervene before that happens. President Biden has proposed applying the 12.4% tax for wages above $400,000, while some senior advocacy groups support eliminating the cap altogether and subjecting all wages to the payroll tax.

Good news for part-timers. Some seniors who left the workforce during the pandemic—and filed for Social Security benefits—have been forced to "unretire" in order to pay the bills. Thanks to the cost-of-living increase, retirees will be able to earn more this year without reducing their Social Security benefits.

If you file for Social Security before you reach full retirement age (66 for beneficiaries born between 1943 and 1954, gradually increasing to 67 for beneficiaries born after that) and earn income from a job, Social Security applies the "earnings test" to your income and will withhold a portion of your benefits once your earnings exceed a certain threshold. In 2023, you can earn up to $21,240 (up from $19,960 in 2022) before Social Security will withhold $1 in benefits for every $2 you earn over that amount. If you reach full retirement age in 2023, you can earn up to $56,520 (up from $51,960 in 2022) before Social Security will withhold $1 in benefits for every $3 you earn over the limit.

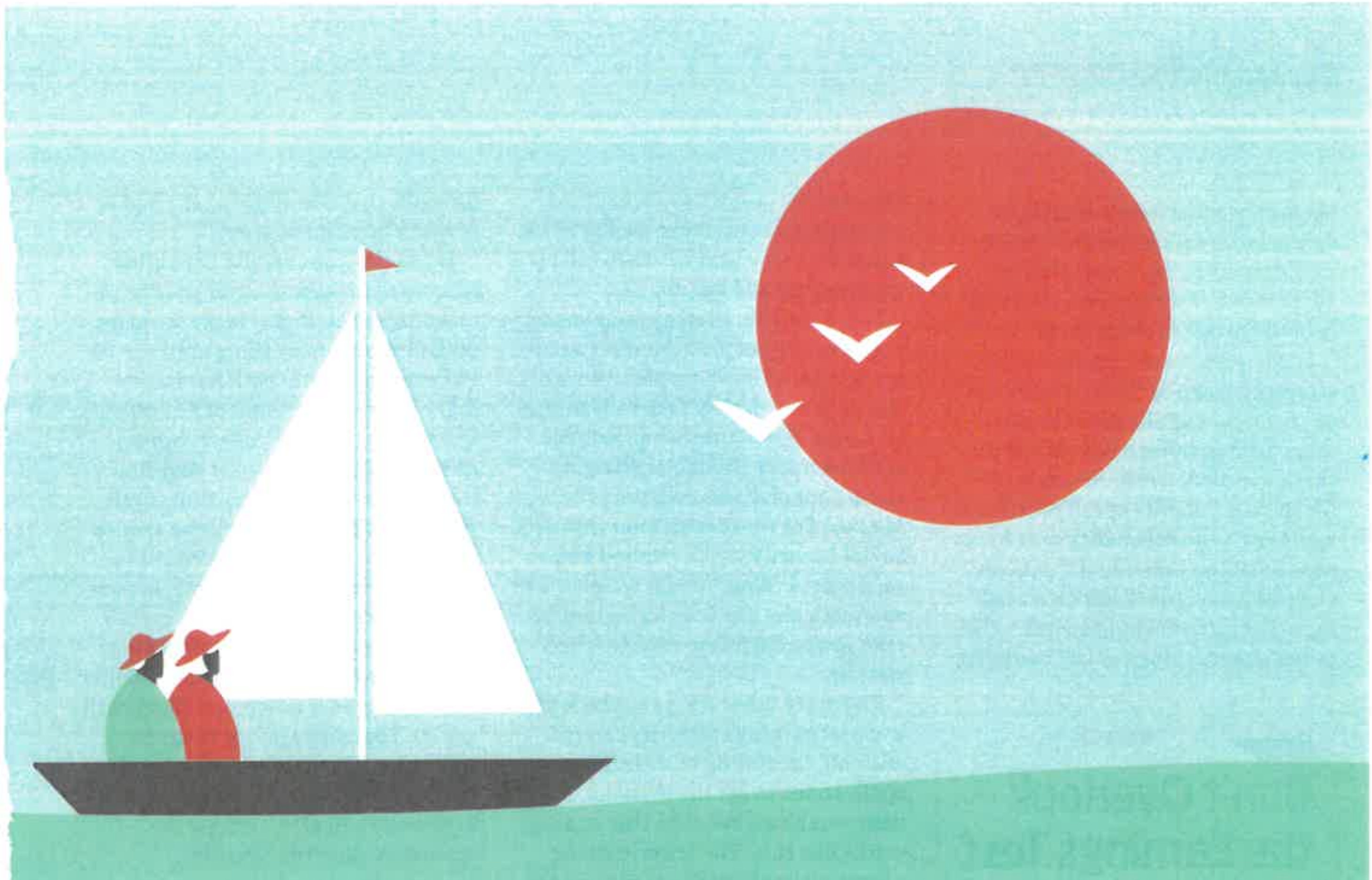
In the month you reach full retirement age, the earnings test disappears. And even if you hit the new earnings-test threshold, the benefits aren't lost forever. Once you reach full retirement age, your monthly benefit amount is adjusted upward to account for forfeited benefits.

