Claiming Social Security: Strategies for Couples

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Four things for couples to keep in mind when deciding when to claim Social Security.

Four significant variables for couples

1. *Income: Is each spouse's income similar or different?*
2. *Life expectancies: Are you healthy? Is there longevity in your family?*
3. *Age: Couples closer in age have more options than those who aren't.*
4. *Savings: Do you have enough to cover expenses if you delay benefits?*

When should you claim Social Security? That's a question just about everyone asks when they're nearing retirement. It's a very important decision—one that has the potential to mean a significant amount of money in your pocket during retirement.

Married couples, in particular, have more choices because they're also eligible for spousal benefits (up to 50% of a spouse's full benefit) and survivor benefits (up to 100% of a spouse's benefit).[1]

To help illustrate some of the Social Security choices, we'll use a hypothetical married couple throughout the article. Meet Tom and Elaine. Tom, age 60, earns $55,000 year, and has a life expectancy of 85. Elaine, age 58, earns $37,000 a year, and has a life expectancy of 88.[2] *(We chose this example because the median age difference for spouses is two years and the median income for married couples ages 45 to 60 is $92,000, according to the Current Population Survey, 2013.)*

Strategies to increase their lifetime benefit

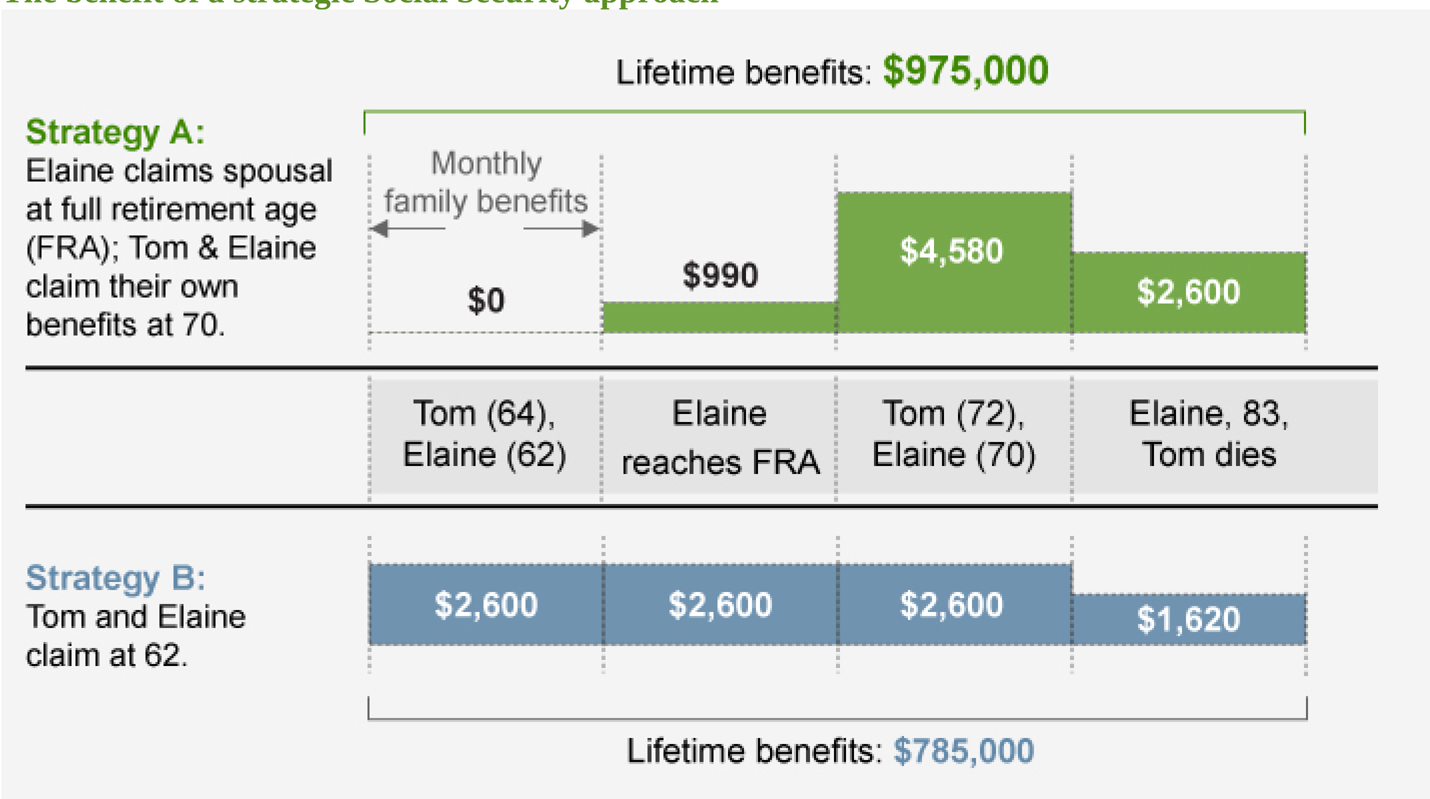
Elaine and Tom can take a straightforward approach, each claiming when they turn age 62, with Tom getting $1,480 and Elaine, $1,120. Or they can wait to age 70 to maximize their monthly benefit, in which case Tom will get $2,600 and Elaine, $1,980.[3] *However, a less conventional approach—the claim and suspend strategy—can provide them with more benefits over their lifetime. How they would use claim and suspend:*

