STRATEGIES FOR CLAIMING SOCIAL SECURITY BENEFITS

THOUGHT LEADERSHIP PERSPECTIVES

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WHEN TO CLAIM SOCIAL SECURITY IS A VERY PERSONAL CHOICE, SO IT'S IMPORTANT TO CONSIDER NOT ONLY YOUR MONTHLY RETIREMENT BENEFIT, BUT ALSO YOUR OVERALL FINANCIAL PICTURE.

There is no "one size fits all" solution to claiming Social Security benefits. As with other matters surrounding your retirement, it's critical to know your options and test various scenarios before making any major decisions.

One of the biggest variables in claiming Social Security benefits is your own longevity. For this reason, there may not be an easy or obvious answer. While you can claim benefits as early as age 62, albeit at a significantly reduced rate, your full retirement benefit does not begin until you reach Full Retirement Age (FRA). Your benefit continues to increase until age 70, when you reach the maximum benefit. For instance, if you were born in 1960, your FRA is 67 years old, so waiting an additional three years to receive your maximum benefit may not seem significant. However, if you were born in 1954, your FRA would be 66, so in this case, you may wonder if you should start claiming benefits immediately.

In the first two examples below the individuals are currently 60 years old, married, will reach FRA at age 67, and expect to live to age 95.

EXAMPLE 1

Spouse 1 monthly retirement benefit at FRA is $3,000
Spouse 2 monthly retirement benefit at FRA is $2,500

Under this scenario, if both clients were to delay their retirement benefits until age 70, the total cumulative benefit over their expected lifetimes would total approximately $2,050,000. If they were to claim their benefit at the FRA of 67, their cumulative combined lifetime benefit would total approximately $1,850,000. Everyone's retirement benefit grows by 8% per year between FRA and age 70. It can be tough to find anything else with that level of guaranteed return. With that being said, we circle back to the question of longevity.

It is critical to understand the breakeven point—essentially, at what age does it become more beneficial to delay claiming your retirement benefits until age 70, as opposed to full retirement age? In this example, the breakeven age is 83. If both spouses expect to live at least that long, it may make financial sense to delay claiming retirement benefits to maximize the overall lifetime benefit.

EXAMPLE 2

Spouse 1 monthly retirement benefit at FRA is $3,000
Spouse 2 monthly retirement benefit at FRA is $1,000

In this case, delaying claiming retirement benefits until age 70 will result in a cumulative combined lifetime benefit of roughly $1,570,00. If both spouses claim retirement benefits at FRA, the cumulative lifetime benefit would be approximately $1,520,000.

In this scenario, there is another option to consider. Spouse 2 could claim their monthly retirement benefit at their FRA of 67 and Spouse 1 could delay their benefit until age 70. Given the monthly retirement benefits, Spouse 2 would be eligible to receive up to half of Spouse 1's monthly retirement benefit at Full Retirement Age (in this case $1,500) as a spousal benefit, instead of $1,000/month. In other words, Spouse 2 can claim the larger of the two. If they were to use an alternate strategy like this, the cumulative lifetime retirement benefit would be just over $1,600,000, which is $80,000 greater than the FRA benefit.

EXAMPLE 3

Spouse 1 monthly retirement benefit at FRA is $3,000
Spouse 2 monthly retirement benefit at FRA is also $3,000

In this scenario, Spouse #1 was born in 1957 and Spouse #2 in 1958. The nuance here is the FRA for both spouses. In this case, Spouse 1's FRA is 66 and 6 months and Spouse 2's FRA is 66 and 8 months. Under this scenario, delaying claiming retirement benefits until age 70 would lead to a cumulative combined lifetime benefit of roughly $2,300,000. If each spouse were to begin their retirement benefits at their FRA, the cumulative lifetime benefit would be approximately $2,050,000. The breakeven age that makes delaying claiming benefits until age 70 worthwhile is 83 years old.

The difference in combined lifetime benefit between the two strategies in Example #3 continues to grow every day the individuals live beyond age 95. If they were to live to age 100, the delayed claiming strategy would result in a cumulative combined lifetime benefit of roughly $2,750,000 as compared to $2,400,000 under the FRA strategy.

SURVIVING SPOUSE BENEFITS

When planning for longevity and evaluating claiming strategies, it is also important to understand what happens when a spouse passes away. The surviving spouse's benefit determination will be a function of the monthly retirement benefit for both spouses. If the surviving spouse's benefit is higher than the deceased spouse's, the surviving spouse's benefit will remain the same. If the surviving spouse's benefit is lower, then the surviving spouse will step into the higher benefit amount that was originally attributed to the deceased spouse.

Keep in mind that the Social Security Administration extends spousal benefits to ex-spouses as well. As long as you were married to someone for at least 10 years and are not currently married, you may be eligible to receive Social Security benefits based on your ex-spouse's earnings record.

Lastly, never forget that for most people, 85% of your Social Security benefits are subject to federal income tax. Most states exempt Social Security benefits from taxation but there are a few that do include it in taxable income. Be sure to know your state's rules.

WHILE THERE'S NO ONE RIGHT ANSWER TO CLAIMING SOCIAL SECURITY BENEFITS, IT'S IMPORTANT TO UNDERSTAND THE TRADEOFFS BETWEEN VARIOUS CLAIMING STRATEGIES. FAIRMAN GROUP FAMILY OFFICE IS HERE TO HELP EVALUATE YOUR OPTIONS.

ABOUT FAIRMAN GROUP FAMILY OFFICE

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