Bad news for workers? The hefty COLA comes with a downside for high-income workers. Most employees pay 6.2% in Social Security payroll taxes, while employers pay 6.2%, for a total payroll tax of 12.4%. However, withholding for payroll taxes ends once your income exceeds a certain threshold, which is adjusted annually for inflation. In 2023, workers will pay Social Security taxes on up to $160,200, up nearly 9% from $147,000 in 2022.

Take the money and run? Early retirees, or those who are considering retiring this year, may be tempted to file for benefits as soon as possible to take advantage of this generous COLA. You're eligible for Social Security benefits at age 62; however, filing for benefits before your full retirement age will permanently reduce your benefits by up to 30%. You'll receive 100% of your earned benefits if you wait until full retirement age.

The amount of your benefits, including the inflation adjustment, is compounded every year, which makes the case for delaying benefits even more compelling, says Rob Williams, managing director of financial planning at Charles Schwab. The compounding effect becomes even more powerful if you can wait until age 70 to file for benefits. For every year you postpone filing between your full retirement age and age 70, you'll receive a delayed retirement credit of 8%.

Not everyone can afford to delay filing for Social Security. Many older workers are forced to retire earlier than planned because of health problems or layoffs, which could increase if the economy falls into a recession. If you're married, one option is to have the lower-earning spouse file before full retirement age, even though that will mean a reduction in benefits. Use that income, along with income from other sources, to pay expenses while the higher earner's benefits continue to grow until the higher earner turns 70. (For more on Social Security strategies for couples, turn to page 58).



Getting the most out of your Social Security benefits could significantly improve your retirement security, and if you're married, it's not a decision you should make in a vacuum. Before you and your spouse file for benefits, you should consider a host of factors, including your respective earnings histories, the difference in your ages and how long you think you'll live. Thanks to spousal and survivor benefits, you may have more options than single beneficiaries—and those options extend to divorced and widowed spouses, too.

TAKE ADVANTAGE OF YOUR SPOUSE

Social Security benefits are based on your 35 highest years of earnings. If you have less than 35 years of earnings, zeroes are entered for the missing years. That can lead to a significant reduction in benefits for spouses who have taken time off from the workforce to care for children or elderly parents. Spousal benefits are designed to address that problem by allowing individuals to claim benefits based on their spouse's earnings record instead of their own.

As long as your spouse has filed for his or her own Social Security benefits, you can file for spousal benefits as early as age 62 (or earlier if you're caring for a child who is younger than age 16 or disabled). If you wait to file until your full retirement age (which is 66 for beneficiaries born between 1943 and 1954 and gradually increases to 67 for beneficiaries born after that), you'll be eligible for 50% of your spouse's primary insurance amount (PIA)—the benefit your spouse is entitled to at his or her full retirement age.

But if you file at age 62, the benefits you'll receive will be reduced. For example, suppose a worker's primary insurance amount is $1,600 a month, entitling his spouse to spousal benefits of up to $800 a month at her full retirement age. If she opts to file for spousal benefits three years before she reaches full retirement age, her benefits will be reduced to $600, or 37.5% of the primary insurance amount.

If you want to start collecting benefits before your spouse applies for Social Security, you can file for your own benefits as early as age 62, then switch to the spousal benefit once your partner files for his or her own benefits.

Spousal benefits aren't eligible for delayed retirement credits—which we'll discuss below—so there's no advantage to waiting until after full retirement age to claim them.

In the past, some couples used a strategy known as "restricted filing" or "restricted application" to maximize their combined benefits. With this game plan, a retiree would file for spousal benefits at full retirement age, even if those benefits were lower than what the individual would receive based on his or her own earnings. The retiree would switch to his or her own earnings as late as age 70, allowing his or her own benefits to earn delayed retirement credits of 8% a year for every year between full retirement age and age 70.