1. *Tom claims and suspends benefits right before his wife reaches her full retirement age (FRA).*
2. *Elaine files a restricted application for spousal benefits only at her FRA (just over 66 years).*
3. *Tom claims his own benefits at age 70.*
4. *Elaine claims her own benefits at age 70.*

This strategy provides total lifetime income of roughly $975,000 over the couple's lifetime. By comparison, the straightforward approach of both spouses collecting at age 62 provides lifetime income of about $785,000.[4] The claim and suspend strategy adds close to $200,000 in retirement income, or a 25% increase in lifetime benefits. Keep in mind, however, that to use the claim and suspend strategy, Tom and Elaine have to delay claiming and find a way to fund any income gap until their benefits start.

In this example, the spouses' individual benefit amounts at FRA are not very different from each other, and they both expect to live for a long time, so a strategy in which both delay claiming until age 70 is most beneficial. This strategy also works because Elaine can benefit from delaying her own benefit and collecting spousal benefits at the same time. If instead both Tom and Elaine claimed at age 70, they would collect roughly $935,000 in lifetime benefits, or about 4% less.

The benefit of a strategic Social Security approach



Note: To keep the example simple, the monthly Social Security benefit amount for all years is not shown.

Four things to keep in mind

Let's look at some of the variables that may change our couple's Social Security strategy and bottom line.

1. What if the couple had very different incomes?

Let's assume that Tom and Elaine's combined income is the same as before, $92,000, but Tom earns 90% of the income. In this case, the optimal strategy would be different. Tom would claim and suspend when Elaine claims benefits at her FRA (66 years and 4 months), and then claim his own benefit at age 70. By claiming and suspending, Tom allows Elaine to start collecting spousal benefits, which in this scenario are higher than her own. This strategy generates a lifetime income of $987,000 compared with $811,000 if they both claimed at age 62. Because Elaine earns so much less, she wouldn't benefit from delaying her own benefit until age 70 because it would still be less than her spousal benefit. It is only valuable for Tom, the higher earner, to delay until age 70.

2. What if the couple had shorter life expectancies?

No one knows how long they are going to live, but life expectancy heavily influences your Social Security benefit strategy. When estimating your longevity, you should consider your family history and your overall health status. Generally, living longer would make strategies with delayed claiming more attractive, and vice versa.

Suppose Tom and Elaine decide that their life expectancies should be shortened by five years—to 80 and 83, respectively. Because of the reduced life expectancy, the benefit strategy is different. Elaine claims her benefits at age 64. As soon as Tom reaches FRA, he claims spousal benefits only, delaying his own benefits until age 70. This generates a lifetime income of about $725,000. There is value for the higher earner to delay his benefits, but it isn't beneficial for both to delay.

3. What if the couple weren't close in age?

It's important to note that you can generally start claiming Social Security only between the ages of 62 and 70. Spouses with a smaller difference in age have more options to choose from compared with couples with a larger age difference.

To illustrate this, let's assume Elaine is six years younger than Tom. In our first example Tom used the claim and suspend approach to allow Elaine to claim spousal benefits at her FRA, while he delayed his own benefit. Because of their larger age difference in this example (six years versus two years), when Tom reaches age 70, Elaine will not have reached her FRA. Therefore, Tom doesn't need to claim and suspend, but instead, he can simply claim his benefits at age 70. Elaine claims spousal only at her FRA, and then switches to her own at age 70. This generates a lifetime income of $988,000.

Let's look at a wider age gap. If the age difference between Tom and Elaine were 10 years, the claiming choice would change. The strategy that would provide higher lifetime income would be for Tom to delay claiming until age 70, while Elaine would claim at age 62. Elaine's survivor benefits, which begin when Tom dies, will start when she is age 75—compared with age 83 in the original example. Because her survivor benefit is higher than her own, and starts relatively soon, there is no advantage for her to delay *her benefits. However, it is still advantageous for Tom to delay because he has the higher full benefit and thus provides survivor benefits for Elaine.*

4. Does the couple have retirement savings or other income?

It's important to not make a decision about Social Security without looking at your complete financial picture and how long you will continue to work. When you start claiming Social Security benefits may or may not coincide with your last day of work. If you aren't working and still want to delay benefits, you need to consider how to cover your living expenses until your Social Security benefit kicks in. Do you have other income sources, such as an annuity or pension, or could you draw from your retirement savings? You may not be able to delay claiming if you need the income for everyday expenses.

Conclusion

Our hypothetical examples illustrate some of the variables that come into play for couples. Your Social Security strategy needs to take into consideration your family income and the age and life expectancy of you and your spouse. It also makes sense to review the various strategies using different scenarios, and in the context of your overall financial situation. After all, your Social Security strategy could have a meaningful impact on the financial soundness of your retirement.

1. The amount of benefit paid out is the higher of own or spousal benefit; or the higher of own and survivor benefits in the case of widow(er)s.

2. The average life expectancy for a man and woman at age 65, using Annuity 2000 mortality table is 85 and 88 respectively.

3. Benefits are estimated using Social Security methodology from Fidelity's Strategic Advisers, Inc.

4. These estimates are in real dollars and do not include any discounting for time value of money.

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