Frequently Asked Question About Today's Social Security Claiming Strategies

Legislative Changes Have Altered the Landscape for Married Couples

Developing Your Strategy

The Bipartisan Budget Act of 2015 made significant changes to several often-used Social Security claiming strategies for married couples that took effect on April 30, 2016. This report answers some of the most frequently asked questions about today's Social Security claiming environment.

Impact of 2015 changes

First, let's recap who was most affected by the 2015 changes. Keep in mind that if you are already receiving Social Security benefits, or fall into a "grandfathered" age group, you are unaffected by the changes.

Age	And you ...	Strategy	Hypothetical example
66-70 (born on or before May 1, 1950)	Elected to file and suspend before April 30, 2016	Your spouse and children retain the ability to claim benefits based on the worker's earnings record	*Tom, age 68, and Margaret, age 67.* Tom filed and suspended at full retirement age; Margaret filed for spousal benefits. They can continue this strategy, and each can earn delayed retirement credits on his/her own Social Security benefits.
	Did **not** elect to file and suspend before April 30, 2016	Voluntary suspension is still available to you, but doing so also suspends any benefits a spouse or child could claim based on the worker's earnings record	*Dino, age 67, and Tina, age 66.* This couple did not claim Social Security benefits before April 30, 2016. Even so, they can still coordinate the best time to begin claiming their own benefits. For example, one spouse could begin benefits while the other delays claiming to take advantage of delayed retirement credits until age 70.
62-66 (born after May 1, 1950, but before Jan. 2, 1954)		Upon reaching full retirement age, voluntary suspension is available to you, but doing so suspends any benefits a spouse or child could claim based on the worker's earnings record; restricted applications* possible at full retirement age	*Juan, age 65, and Shania, age 64.* Similar to Dino and Tina above, this couple can coordinate their own benefits, perhaps by allowing one spouse's benefit to take advantage of delayed retirement credits, and consider survivor benefits.
62 or younger (born after Jan. 1, 1954)		Restricted application strategies are no longer available, **but** you have many other Social Security claiming strategies available, as described in this report	*Susan, age 62, and Leigh, age 61.* Susan and Leigh are developing a strategy to claim their Social Security benefits that enhances their overall retirement income plan. They will consider how their own benefits, spousal benefits, and survivor benefits fit into that plan.

* *A restricted application allows one spouse to claim (typically lower) spousal benefits while allowing his or her own benefit to grow through delayed retirement credits until some future age.*

Are You Looking For ...

With these changes, you may think you don't have as many planning options regarding how to claim your Social Security benefits. Think again! In fact, you have many factors to consider and several choices to make as you begin to formulate your personalized strategy for receiving Social Security benefits. If you are not familiar with the essential facts surrounding Social Security (such as full retirement age, reduction in benefits if filing early, delayed retirement credits, taxation of benefits, etc.), ask your Financial Advisor for our basic report, "Social Security and Your Retirement."

The remainder of this report will address some of the important questions you may have as you weigh your Social Security claiming decision.

What considerations should you factor into your Social Security claiming decision?

Regardless of your age or marital status, these are some of the most important factors you should consider in your decision-making process:

- **Health.** What is your outlook for your health through your retirement? Has your health situation changed? Your expectations about your health can affect your decision to accelerate or defer benefits.
- **Longevity.** What is your family history in terms of life expectancy? Have your parents and grandparents enjoyed lengthy, active healthy lives? Or is the opposite true? Do you (or your spouse) have a health condition that reduces life expectancy? None of us can predict how long we will live, but reasonable expectations may affect your claiming choices.
- **Genuine need.** Based on cash flow expected from your investment portfolio and anticipated expenses, how much will you rely on Social Security benefits to meet your everyday expenses? Would you be better served by delaying claiming your benefits and allowing them to grow for some years?
- **Current investment climate.** When deferred, Social Security benefits grow at a fixed percent per month. You'll want to compare that rate with the potential (but likely variable) returns your investment portfolio may provide. Ask your Financial Advisor to prepare a Social Security Calculator analysis and report for a personalized illustration.
- **Quality of life.** You'll want to optimize your quality of life, especially during retirement. Is it a higher priority for you to have extra income from Social Security benefits now or to secure a higher amount later by waiting to claim benefits?
- **Survivor needs.** Is it important for you to provide a potentially higher benefit for a surviving spouse?

The overarching theme in all these considerations: Discuss the practical goals you are trying to achieve for both your Social Security benefits and retirement lifestyle with your Financial Advisor before making a claiming decision.

Is there a breakeven point?

