InvestmentNews

When Claiming Social Security early makes sense

This strategy is not going away with the rule changes authorized by the Bipartisan Budget Act of 2015

By Mary Beth Franklin January 27, 2017

A question from an *InvestmentNews* reader warmed my heart because it perfectly demonstrates how financial advisers can continue to help their clients maximize their Social Security benefits even after the recent changes to the claiming strategy rules are fully phased in.

This strategy, which applies to surviving spouses and surviving ex-spouses, is not going away.

The question involves a widow, age 62, who is still working. She earns about $45,000 per year and plans to continue working through her full retirement age of 66.

Her survivor benefit would be worth $2,057 per month if the widow waited until 66 to collect, or about $1,666 per month if she claimed now at age 62. But because she is still working, her benefit would be subject to earnings restrictions.

In 2017, someone who is under full retirement age for the entire year would forfeit $1 in benefits for every $2 earned over $16,920.

But in this case, something is better than nothing, reasoned the financial adviser who wrote to me with the question. I agree.

“I'm thinking she should collect survivor benefits now, and she would get about 81% of the survivor benefit based on her current age, or about $20,000 for the year,” wrote Janet Critchley, a CPA and financial planner with Mariner Wealth Advisors in Madison, N.J. “The reduction from working would be around $14,000, so she would net almost $6,000 for the year.”

The math works like this: $45,000 - $16,920 (earnings limit) = $28,080/2 = $14,040. Subtract that amount from her $20,000 in annual survivor benefits and she would end up with just under $6,000 this year.

But as Ms. Critchley correctly pointed out in her email, the benefit reduction due to excess earnings would be temporary.

“When she turns 66, Social Security will adjust her benefit amount upward to reinstate the amounts withheld due to working,” Ms. Critchley wrote. That's correct. Any benefits lost due to excess earnings are restored after full retirement age in the form of larger monthly payments.

In the meantime, the widow can let her own retirement benefit continue to grow up until age 70 and then switch to her retirement benefit. With an estimated retirement benefit of $1,700 per month at full retirement age, postponing her benefit until 70 will boost her monthly payout by 32% to about $2,244 per month. Any intervening cost-of-living adjustments would be applied to her retirement benefit.

Another adviser asked a similar question about her widowed client who is 61 and a half years old. She was married nearly 20 years ago before her husband died in his mid-forties. Later, she remarried but her second marriage ended in divorce.

Since she is currently single and not working, the adviser asked if her client can she collect survivor benefits on her first husband's earnings record and switch to her own retirement benefits at 70. Both she and her late husband were high earners, but given his short life, her lifetime earnings are higher.

Yes, she can, I told the adviser. To collect survivor benefits, the widow must have been married at least nine months at the time of death. They were married 13 years. Check.

She also must be single or wait until at least age 60 to remarry. Her second marriage ended in divorce so she is currently single. Check.

Surviving spouses and surviving divorced spouses who are also entitled to their own Social Security retirement benefits on their own earnings record retain the right to claim one type of benefits first and switch to the other later if it would result in a bigger benefit. This ability to claim and switch between retirement and survivor benefits is unaffected by the rule changes authorized by the Bipartisan Budget Act of 2015.