Social Security Tips for Couples

Posted: 6/5/2014

Three strategies that may help married couples dramatically boost their lifetime benefits.

Married couples have a bit of an edge with Social Security. Of course, the basic Social Security rules apply to everyone equally, but married couples can take advantage of some strategies that may help to significantly increase lifetime benefits. Some require short-term sacrifice. In other words, you'll have less Social Security income in the first few years of retirement, in order to get larger benefits later.

Make the most of Social Security

1. Maximize the survivor benefit.
2. Claim and suspend.
3. Claim now, claim more later.

After you reach age 62, every year that you delay taking Social Security (up to age 70), you could receive up to 8% more in future monthly payments. (Once you reach age 70, increases stop, so there is no benefit to waiting past age 70.) Because people are living longer these days, that can make a difference.

"Many Americans are underestimating how long they may lead enjoyable healthy lives," says Stephen J. Devaney, CFP®, CASL, and vice president in Fidelity Strategic Advisers. "Longer lives also increase the potential impact of Social Security strategies."

Because this may affect your budgeting, portfolio management, and tax planning, it's a good idea to review these options with a financial adviser to see if they fit into your overall retirement plan.

Strategy No. 1: Maximize the survivor benefit

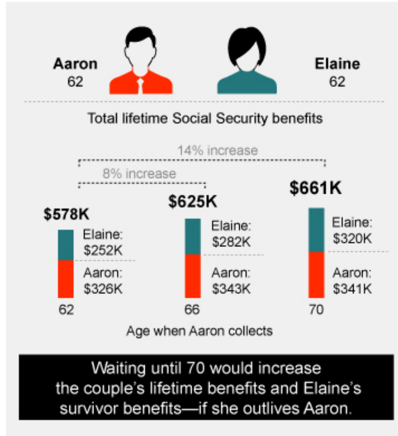
How it works: When you die, your spouse is eligible to receive your monthly Social Security payment as a survivor benefit, if it's higher than his or her own monthly amount. But if you start taking Social Security before your full retirement age (FRA), you are permanently limiting your partner's survivor benefits. Many people overlook this when they decide to start collecting Social Security at age 62. If you delay your claim until your full retirement age—which ranges from 65 to 67—depending on when you were born, or even longer until you are age 70, your benefit will grow and, in turn, so will your surviving spouse's benefit after your death. (Get your full retirement age.)

Whom it may benefit: This strategy is most useful if your monthly FRA Social Security benefit is higher than your spouse's, and if your spouse is in good health and expects to outlive you.

See page 5 for important information

Example: Consider a hypothetical couple who are both about to turn age 62. Aaron is eligible to receive $2,000 a month from Social Security when he reaches his FRA of 66. He believes he has average longevity for a man his age, which means he could live to age 85. His wife, Elaine, will get $1,000 at her FRA of 66 and, based on her health and family history, anticipates living to an above-average age of 94. The couple was planning to retire at 62, when he would get $1,500 a month and she $750 from Social Security. Because they're claiming early, their monthly benefits are 25% lower than they would be at their FRA. Aaron also realizes taking payments at age 62 would reduce his wife's benefits during the nine years that they expect her to outlive him.

Maximize Social Security—for you and your spouse—by claiming later.



Note: All lifetime benefits are expressed in present values, calculated using an inflation-adjusted discount rate and life expectancies of 85 and 94 for husband and wife respectively. The numbers are sensitive to, and would change with, the discount rate and life expectancy assumptions.

If Aaron waits until he's 66 to collect benefits, he'll get $2,000 a month. If he delays his claim until age 70, his benefit—and his wife's survivor benefit—will increase another 32%, to $2,640 a month. (Note: Social Security payout figures are in today's dollars and before tax; the actual benefit would be adjusted for inflation and possibly subject to income tax.) Waiting until age 70 will not only boost his own future cumulative benefits by 5%, it will have a dramatic impact on his wife's benefits. In this hypothetical example, her lifetime Social Security benefits would rise by about $68,000, or 27%. Even if it turns out Elaine is overly optimistic and she dies at age 88, her lifetime benefits will still increase 12% and, together, they would collect approximately $39,000 more in Social Security benefits than if they had claimed at 62. In order to do this, Aaron would either keep working or use savings to cover retirement expenses until he receives Social Security.

