

Understanding Social Security Benefits for Surviving Spouses

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By Bryan Smalley,
Wealth Advisor

Over the past several years, we've written about various strategies that are potentially available to individuals and couples who are ready to claim Social Security retirement benefits. We've received several questions from clients who have lost their spouses and wondered what type of benefits they are entitled to as surviving spouses—and how these benefits affect their own Social Security working benefit. Read on to see if any of the below questions and answers apply to your situation.

Q: My name is Tina, age 59, and I recently lost my husband, Tom, who was 60. I had been a higher wage earner than Tom and therefore my primary insurance amount (PIA) is higher (\$2,400) than the survivor benefit I am entitled to based on Tom's record (\$1,000). What is the best benefit collection strategy for me?

Regarding your question, let's review how the survivor benefit works. As a surviving spouse, you are entitled to 100% of your deceased spouse's PIA (calculated as of the day of his death), at your full retirement age (e.g. 66 years old). You can collect a reduced survivor benefit as early as age 60, which would be 71.5% of Tom's PIA. Exactly when you decide to collect your survivor benefit does not impact your own retirement benefit. If you decide to collect one earlier, it does not impact the other benefit amount.

In your case, since you have a higher PIA than Tom, it may make sense for you to wait as long as you can to collect your own benefit. We recommend waiting until age 70 because that allows your benefit to earn delayed retirement credits

and grow by 32% (8% per year from age 66 to age 70) (Source: Social Security Administration). This means your current full retirement-age benefit of \$2,400 will actually grow to \$3,168 by the time you reach age 70, excluding cost-of-living adjustments. While you wait until age 70 to collect your own benefit, we recommend you begin collecting your survivor benefit starting at age 60. As noted above, you would receive a reduced survivor benefit by starting at age 60 (\$715) as opposed to collecting at age 66 (\$1,000). But if you compare the 10-year collection period before you begin taking benefits based on your own record (age 60-69) to the four-year period if you started collecting at your full retirement age (age 66-69), you definitely end up earning more over the 10-year period. Ten years at \$715/month comes to \$85,800, while four years at \$1,000/month totals only \$48,000.

If you add your own benefit, based on collecting at age 70, and your survivor benefit, based on collecting at age 60, you'll could have a cumulative lifetime benefit of \$1.04 million by age 85. Let's compare that to one more strategy: If you collect your survivor benefit at age 60 (\$715), but collect your own benefit a bit earlier, at age 62 (\$1,800) instead of at age 70, you could generate a cumulative lifetime benefit by age 85 of \$743,000. That's potentially \$295,000 less than you'd receive in the "delay until age 70" strategy we suggested. That's quite a difference!

Finally, there are a few nuances that could impact your survivor benefits. If you continue to work after age 60 and earn more than \$15,720 (as of 2015), some or all of your benefits could be withheld (Source: Social Security Administration). Typically, if you plan to continue working, you should wait to start collecting Social Security benefits until you've stopped earning income, or have reached full retirement age, whichever comes earlier. This means if you're still working at your full retirement age, you could earn an infinite amount and the earnings limit wouldn't impact your survivor benefit. Also, please note that it doesn't make sense to delay collecting survivor benefits past your full retirement age. Unlike your own benefit, your survivor benefit does not

earn delayed retirement credits.

Q. My name is Frank, age 62, and I have been a widower for five years. Can you tell me whether it makes more sense to collect a survivor Social Security benefit or my own benefit? My primary insurance amount (PIA) is \$800 and my deceased wife's (Pam) PIA is much higher—\$2,200.

As a survivor, you are entitled to 100% of your spouse's PIA at your own full retirement age, which is 66. We recommend waiting to collect your survivor benefit until age 66 so you can start to collect the highest survivor benefit possible (\$2,200). From now until age 66, we recommend that you collect your own benefit. Right now, you are entitled to a benefit that is 75% of your PIA (\$600). Although this is a reduced benefit, it may make sense to begin collecting now because collecting early does not impact your eventual survivor benefit. We recommend this instead of beginning to collect a slightly reduced (by 19%) survivor benefit right now.

Here's why: Collecting your own benefit now and waiting to collect your survivor benefit until full retirement age could provide you with the greatest lifetime cumulative benefit. Let's look at the numbers. If you collected a reduced survivor benefit now and lived to age 90, your cumulative benefit could be \$937,000 in future dollars (assuming a 2.8% cost of living adjustment). However, if you collected your own reduced benefit now, and at age 66 switched to collect your higher survivor benefit, your cumulative benefit could be

\$1,077,000 in future dollars. That's a \$140,000 difference.

A few other factors to keep in mind: If Pam reached her full retirement age by her death and had not yet collected her Social Security benefit, your survivor benefit may be even higher than 100% of Pam's PIA—a nice advantage for you. In that case, her benefit would have earned delayed retirement credits (8% a year from her full retirement age to age of death or age 70, whichever is earlier) (Source: Social Security Administration). However, if Pam wasn't at full retirement age by her death and she had begun collecting her own benefit, your survivor benefit would be the smaller of the following:

- 1) The amount of Pam's PIA, reduced if you were collecting a benefit before your full retirement age, or
- 2) The reduced benefit Pam was receiving (but in no case less than 82.5% of Pam's PIA) (Source: Social Security Administration)

Also, your own reduced benefit and/or your survivor benefit is subject to the earnings limit test. If you continue to work and earn more than \$15,720 per year (as of 2015) until you reach your full retirement age, this could reduce the amount of the benefits you receive. (Source: Social Security Administration)

Conclusion

As you can see, Social Security retirement and survivor benefits can be a key portion of many people's retirement income. As such, it's crucial to consult with your wealth advisor and determine the collection strategy that will help to maximize the benefits you receive over your lifetime. In general, we suggest that surviving spouses delay collecting the highest benefit (survivor or worker's) for as long as possible, while collecting the smaller benefit in the meantime. Please contact your wealth advisor to discuss all of your Social Security collection options.

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This information is based on our current understanding of Social Security legislation that is subject to change at any time. Please consult with a financial advisor of your choosing prior to implementing any of the strategies discussed in this article. This information is based on our current understanding of Social Security legislation that is subject to change at any time. Please consult with a financial advisor of your choosing prior to implementing any of the strategies discussed in this article.

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1200 Mount Kemble Avenue, Morristown, NJ 07960-6797

PH: 973-425-8420 FX: 973-425-8434

www.regentatlantic.com

