Don't Leave Your (Social Security) $$ on the Table!

By Eve Kaplan, CFP

Social Security has a Rodney Dangerfield problem because it just doesn't get the respect it deserves. Not only is it a great risk-free, cost-free inflating annuity for life, but married couples have additional ways to increase benefits. I'm talking about the often-overlooked "spousal benefit" that may add thousands of dollars in benefits. The problem? Many married couples are unaware they're leaving "money on the table" as they rush to take benefits before 66. (I feel especially sorry about folks who rush to take benefits at age 62 because they fear Social Security will be phased out).

Financial planners are working to fill the Social Security knowledge gap to maximize client benefits. The [Social Security website] and toll-free numbers are a good starting point but this asset deserves additional attention, particularly when it comes to married couples planning.

A recent Nov 12, 2013 article by journalist Donald Jay Korn in Financial Planning Magazine is especially clear about the "spousal benefit" Social Security strategy that allows a couple to collect thousands of additional dollars in social security benefits.

To summarize:

1. Bill and Sue are 66 and 65, respectively. Neither currently receives Social Security.
2. Bill claims his full retirement age (FRA) benefit on his own work record at 66. His benefit is $2,500/month. Sue then claims a spousal benefit and collects ½ of Bill's benefit at the same time: $1,250/month.
3. While collecting a spousal benefit, Sue postpones taking

her own benefit (which increases by 8% per year from age 66 to 70) If Sue is entitled to $2,000/month at age 66, her benefit will increase to $2,640/month (+32%) by age 70.

4. The spousal benefit strategy nets $15,000 of additional benefits to Sue in Year 1 x 4 years x Cost of Living Adjustment (COLA) – an additional $60,000+ of benefits over a period of 4 years. Sue collects a higher monthly Social Security amount on her own record by postponing Social Security until she turns 70.
5. In the "file and suspend" strategy, Bill "claims" his own benefits at age 66 but he "files and suspends" (i.e. does not collect his benefits). Sue takes ½ of Bill's benefit ($1,250/mth plus COLA each year thereafter)– even though Bill postponed his benefit until age 70 (now +32% higher at $3,300/month). Sue also postpones collecting her own benefit until age 70 ($2,640). At 70, Sue takes her own benefit ($2,640) because it's higher than ½ of Bill's benefit.

There are a couple of caveats to this strategy:

1. Spousal benefits should not be claimed before FRA (full retirement age). FRA is 66 for those born in 1954 or earlier, but is increasing to 67 for those born in 1955 and after.
2. If a spousal benefit is claimed early, the ability to switch from a spousal benefit (i.e. ½ of your spouse's benefit) to your own benefit is lost.

A fellow fee-only advisor in Plano, Texas, Bob Stowe of Stowe Financial Planning, notes(in another article in Financial Planning Magazine) that married couple's benefits should be assessed differently from individual benefits. Individuals typically do best if they wait to collect Social Security until age 70 if they expect to live at least to the "crossover point" (approx. 79-80 years of age) and beyond. For couples, maximizing a couple's <u>total</u> lifetime benefits is more important. If Bill’s Social Security benefit is higher than Sue’s benefit at age 66, Bill’s benefit can be maximized by using spousal benefit strategies. If Bill predeceases Sue, she will collect Bill’s entire benefit if it’s higher than her own benefit.

Social Security is surprisingly complex. Start your research by consulting Social Security (call 1-800-772-1213 and also visit a local office to get a print-out of benefits). A good financial planner can help further by integrating Social Security strategies with your other retirement assets to help you minimize the risk of outliving your assets.