The longer a spouse waits to claim Social Security, the higher the monthly benefit for both the spouse and the surviving spouse. For more on why it's often better to wait until at least your FRA before claiming Social Security, read *Viewpoints*: Should you take Social Security at 62?

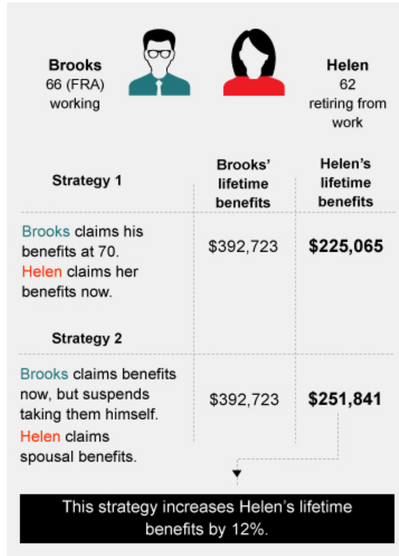
Strategy No. 2: Claim and suspend

How it works: Normally, you have to be collecting Social Security payments before your spouse can claim spousal benefits. But if you have reached FRA (age 66), you can file for your benefits and then suspend them until a later date. Then, your spouse can start receiving spousal Social Security checks based on your work history, as long as he or she 62 years of age, and the value of your future benefits keeps rising.

Whom it may benefit: This strategy works best for couples with very different earnings histories, where the higher-earning spouse would like to keep working, and the lower-earning spouse wants to retire and would be better off with the spousal benefit than his or her own.

Example: Suppose Brooks (shown below) has reached his FRA of 66 and is eligible to receive $2,000 a month. His wife Helen is 62 and will collect $750 a month when she reaches her FRA of age 66. If Helen retires at age 62, because she will be claiming benefits early, she will get only $563 a month based on her own work history. But if she claims spousal benefits based on Brooks' earnings, she'll get $700 a month.

A lower-earning spouse may benefit from the claim and suspend strategy.



Note: All lifetime benefits are expressed in present values, calculated using an inflation-adjusted discount rate and life expectancies of 86 and 88 for husband and wife respectively. The numbers are sensitive to, and would change with, the discount rate and life expectancy assumptions.

Brooks claims benefits now, but suspends taking them for himself until he is age 70 so his wife can draw spousal payments right away. If he then lives to age 86 and she lives to age 88 (average expectancies, given their current ages), this strategy in our hypothetical example will add more than $26,000 to Helen's lifetime benefits, increasing the total value of her payments by about 12%.

Strategy No. 3: Claim now, claim more later

How it works: If you have reached FRA and you and your spouse are ready to retire, you may be able to achieve a long-term gain in payments by initially claiming spousal benefits, allowing your own benefits to grow, and then switching to your own later.

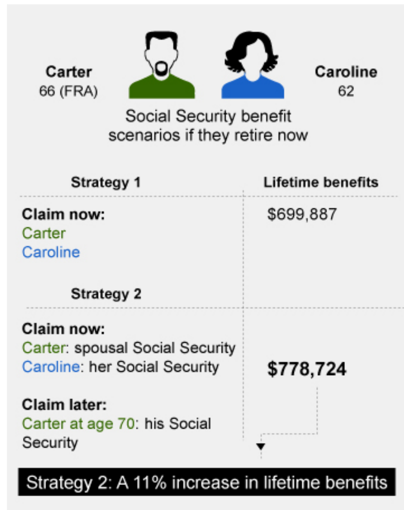
Whom it may benefit: This strategy is most useful if your household can handle lower monthly benefits in the early stages of your retirement in return for higher payments later, and if your benefit at FRA is higher than your spouse's—but not so much higher that your spouse would be better off with the spousal benefit. (That's an important distinction from the claim-and-suspend strategy.) And it's particularly helpful if your spouse is in good health, and you expect him or her to live a long life.

Example: Say Carter (see below) is 66 and eligible for his FRA of $2,000 per month in Social Security now, while his wife, Caroline, is 62 and is due to collect $1,000 a month when she is 66, her FRA. If they both retire now and take benefits, he'll get $2,000 and she will receive $750, a 25% decrease since she is retiring before her FRA. The couple's monthly Social Security benefits would be $2,750 a month.