Generally, yes, and it's about 12 years. In most cases, whether you wait at age 62 and claim at 66 or defer at 66 and claim at age 70, you will have received about the same amount of overall benefits about 12 years after the deferral date.

Perhaps the more important questions you need to consider are: What will your health and lifestyle be like between ages 62 and 70 or beyond? What opportunity costs are associated with claiming Social Security benefits either earlier or later? And perhaps most importantly: What income sources are available to you during a deferral period to help meet your everyday expenses?

The answers to those questions may guide you toward an appropriate claiming age for your individual situation.

What if you want to claim benefits before reaching full retirement age?

If you are single, your benefits will be reduced by a certain amount depending on the number of months prior to full retirement age you begin receiving Social Security benefits. Benefits for the remainder of your lifetime will be based on this lower starting point. (You can read more details about this reduction in our companion report, "Social Security and Your Retirement.")

If you are married, the same reduction occurs, but there is another factor if one spouse is considering claiming spousal benefits: The spouse whose earnings record is the basis for the benefit must actually draw benefits (or have filed and suspended) to allow the other spouse to claim spousal benefits. Avoid this common misconception: Filing for Social Security benefits prior to reaching full retirement age does not make a spouse eligible for spousal benefits.

If financially feasible, should both spouses wait to age 70 before claiming Social Security benefits?

Each couple's situation will vary, but typically this is not the most advantageous strategy. In most cases, couples who both wait to age 70 before claiming Social Security benefits are leaving money on the table. For example, after one spouse reaches at least full retirement age and begins claiming benefits, it may be more beneficial for the other spouse to claim spousal benefits before reaching age 70 and then claim his or her own benefit (which will have grown due to delayed retirement credits) at age 70. If you are considering this strategy, ask your Financial Advisor to prepare a personalized illustration using the Social Security Calculator to view this and alternative strategies you may want to consider.

Can you reverse your Social Security claiming decision?

Currently, the Social Security rules allow a recipient to repay all benefits received within the first 12 months of starting benefits. After repayment, the recipient can re-apply for Social Security benefits in the future at a presumed higher benefit level. A recipient can take this action only once in their lifetime and only within the first 12 months of starting to receive benefits.

It is a good planning habit to re-evaluate your claiming strategy each year, even if one spouse, or both, has already started to receive benefits. A change in lifestyle, health, or other circumstances could prompt a change in your plans for Social Security benefits.

Understanding spousal benefits

Who can file for only spousal benefits?

As noted in the table on page one:

If you were born before January 2, 1954, and have reached full retirement age, you can choose to receive only a spousal benefit (based on the worker's earnings record) and allow your own benefit to earn delayed retirement credits up to age 70.

However, if you were born on or after January 2, 1954, when you file for benefits, you do not have the option of filing a restricted application for only spousal benefits. The Social Security Administration will always provide the higher of your own benefit or the spousal benefit.

What rules should you understand regarding spousal benefits?

Here are some key facts to consider when applying for a spousal benefit:

- The worker on whose earnings record you are claiming must either be drawing benefits or have filed and suspended his or her benefit under the old rules.
- The spousal filer must be at least age 62 (or have a child under 16 in his or her care).
- If the spousal filer has not reached his or her own full retirement age, the spousal benefit will be reduced. (The reduction amount is based on the number of months prior to full retirement age.)
- Prior to the month of full retirement age, spousal benefits can be reduced based on earned income.
- A portion of Social Security benefits could be taxable. Unlike the limit on earned income (which disappears at full retirement age), benefits can be taxable at any age (based on your overall income).

Social Security rules are complex, and we are simplifying in this summary. There are many exceptions, exemptions, and exclusions. Always discuss your situation with a representative at your local Social Security Administration office before making a final claiming decision.

How are spousal benefits calculated?

Many people think it's easy to estimate a spousal benefit — it's simply one-half of the worker's benefit. Actually, it's a bit more complicated than that. If the person applying for a spousal benefit is at least age 62 and has a work record of his or her own, the Social Security Administration will calculate his or her own benefit based on that work record.

If the worker spouse is drawing benefits (or deemed as drawing benefits because he or she suspended the benefit before April 30, 2016) and the spousal applicant qualifies for a higher benefit amount as a spouse, the Social Security Administration will add the difference to the applicant's benefit, up to a maximum of one-half of the spouse's benefit. (Note: All amounts are reduced if filing before full retirement age.)

