wealth management

REDW Wealth LLC expertise.

mastering the social security maze

Contact

David Cechanowicz
dcechanowicz@redw.com
505.998.3422

Lauren Malone
lmalone@redw.com
505.998.3274

You've seen the billboards, received the emails and heard the ads—you're leaving over $100,000 in Social Security benefits on the table. How can you claim "your money" before it's too late? And is it legal?

THERE'S ALWAYS A TRADE-OFF

Yes, it is legal and part of the law. But like many things in life, there is a trade-off. To receive the greatest Social Security benefits, you must defer receipt of your benefits to as late as age 70. And you must live long enough to overcome the years of benefits you've missed by deferring.

Sound simple? The concept is simple enough. But analyzing which of the myriad possibilities are best for your individual situation can be a daunting task.

A CHOICE OF TACTICS

First, the social security beneficiary must be at least the Full Retirement Age (FRA)—currently 66. At that point, your choice of tactics is either to file-and-suspend your benefits and/or file a restricted application. So what is the difference?

OPTION 1: FILE-AND-SUSPEND

Filing-and-suspending your benefits is much like it sounds: filing for your benefits and immediately suspending them to a later date, as late as age 70. For every year you defer, your benefit increases by 8% (plus cost-of-living allowances), so fully deferring until age 70 is worth an additional 32% in benefits for the rest of your life. This decision is not permanent if your circumstances change before age 70; you can either revert back to the FRA benefit level and receive a lump sum of missed payments or begin receiving benefits at the level accrued.

For married couples, a big advantage of the filing-and-suspending option can be the use of spousal options while benefits are suspended. A spouse is eligible for his/her own benefit or one-half of the other spouse's benefit, whichever is greater. For example, let's assume both you and your spouse are the same age. You have a $2,000 per month benefit when you reach FRA, while your spouse's benefit is $1,500 per month. So you file and suspend your benefit and collect half of your spouse's benefit (one-half of $2,000 + $1,500= $1,750), and then switch to your own benefit at age 70. *Great,* you say—*where do I sign?*

Continued

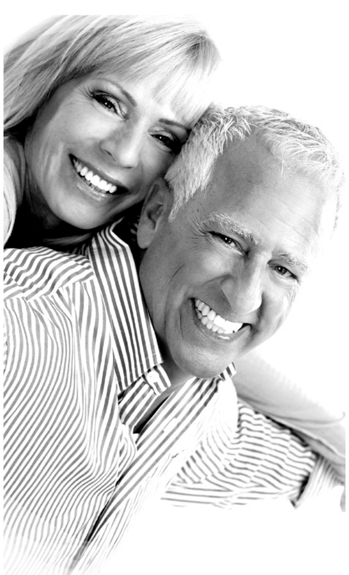
The Social Security Administration limits a couple's ability to use this strategy, however, by basing it upon such factors as health issues, the immediate need for additional income, or the existence of other assets to cover any difference.

For our next example, we will assume (1) your goal is to maximize income, (2) other resources will cover any spending gap, and (3) there are no health issues. You could file-and-suspend your benefits and collect half of your spouse's benefit of $750 (one-half of $1,500), while your spouse begins collecting his/her $1,500 benefit. At age 70, you file to reinstate your benefits, which have now grown to $2,640 (plus cost-of-living allowances), while your spouse continues to receive his/her benefit.

Let's adjust this example for a spouse at age 62, with everything else remaining the same. The couple needs some income, but doesn't want to forgo the higher deferred benefit at age 70. The spouse begins receiving reduced benefits at age 62 of $1,050 (the $1,500 FRA benefit reduced by 30% for claiming early). Since the higher earner has reached FRA, he/she can defer his/her own benefit and collect a spouse benefit of $750 (one-half of $1,500), giving the couple an income of $1,800 ($1,050 + $750)—90% of the higher earner's FRA benefit of $2,000—while preserving the higher deferred benefit for four years, but lasting a lifetime.

The purpose of suspending the larger benefit is that, at the death of one spouse, the larger of the two benefits will be paid for the life of the surviving spouse. Continuing with the examples above, by choosing to suspend the higher benefit, the ultimate benefit at age 70 is $2,640 per month. If the higher-benefit spouse dies first, the survivor would receive the greater benefit *or* the spouse's benefit, but not both. If the couple had chosen to suspend the lower benefit, the $1,500 benefit would have grown to $1,980 by age 70. Because the higher-benefit spouse's benefit is $2,000, this benefit would have been the survivor benefit for the surviving spouse, versus $2,640 by choosing to suspend the higher benefit—a monthly increase of $640 for the surviving spouse for life.

OPTION 2: FILE A RESTRICTED APPLICATION



A restricted application is simply stating the desire only to collect based upon a spouse's earning record when filing-and-suspending a benefit. By restricting the ability to include one's own earnings record when filing for spousal benefits, the gains from deferral of the earner's benefits are preserved.

For a divorced person, the ability to collect based upon the ex-spouse's earnings record is preserved if (1) the marriage lasted at least 10 years, (2) the divorce happened at least two years ago, and (3) you have not remarried before age 60. If you did not have earnings or your earnings were much lower than your ex-spouse's, this benefit may be very valuable.

Claiming Social Security benefits can be a complex decision with many untapped opportunities for the uninformed claimant. By understanding all of your options in advance, you'll be better equipped to make the right choices.

CONTACT REDW WEALTH if you would like to discuss your own situation in greater depth.