However, this strategy is no longer available for people born after January 1, 1954, so most couples who are eligible have already taken advantage of it, says Jim Blankenship, founder of Blankenship Financial Planning and author of *A Social Security Owner's Manual*. For those born after that date, Social Security uses a method known as "deemed filing," under which it will automatically pay you the highest benefits you're eligible to receive when you file.

There are other ways couples with unequal earnings histories can coordinate the timing of their filing applications to get the most out of their combined benefits. One strategy works like this: The lower-earning spouse claims benefits as early as age 62, even though it will reduce that spouse's benefits by up to 30%. The couple can use income from the lower earner's benefits, along with other sources, to enable the higher earner to delay filing until age 70. The logic behind this strategy is that the higher earner's benefits will get a greater boost from the delayed retirement credits and the annual cost-of-living increases.

KIPTIP

Don't Overlook the Earnings Test

Although filing early for Social Security benefits is a key component of some couples' filing strategies, it's important to understand what happens if you decide to go back to work. Under what's known as the earnings test, your Social Security benefits could be reduced.

Here's how the earnings test works: If you file for Social Security before you reach full retirement age and earn income from a job, Social Security will withhold a portion of your benefits once your earnings exceed a certain threshold. The threshold is adjusted annually to account for inflation.

In 2023, Social Security will withhold $1 in benefits for every $2 you earn over $21,240. If you reach full retirement age in 2023, you can earn up to $56,520 before Social Security will withhold $1 in benefits for every $3 you earn over the limit. (The earnings test is based on your individual income, so if your spouse is also working, it won't count against you.)

In the month you reach full retirement age, the earnings test disappears. In addition, your monthly benefit amount will be adjusted upward to account for forfeited benefits.

IF YOU HAVE COMPARABLE EARNINGS RECORDS

It's no longer unusual for a working couple to have similar work records. But even if you think you will each receive about the same benefit, run the numbers to determine the amount each spouse is eligible to receive. Even small differences in birth dates and earnings can affect your benefits. Go to www.ssa.gov/myaccount/retire-calc.html to create an online Social Security account (if you don't already have one) and estimate your benefits at age 62, full retirement age and age 70. If you need the income, it makes sense for the spouse with lower benefits to file at full retirement age (or earlier), while allowing the higher earner's benefits to grow.

If you and your spouse have other sources of income to cover your retirement expenses, it may make sense for both of you to delay filing until age 70. For example, if you both have a primary insurance amount of $3,000 and live to 90, you could collect approximately $65,000 more over your lifetimes if both of you delay filing until 70, compared with having one spouse file for benefits at full retirement age.

Health issues can play a role in your decision, too. If one spouse is in poor health, you may be better off having one spouse file as early as age 62 while the other spouse postpones filing until age 70. That will provide funds for medical expenses while allowing the healthier spouse's benefits to continue to grow. It will also increase the amount of survivor benefits.

GETTING THE MOST FROM SURVIVOR BENEFITS

When deciding when to file for Social Security, many retirees focus on the breakeven point—essentially, the amount of time you need to live after delaying benefits to earn the same amount you would have received if you had filed earlier. But if you're married, you should consider not just your own longevity, but how long your spouse will live, too. If your spouse is the lower earner, delaying benefits could significantly improve his or her financial security. That's because when one spouse dies, the surviving spouse will receive the larger of the couple's benefits, while the smaller of the couple's benefits will disappear.

There are also steps widows and widowers can take to get the most out of their survivor's benefits. If you wait until your full retirement age to file for survivor's benefits, you'll receive 100% of the deceased spouse's benefits. The amount is reduced if you claim the benefit before FRA.

But if you need the money sooner than that, you have other options. Use the Social Security benefits estimator to figure out which of these strategies will provide the biggest payoff:

File for survivor benefits as early as age 60 and later switch to your own benefits. Your survivor benefits will be reduced if you file for them before full retirement age. But if you postpone claiming your own benefits until age 70, you'll receive delayed retirement credits.

File for your own benefits as early as age 62 and claim survivor benefits when you reach full retirement age. This strategy will allow you to receive some income (although your benefits will be reduced) until full retirement age, when you'll be eligible for 100% of your survivor benefits. Your survivor benefits aren't eligible for delayed retirement credits, so there's no advantage to waiting past your full retirement age to claim them.

