Social Security: Claim Now, Claim More Later

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Q: My Husband is 64, I am 62, and our monthly Social Security benefits are as follows:

	Mike	Mary
At Age 62	$1,800	$1,350
At Age 64	$2,080	$1,560
At Age 66	$2,400	$1,800
At Age 70	$3,168	$2,376

We are no longer working, we have investment accounts that we can live off of if we delay benefits, but the idea of waiting until age 70 without collecting anything is not overly attractive to us. What is the optimal plan?

Assuming that this couple (let's call them Mike and Mary) are both in good health and we can expect them both to live into their late 70s, a strategy is for both to delay until age 70 so that they can potentially maximize their monthly benefit and help to protect their portfolio against longevity risk, inflation risk, and lower than anticipated investment returns. While I would recommend both Mike and Mary to defer until age 70, I believe that it is more important for Mike to delay until age 70. This is because his benefit is higher and this strategy can help to maximize it for survivor benefit planning. If Mike outlives Mary, he'll continue to collect on his benefit. However, if Mary outlives Mike, at his passing, Mary will step into Mike's shoes and receive what he was receiving. Therefore, we want to make sure that we delay Mike's benefit to maximize the monthly amount that the survivor will ultimately receive.

To ease the pain of not receiving anything until age 70, there is a strategy that can be implemented to receive some income while both delay their own benefits. This strategy utilizes what's called a "restricted application," and is commonly referred to as "Claim Now, Claim More Later". Note that, due to the Bipartisan Budget Act of 2015, the option to file a restricted application is only available to those who are born in or before 1953. And, this strategy can only be used when both spouses have reached their full retirement age (age 66 for both Mike and Mary).

Mary's spousal benefit at her age 66 equates to 50% of Mike's Primary Insurance Amount, which is equivalent to his benefit at age 66. This means that Mary's spousal benefit at age 66 is $1,200 /month. Normally, when a person collects retirement benefits, he or she cannot choose which benefit to receive, spousal or his or her own; rather, the benefit received is the higher of the two. However, there is a provision in the current law that allows qualifying recipients who are at least full retirement age to file a restricted application, and essentially choose which benefit to receive. Under the Bipartisan Budget Act of 2015, auxiliary benefits, such as spousal benefits, may only be received when the worker whose record he or she is collecting off of is currently receiving their own benefit.

In our above scenario, given Mike and Mary's respective ages and Primary Insurance Amounts, their strategy works like this: Mike would delay his benefits until age 70 to earn delayed retirement credits of 8% per year. At this time, Mary would file a restricted application at age 68 to tell the Social Security Administration that she just wants to collect her monthly $1,200 spousal benefit and allow her own benefit to earn delayed retirement credits until age 70. When Mike and Mary respectively reach age 70, they each file for benefits on their own record.

This strategy allows Mike and Mary to each earn delayed retirement credits to maximize their own benefits and still receive more than $28,000 of benefits that they otherwise wouldn't have received. If we analyze this strategy as compared to Mike and Mary both collecting benefits starting at age 64 and 62, respectively, the ending results are not insignificant.

Claim Now, Claim More Later: The Difference in Dollars

	Start benefits at ages 64 and 62 to "Claim as Early as Possible"*	Delay until age 70 and implement "Claim No, Claim More Later Strategy"**	Difference
Total Benefits at Mary's age 85	$1,382,049	$1,771,839	$389,790
Annual Income for Survivor at age 90 (assuming only Mary is living at this point)	$54,084	$82,371	$28,287

*Assumes that both Mike and Mary start to collect their own benefits when Mike is age 64 and Mary is age 62. Mike passes away at age 85 and Mary lives to at least age 90. At Mike's passing, Mary receives survivor benefits based off of Mike's record instead of her own benefit.

**Assumes that at age 68, Mary files a restricted application to claim her spousal benefit, now that Mike has begun collecting benefits at his age 70. When Mary turns 70, she begins collecting her own benefit (instead of claiming the lower spousal benefit). Mike passes away at age 85 and Mary lives to at least age 90. At Mike's passing, Mary receives survivor benefits based off of Mike's record instead of her own benefit. Note that the benefits are indexed to inflation at 2.8%.

Conclusion

Social Security decisions are irrevocable and should not be made lightly, as the lifelong impact that one strategy can have over the other can be substantial. Also, the Bipartisan Budget Act of 2015 may impact a retiree's ability to implement certain filing strategies. Each person's situation is different and warrants a discussion with their Wealth Advisor to determine the appropriate strategy.

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