Suppose Carter claims a spousal benefit now instead, and delays taking his own benefits until age 70. That means, initially, the couple will get just $1,250 a month: her $750 plus his $500 spousal benefit. (Because he is at FRA he gets 50% of Caroline's $1,000 FRA benefit, not 50% of her reduced benefit at age 62.) But in four years, when Carter is 70, he can take his own Social Security benefit, which jumped to $2,640 because he waited, giving the couple a total of $3,390 a month until his death.

If he lives to age 86 and she lives to 94 (which is 25% longer than the average expectancy for a 62-year-old woman), his lifetime payments in our hypothetical example will increase by nearly $26,000, and hers will soar by more than $52,000, driving up their collective benefits by about 11%, or nearly $79,000. These calculations don't include any income Carter might earn between the ages of 66 and 70, if he can keep working (and contributing to Social Security) while his benefits grow. It's important to note, though, that because Caroline has not reached her FRA, she should be aware of the impact of his earnings on her benefit and Carter's spousal benefit. They will be subject to an earnings test, which could temporarily reduce their benefits.

The claim now and claim later strategy can help maximize benefits.



Note: All lifetime benefits are expressed in present values, calculated using an inflation-adjusted discount rate and life expectancies of 86 and 94 for husband and wife respectively. The numbers are sensitive to, and would change with, the discount rate and life expectancy assumptions.

In conclusion

As you can see, these strategies require waiting at least until you reach your full retirement age, generally age 66, to claim benefits. That means either you work longer or make do on less during that time. But for each year that you delay taking Social Security (up to age 70), you could receive up to 8% more in future monthly payments, which can add up over time.

This article uses the Annuity 2000 mortality table to determine longevity, which is a narrower universe than the Social Security Administration's. The Social Security Administration uses a mortality table that averages the entire nation. The Annuity 2000 table better reflects the typical Fidelity client, skewing toward a somewhat more educated and affluent individual with a slightly longer life span.

Lifetime benefits are determined by calculating the present values of the Social Security payments over time. The present values are calculated by discounting the Social Security payouts by an inflation-adjusted rate of return. The illustrations use the historical average yield of U.S. 10-Year TIPS for discounting.

The benefit calculations and discounting in this article does not account for the effect of taxes. The after-tax discount rate for an individual could be very different from another depending on multiple factors including the sources and levels of income. For individualized estimates, one could try the Retirement Estimator from the Social Security Administration. Assumes a person is in good health. Average longevity corresponds to a 50% chance of living to a stated age. Above-average longevity corresponds to a 25% chance of living to a stated age.

The information contained herein is general in nature, is provided for informational purposes only, and should not be construed as legal or tax advice. Fidelity does not provide legal or tax advice. Fidelity cannot guarantee that such information is accurate, complete, or timely. Laws of a particular state or laws that may be applicable to a particular situation may have an impact on the applicability, accuracy, or completeness of such information. Federal and state laws and regulations are complex and are subject to change. Changes in such laws and regulations may have a material impact on pretax and/or after-tax investment results. Fidelity makes no warranties with regard to such information or results obtained by its use. Fidelity disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Always consult an attorney or tax professional regarding your specific legal or tax situation.

Past performance is no guarantee of future results.

As with all of your investments, you must make your own determination whether an investment in any particular security or fund is consistent with your investment objectives, risk tolerance, financial situation, and your evaluation of the investment option. Fidelity is not recommending or endorsing any particular investment option by mentioning it in this presentation or by making it available to its customers. This information is provided for educational purposes only, and you should bear in mind that laws of a particular state and your particular situation may affect this information. There is no guarantee the trends discussed here will continue. Investment decisions should take into account the unique circumstances of the individual investor.

Not FDIC Insured. May lose value. No bank guarantee.
Not NCUA or NCUSIF insured. May lose value. No credit union guarantee.

Fidelity Investments Institutional Services Company, Inc., 500 Salem Street, Smithfield, RI 02917

APPROVED FOR SHAREHOLDER USE

647857.2 RD_13569_28858