LOWER BENEFITS FOR PUBLIC-SERVICE WORKERS

If your career included jobs in both private industry and the public sector,

your Social Security benefits could be curtailed.

The Windfall Elimination Provision (WEP) reduces your benefits by a discounted factor based on how many years you worked in jobs that did not withhold Social Security taxes. The WEP can reduce your Social Security benefits by up to 50% of the amount of the pension you receive from wages that weren't covered by Social Security. Social Security provides a calculator (at www.ssa.gov/benefits/retirement/planner/wep.html) you can use to estimate how the WEP will affect your benefits.

If you haven't already retired, working a few more years at a job that withholds Social Security taxes could enable you to escape the WEP. The provision's "haircut" doesn't apply to beneficiaries who have paid taxes on 30 years of substantial earnings, which Social Security adjusts annually.

The Government Pension Offset (GPO) limits the amount of spousal benefits if you receive a pension from a job that didn't withhold Social Security taxes. The GPO reduces your spousal and survivor benefits by two-thirds of the amount of your noncovered pension. In many cases, this provision wipes out spousal and survivor benefits, Blankenship says. ■

YOU CAN REACH THE AUTHOR AT SANDRA_BLOCK@KIPLINGER.COM.

TIES THAT BIND

Divorced? You May Still Be Eligible for Spousal Benefits

The wage gap between men and women has narrowed in recent years, but many women still earn less than their spouses, particularly if they took time out to care for their family. This discrepancy can be particularly difficult for divorced women who earned less than their former husbands because they no longer can rely on their partner's income. Women—and men, if their ex-wives were the higher earners—can significantly improve their retirement security by taking advantage of Social Security benefits for divorced spouses.

If the benefits based on your ex-spouse's earnings record are higher than you would receive based on your own earnings, you can apply for spousal benefits, and you may be eligible for survivor benefits, too.

To qualify for these benefits, you must be at least 62 years old, and you must have been married for at least 10 years. If you remarried, you can't collect benefits on your former spouse's record—unless your later marriage has ended by annulment, divorce or death.

Unlike married spouses, divorced individuals can apply for spousal benefits even if their ex hasn't filed for his or her own benefits, although your ex must be at least 62. But as is the case with married retirees, you can increase the size of your benefits by waiting to file your claim. If you wait until your full retirement age to file, you'll be eligible for 50% of your ex's benefits at his or her full retirement age. You can apply earlier, but your benefits will be reduced by between 7% and 8% for each year before your FRA that you claim.

You don't have to tell your ex that you're applying for benefits based on his or her record. In addition, your spousal benefits will have no effect on the amount of benefits your ex—or your ex's new spouse—receives. You will, however, need to provide the Social Security Administration with a copy of your divorce decree, and it's helpful to have your ex's Social Security number, too.

If your ex predeceases you, you may also be eligible for survivor benefits of 100% of his or her Social Security payout. Again, you must have been married for 10 years or more to qualify. However, remarriage won't affect your eligibility for survivor benefits as long as you're at least 60 years old when you apply, or 50 if you're totally disabled. You can switch back to your own benefits when you turn 70 if that would result in a higher payout. Filing a claim for survivor benefits won't affect the amount of benefits your ex's other survivors receive.

FROM THE EDITOR

Mark Solheim

Social Security Strategy

We write about Social Security a lot, with good reason: It's a cornerstone of most retirement plans. According to the Social Security Administration, nearly 48 million Americans age 65 and older receive benefits averaging $1,669 a month, which is about 30% of their total retirement income.

This month, senior editor Sandy Block covers what the 8.7% boost in benefits for 2023 means to retirees, as well as how to maximize your benefits if you're a married couple. In "Topic A" (see page 9), Sandy outlines the likely effects of the benefit boost on retirees' bottom line, as well as other inflation-related changes coming in the new year—including a bump up in the wages on which workers will owe payroll taxes, from $147,000 to $160,200.

