



What You Need to Know About Social Security—Part II *Four Benefit Strategies for Married Couples*

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(Note: Last month I discussed the basics of Social Security. You may want to refer back to the newsletter tab of the July issue of ChartNotes at www.mpmedsociety.org for definitions and important concepts that are the building blocks of this installment.)

When the parents or grandparents of today's baby boomers applied for Social Security it was no big deal. They just did it and started receiving checks. The program was very simple back then. Benefits started only at age 65 and didn't even have a cost of living increase (COLA). Gradually, benefits improved and things got very complicated (and expensive for the system!). Now, regardless of your income or other assets, Social Security planning should be an important part of your retirement planning. Many of the planning opportunities revolve around married couples. This installment will focus on the most common question we receive about Social Security—when should I start taking benefits?

Your age at the time you start taking benefits can literally make the difference of many thousands of dollars over your lifetime. Before we get into the number crunching, it's important to realize that your decision of when to apply depends on many factors unique to your situation. These include your:

- health status
- life expectancy
- retirement lifestyle
- need for income
- whether or not you plan to work
- whether you have other personal income resources.

As I pointed out last month, your life expectancy is the wild card. On a simplistic basis of just counting the total dollars received, if you started benefits at age 66 instead of 62, your breakeven age is 75. If you waited until age 70, your break even age is 78. And the breakeven between ages 66 and 70 is age 80. But what if you try the “take and invest” strategy?

1. The “Take and Invest” Strategy

As you can see by the table, the breakeven ages are higher if you took benefits at 62 and dutifully invested your Social Security check each month until age 70.

**Breakeven Ages if Age 62-70 Benefits Invested
Compared to Postponing Benefits to Age 70**
(Assumes maximum PIA of \$2,230 at age 66 with 2.8% COLA)

Investment	Not invested	4% Return	6% Return	8% Return
Breakeven Age	78	81	84	90

This may not be a fair comparison, because I’m comparing a higher-risk investment strategy with a government-guaranteed benefit. And it doesn’t consider the taxation of Social Security benefits or of investment returns. This “take and invest” strategy can only work if you can afford to invest all of your Social Security benefits and are willing to take risks in an attempt to earn 8% or more. But for this to work, you must not need the income and really must have a high tolerance for risk—and discipline that I have rarely seen in 29 years of practice.

All of this discussion is based on a single life. The picture changes dramatically when we factor in the planning opportunities available to married couples. As I pointed out last month, your spouse is entitled to the greater of one-half of your benefit or his/her own benefit, starting as early as age 62. Thus, if your spouse is entitled to receive \$800 per month based on his/her earnings, and you are entitled to receive \$2,000, your spouse will receive \$1,000 per month, and as a couple, you will receive \$3,000.

There is also a death benefit, and this is a very important consideration, especially since the life expectancy on two lives is greater than just one. When one spouse dies, the survivor receives the higher of two benefits, as early as age 60. Thus, if before you died you were receiving \$2,000 per month and your spouse was receiving \$1,500 per month, your spouse would receive \$2,000 per month. If your spouse died first, you would continue to receive \$2,000. This leads to a key strategy—Claim and Suspend.

2. The File and Suspend Strategy

For one to start receiving spousal benefits, the other spouse must first file for benefits. *The basic premise of this strategy is that by filing, a higher-earning spouse makes his spouse eligible for spousal benefits. By suspending the receipt of his own benefit, he builds credits toward a higher benefit at age 70.* For example, let’s say the wife is the lower-earning spouse. Her husband files, and then suspends taking benefits. This enables her to start taking benefits on her own record at, say, age 62 and then switch to taking half of the husband’s benefit at a later age. Alternatively, she can claim to get one-half of her husband’s PIA (benefit amount), actuarially adjusted by her age.

This “file and suspend” strategy works best if one-half of the husband’s PIA is greater than the wife’s, and if the husband continues working to accumulate more credits. The longer he waits, the better, ideally to age 70. This tends to maximize the couple’s lifetime benefits, especially when the COLA is factored in. More importantly, it maximizes the survivor benefit, regardless of who survives. Thus, the breakeven age for a surviving spouse getting a stepped-up spousal death benefit is the same as that of a single individual, even if the deceased spouse lived only one day past age 70. The actuarial reductions for starting this strategy before age 66 are slightly different, as you can see by the tables. And note that it never pays for a spouse to apply for a spousal benefit after age 66.

Actuarial Adjustments for Spouse and Using Other Spouse's Benefit (PIA)

Age wife files for benefits	% of wife's PIA	Benefit if wife's PIA is \$800	% of husband's PIA	Benefit if husband's PIA is \$2,000
62	75.0	\$600	35.0	\$700
63	80.0	\$640	37.5	\$750
64	86.7	\$693	41.7	\$834
65	93.3	\$746	45.8	\$916
66	100.0	\$800	50.0	\$1,000
67	108	\$864	50.0	\$1,000
68	116	\$928	50.0	\$1,000
69	132	\$992	50.0	\$1,000
70	132	\$1,056	50.0	\$1,000

3. Claim Twice

This strategy works best for high-income couples with relatively equal earnings. A spouse in a dual-earner couple can claim Social Security twice: first as a spouse and later using his or her own work record. The husband, for example, may choose to sign up for only a spouse's benefits at age 66 and then claim again based on his own working record when he exits the workforce at age 70. But note again, that it never pays for a spouse to apply for a spousal benefit after age 66.

4. The "Do-Over" Strategy

This is basically the "Take and Invest" strategy. This option was originally permitted for people who made an honest mistake by claiming benefits at age 62, then going back to work. The rules permit one to withdraw the application, repay the amount received (without interest!) and reapply at a later date. I'm only mentioning it because we have had questions about it following a Scott Burns column last year and irrational fears that Social Security will be completely insolvent in the next eight years. Investment returns and tax considerations aside, the real risk here is that you die before you plan to complete the deal. ***Don't do it!*** You are dooming your surviving spouse to a lifetime of thousands of dollars of lower benefits on a gamble that you can make a few bucks now. Once scenario we ran for a client showed the widow receiving only half as much at age 80 as she would have if they had just stayed on their original claim and suspend tract. And since this is too good to be true, Congress will most certainly close this loophole.

Key Points

1. ***The actuarial reduction for early retirement is permanent!*** If you start benefits at 62 and die, your spouse's benefits will be based on that lower amount for the rest of his or her life.
2. ***Don't underestimate the power of the annual COLA!*** Even if you don't die early, the annual COLA can potentially more than double your benefits over your lifetime. That is why it is generally better to postpone receiving benefits to as late as possible—the annual COLA percentage is applied to a higher PIA.
3. If you continue working past age 66 or 70 your benefits are recalculated each year. If these are your peak earning years, they replace your lower earning years from the 35-year average. This is good for many doctors who didn't make much as residents early in their careers.

4. If a spouse or widow earns more than the earnings test amounts--\$14,160 before FRA or \$37,680 in the year he/she turns FRA in 2010—benefits will be withheld the same as for regular Social Security benefits.
5. ***If you lose benefits because you worked before age 66, they are not lost.*** They are factored in again at age 66.
6. The higher-earning spouse should delay benefits to age 70, if possible. This is especially true if the higher-earning spouse is male and three or more years older than his spouse.
7. ***Run the numbers!*** The examples in this article are hypothetical and probably don't accurately apply to your situation. There are many variations on the strategies I discussed, so your decision needs to be made in the context of the many factors mentioned earlier. A comprehensive advisor with sophisticated software can assist you with this.

Next month: *The future of Social Security, possible fixes, and how they may apply to most ChartNotes readers.*

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