

5 Social Security Strategies for Couples

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One of the biggest decisions advisers face in developing retirement income strategies for their clients is when the clients should begin collecting Social Security benefits.

For couples, the decisions—and options—can be particularly complex if they are able to delay taking their benefits. This article focuses on five Social Security strategies that you can use with your clients.

Identifying optimal Social Security strategies can help clients maintain their quality of life and may result in a significant increase in benefits collected over their lifetimes. But first, let's briefly look at the basic factors to consider when deciding when your clients should begin collecting Social Security benefits, including their income needs, ages, health, other income sources, desires to work during retirement, and marital status.

Factors to Consider

Determining needs. The first step should be to figure out how much income clients will need in retirement and where this money will come from. Social Security usually provides at least 20 percent of pre-retirement income. The Social Security Administration's (SSA) online retirement estimator at www.socialsecurity.gov/estimator can help you project client benefits based on their earnings record and the age

at which they plan to begin taking payments. [Editor's note: FPA also offers a consumer-oriented Social Security predictor tool that offers an idea for how Social Security will be affected by various legislative proposals at www.FPAnet.org/SocialSecurityPredictor/ScenarioSelection.aspx.]

Setting a retirement date. When your clients want to retire and whether they want to keep working for income in some capacity during retirement are, of course, key questions. This decision may hinge on the value of their other financial resources, whether they have health issues, and perhaps even their expected longevity. If they leave their jobs before age 62, what will they do for income before they are eligible for Social Security? If they are under age 65, what will they do for medical insurance before qualifying for Medicare? Taking a part-time job can help fill income gaps and cover health insurance premiums and may enable them to delay applying for Social Security for some time.

Value of waiting. Clients can certainly begin drawing their Social Security benefits at age 62, but there is no requirement to do so and the benefits of waiting can be significant: approximately an 8 percent annual increase in benefits in real (inflation-adjusted) terms for every year they delay taking benefits from ages 62 to 70. That means

that if clients delay drawing benefits from 62 to their full retirement age (FRA)—66 for most boomers¹—their monthly checks could be more than 32 percent greater than if they didn't wait. If they wait until age 70, their checks could be 87 percent higher with compounding. Even without additional savings, many retirees would come out ahead over the long term by continuing to work for at least a year or two past 62. This is because their earnings could cover their expenses and their savings could continue to compound without withdrawals, assuming sufficient longevity to break even.

Working. Until your clients reach their FRA, the SSA will deduct \$1 from their benefits for every \$2 they earn above the annual wage limit, which is \$14,160² in 2010. At their FRA, however, their monthly checks would be gradually increased to offset by age 77 any earlier reductions due to earning more than the wage limit. Once clients reach their FRA, there is no SSA provision for a reduction in their benefits because of earnings.

Marital status. The decision about when to take benefits not only directly affects your clients but also their spouses. If they are married, this decision should be approached as a couple because when the first spouse dies, the surviving spouse is eligible to receive the larger of the deceased spouse's benefit or their own.

Five Strategies for Couples

The following five examples, offered for illustration only, show the financial effect of various Social Security strategies for couples. Call them Mary and John, both currently age 61. Mary earns \$53,000 and John earns \$84,000. And assume that John dies at age 80 and Mary dies at age 95. See Figure 1.