Let's consider a hypothetical example:

Jon has reached retirement age and is receiving a $2,000 monthly Social Security benefit. His wife, Lee, is age 62, and her full retirement age benefit based on her own work record is $800 per month. But Lee wants to apply for benefits now, prior to reaching full retirement age (we assume her full retirement age is 66).

The Social Security Administration will first calculate Lee's own age-62 benefit, which is 25% lower because of filing early, or $600 per month. Because Jon has reached full retirement age and filed for his benefit, Lee is eligible for a spousal benefit. At Lee's full retirement age, her spousal benefit would be one-half of Jon's, or $1,000. But because she is filing at age 62, her spousal benefit is reduced by 30%, or to $700 per month.

Lee will receive $700 per month at age 62 as a spousal benefit. But you should realize that $600 of that amount is actually her own reduced Social Security benefit based on her own work record. The additional $100 is her reduced spousal benefit, which boosts her total monthly benefit at age 62 to $700.

Will the spousal benefit earn delayed retirement credits if you wait past full retirement age to claim?

No. Unlike your own Social Security benefit, which can earn delayed retirement credits after reaching full retirement age, spousal benefits do not increase after reaching full retirement age. If you are considering applying for a spousal benefit, there is limited benefit to waiting beyond your own full retirement age to do so.

Understanding divorcee benefits

If you are divorced, can you apply for benefits based on your ex-spouse's earnings record?

Yes, if you meet certain requirements:

- Your marriage must have lasted 10 years or longer
- You must be currently unmarried
- You must be at least age 62
- Your ex-spouse must be entitled to receive Social Security benefits

As with other claiming strategies, your ability to file a restricted application (to get spousal benefits instead of your own) is based on your birth date as shown in the table on page one. In general, if you were born after January 2, 1954, you will automatically receive the larger of your own Social Security benefit based on your own earnings record or a spousal benefit (generally one-half of your ex-spouse's Social Security benefit). The same reductions described above for a married couple's spousal benefit apply if you have not yet reached your own full retirement age. And if you are working while receiving these ex-spouse benefits before full retirement age, the earnings limit applies.

Will your ex-spouse be notified of your application? Will this affect your ex-spouse's Social Security benefits?

No. Your ex-spouse will not be notified that you have applied based on his or her earnings record. The ex-spouse's own benefit (and the benefit of his or her current spouse, if remarried) will be unaffected.

What if you remarry while receiving ex-spouse Social Security benefits?

Your ex-spouse Social Security benefits will cease. You must be married to your new spouse for at least one year before you can file an application for spousal benefits based on the new spouse's earnings record.

** Again, we're not taking possible inflation adjustments into account.*

Understanding survivor benefits

How do survivor benefits work?

A number of categories of survivors can claim benefits based on a worker's earnings record, including:

- Surviving spouse
- Divorced surviving spouse
- Certain minor children and dependent parents

For this answer, let's focus on a surviving spouse (widow or widower).

A surviving spouse can claim survivor benefits as early as age 60. If claimed at that age, these benefits will be permanently reduced. If the surviving spouse is disabled, benefits can begin as early as age 50. However, if a surviving spouse waits until he or she reaches full retirement age, he or she can claim survivor benefits equal to 100% of the deceased worker's benefit amount.

If you are divorced and your ex-spouse has died, you may apply for survivor benefits based on the deceased ex-spouse's earnings record as long as your marriage lasted 10 years or more.

Why is it important to consider survivor benefits?

You will want to consider the impact of potential survivor benefits on your long-term retirement income plan, especially if it's possible that the higher-earning spouse may predecease the lower-earning spouse.

To better understand this concept, let's look at a hypothetical example:

Tito, age 64, will be eligible for full retirement age benefits of about $2,000 per month. His wife, Maria, age 63, will be eligible for full retirement age benefits of about $1,200 per month. They would like some income from Social Security now, so Maria files for her own reduced benefit, which is approximately $930 per month. Tito plans to wait until age 70 to claim his Social Security benefit, which is projected to increase to about $2,560 per month. After Tito reaches age 70 and claims his Social Security benefit, the couple has a monthly Social Security income of about $3,490.

If Tito dies first, Maria's survivor benefit will be 100% of Tito's benefit at his death (if she does not start taking benefits until her full retirement age).

As noted earlier, every couple's situation will be unique, and relying on survivor benefits may or may not be appropriate for your particular circumstances. Talk with your Financial Advisor and other advisors about the benefits and limitations of this strategy.

These Changes Highlight an Important Fact

When it comes to Social Security, it's more important than ever to pay attention, understand your options, and periodically review your choices. Even though some strategies have been taken away, there are still many opportunities to increase potential lifetime Social Security benefits.

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