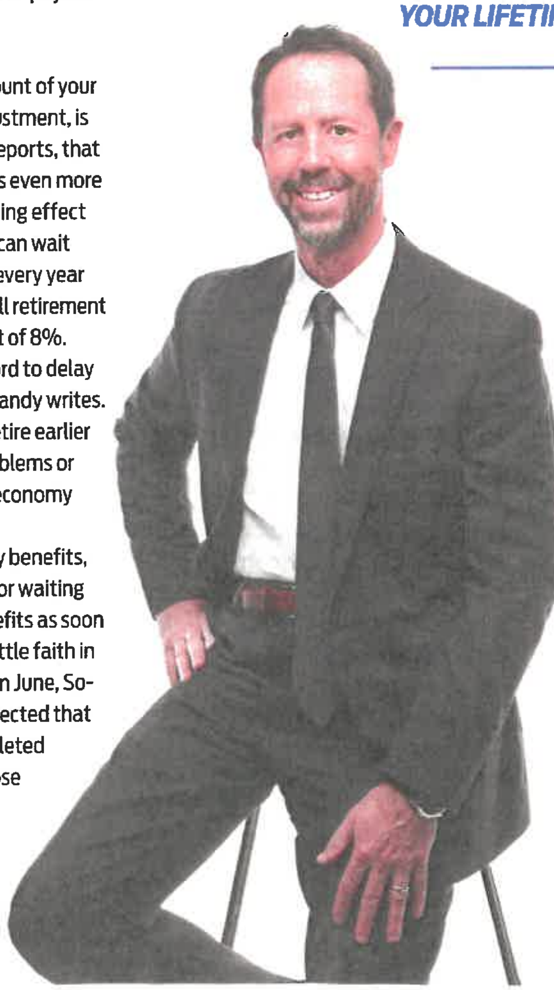
When to claim benefits. The amount of your benefits, including the inflation adjustment, is compounded every year. As Sandy reports, that makes the case for delaying benefits even more compelling, because the compounding effect becomes even more powerful if you can wait until age 70 to file for benefits. For every year you postpone filing between your full retirement age and age 70, you'll receive a credit of 8%.

"Of course, not everyone can afford to delay filing for Social Security benefits," Sandy writes. "Many older workers are forced to retire earlier than planned because of health problems or layoffs, which could increase if the economy falls into a recession."

Even if you can comfortably delay benefits, not everyone agrees with the case for waiting till 70. Some early retirees take benefits as soon as they turn 62 because they have little faith in Social Security's financial stability. In June, Social Security's board of trustees projected that the program's trust fund will be depleted by 2035 unless lawmakers act to close the projected shortfall. The cost-of-living increase has exacerbated those concerns. Lawmakers have repeatedly kicked the can down the road, but even in the unlikely event that they don't step up, the program will have enough money to pay an estimated 77% of promised benefits.

Research shows that for someone who lives to age 80 or so, cumulative lifetime benefits will be approximately the same regardless of whether benefits start at age 62, 66 or any age through 70. Knowing that, you may opt to take benefits earlier if you have a family history of dying early—or if you don't want to play the odds that you won't meet an untimely demise. According to the life-expectancy tables, if you're 66, males will live to age 83, on average, and females will live to age 86.

> **THERE MAY BE A COMBINED GAME PLAN FOR YOU AND YOUR SPOUSE THAT WILL INCREASE YOUR LIFETIME BENEFITS.**



One of our most faithful correspondents, David Weston, cites the fickleness of fate when he argues that "a bird in the hand is worth two left in the Social Security bush." He took benefits at 66, his full retirement age (FRA), and invested the monthly checks, plus the amount deducted for Medicare, in FDIC-insured certificates of deposit earning an average 4%.

In October Weston turned 72, and he sent a final report. He says his monthly benefit plus CD interest is $539 less than if he had claimed benefits at age 70 (and continued socking the money in CDs), but he has an additional $104,708 in CD principal. He calculates that he would have to live to age 82 before the savings accumulated by waiting until 70 to collect benefits would match the contributed amounts under his strategy. Says Weston: "While the Social Security benefits will stop someday when I leave the Earth, the risk-free CDs will live on."

Before you decide when to claim benefits, read "Yours, Mine and Ours: Social Security Benefits for Couples," on page 58. A combined game plan for you and your spouse could increase your lifetime benefits. We lay out options depending on whether you and your spouse have comparable lifetime earnings or an unequal earnings record.

Kiplinger's Retirement Planning 2023. The magazine staff has just finished another edition of our annual retirement planning guide. We take recent content and update and repackage it. Kudos to art director Will Tims and managing editor Fane Wolfer for their efforts. You can order a copy at kiplinger.com/go/rpg2023. The print edition costs $9.99 plus shipping and handling. A PDF version is also available for $8.99.

Finally, see page 4 for an opportunity to help us shape our future coverage by filling out an online reader survey. Many thanks.

Mark Solheim

MARK SOLHEIM, EDITOR
MARK_SOLHEIM@KIPLINGER.COM