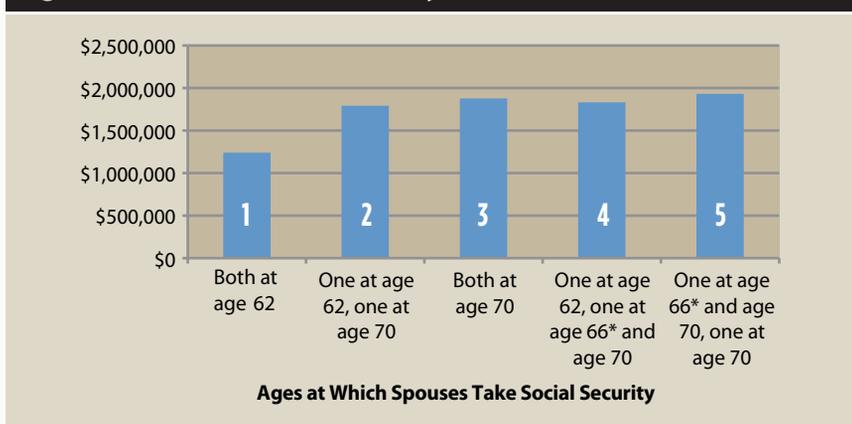
Option 1: Both start Social Security at 62. If Mary and John start taking benefits at 62, the total (pretax, inflated) benefit paid out from Social Security during John's and Mary's lifetimes will be about \$1.24 million. Mary's payment in the first year after John dies rises to what John would have received, increasing her annual benefit from \$20,000 to about \$28,000.

Option 2: Mary starts at 62 and John waits to 70. If John delays taking Social Security until 70, Mary will receive about \$52,000 in the first year of widowhood—almost twice as much as in the previous example. The total benefit will be approximately \$1.79 million, \$550,000 more than if they both began drawing benefits at age 62.

Option 3: Mary and John both wait to 70. If they both delay taking benefits until 70, Mary again will receive approximately \$52,000 in the first year after John's death, but their total benefit will be about \$1.88 million (\$640,000 more than in Option 1) because Mary had been drawing her highest possible benefits as a result of delaying taking them until 70. In other words, both delaying enables this couple to receive more inflation-adjusted income later in life—a form of longevity insurance.

Option 4: John waits to 70 and Mary starts at 62 but uses the spousal benefit. When John attains his FRA (age 66), he files for spousal benefits.³ This strategy allows John, while delaying drawing his own Social Security benefit until 70, to begin receiving 50 percent of Mary's Social Security benefit. At age 70, John reapplies to the SSA to begin receiving his own benefit, which will

Figure 1: Cumulative Social Security Benefits (Pretax, Inflated)



be considerably larger than the spousal benefit he had been receiving since 66. This strategy results in about \$40,000 more in cumulative retirement income than Option 2—the same strategy without taking advantage of the spousal benefit.

Option 5: John and Mary wait to 70 but Mary claims spousal benefit at 66. In this example, Mary and John both delay benefits until age 70 with another twist. At his FRA, John files for his benefits but then immediately suspends the application, thereby enabling Mary (once she also reaches her FRA at 66) to claim spousal benefits based on his higher earnings. At age 70, Mary reapplies to the SSA to begin receiving her own benefits, which are higher than half of John's. (John does not need to reapply because it happens automatically.) This is the highest yielding of the five strategies, resulting in \$54,000 in additional cumulative spousal benefit income over Option 3—the same strategy without the spousal benefits. It yields almost \$700,000 more than the couple would have received if they had both started taking benefits at age 62.

Permutations and Planning

With couples, advisers may encounter many permutations on the above scenarios, depending on the husband's and wife's earning history, ages, and other factors. For example, if one

spouse earned less than half of the higher spouse's benefits and therefore her spousal benefits exceed her own benefits, there is no benefit to her from delaying Social Security past her FRA.

Helping clients navigate these and other complexities offers real opportunities for advisers who are knowledgeable about Social Security benefits to significantly add to their clients' retirement income streams.



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Endnotes

1. To determine your clients' FRA, visit www.socialsecurity.gov.
2. In the calendar year during which clients reach their FRA, the reductions in the months prior to their birth date are less than in the months in previous years.
3. The spouse earning less (\$53,000) would have been eligible to receive \$19,452 at age 66. By taking the spousal benefit instead, the higher-paid spouse can receive 50 percent of the lower-earning spouse's benefit—or \$9,726—each year (increased for inflation) from ages 66 through 69.