Social Security

Unique Strategies

By James M. Weil, CIMA®, CFP®, ChFC, and Andrew S. Williams, JD

Nearly everyone is aware of Social Security and most everyone is eligible to collect it, but few people are aware of the rare opportunities that exist regarding this retirement benefit. Below are three examples of these opportunities. These examples illustrate the complexity of Social Security benefit elections. Because these elections are unique for each person, it is advisable to seek tax advice from a qualified professional before finalizing any election decisions or changes.

Social Security Strategy #1: Defer and Elect Spousal Benefit

Because the amount of a monthly Social Security retirement benefit increases based on the recipient's age when the benefit begins, a married two-earner couple may be able to maximize benefits by having one spouse delay the commencement of benefits. Because a benefit increases by about 8 percent per year from age 66 through age 70, the spouse who defers commencement until age 70 can receive a monthly benefit that is 32-percent greater than that payable at age 66. The spouse of the deferring party, however, can claim a "spousal benefit" at the earlier age and receive a benefit equal to one-half of the deferring party's benefit for the years between ages 66 and 70 (see table 1).

Result. This strategy could provide an additional $158,137 of total benefit if both husband and wife live to age 90 (figure 1). Husband and wife would need to live to at least age 75 in order to recoup benefits delayed to age 70.

TABLE 1: CASE STUDY #1

Two-earner married couple (same age);
Normal monthly benefit for each earner (both have the same level of benefit)

@ Age 66	@ Age 67	@ Age 68	@ Age 69	@ Age 70
$1,600.00	$1,728.00	$1,866.24	$2,015.54	$2,176.78

Earner #1 elects to receive full benefits at age 66

Earner #2 delays receipt of benefit to age 70

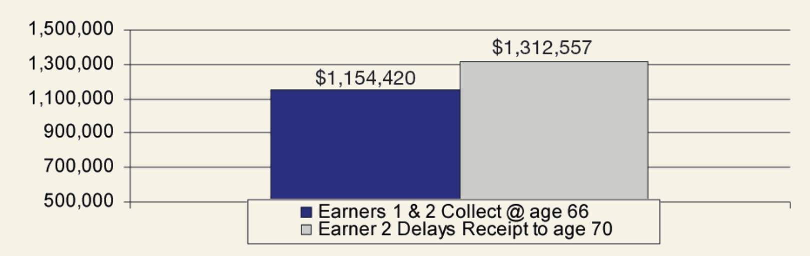
Earner #2 elects to receive spousal benefit (equal to 50 percent of Earner #1's benefit) to age 70

Life expectancy of each is age 90

Social Security increases at 1.5 percent annually

	Age 66–69	Age 70–90	
Earner #1	$1,600.00	$1,600.00	monthly
Earner #2	$800.00	$2,176.78	monthly
Total	$2,400.00	$3,776.78	monthly
Total	$28,800.00	$45,321.39	annually

FIGURE 1: TOTAL CUMULATIVE SOCIAL SECURITY COLLECTED AT AGE 90



Social Security Strategy #2: Do Over

Any individual who already has elected and is receiving Social Security retirement benefits can apply on SSA Form 521 to have benefits "restarted" in an increased monthly amount as of a certain date. This potential increase is conditioned on the repayment—without interest—of all previously received benefits. That, in effect, converts the prior retirement benefits into an interest-free loan from the U.S. government. If the recipient does not need the initial retirement benefits for living expenses, they can be invested and the recipient can keep any investment earnings (see table 2).

Result. With an average life expectancy, the claimant comes out ahead by the amount of investment earnings. However, should the claimant die shortly after giving benefits back this strategy may involve a loss (figure 2).

TABLE 2: CASE STUDY #2	
• Individual aged 66 • Life expectancy is age 90 • Social Security increases at 1.5 percent annually	
Reduced monthly benefit claimed at age 62	$1,213.28
Increased monthly benefit claimed at age 66	$1,600.00
Amount of repayment	$59,560.93

FIGURE 2: POTENTIAL INVESTMENT EARNINGS

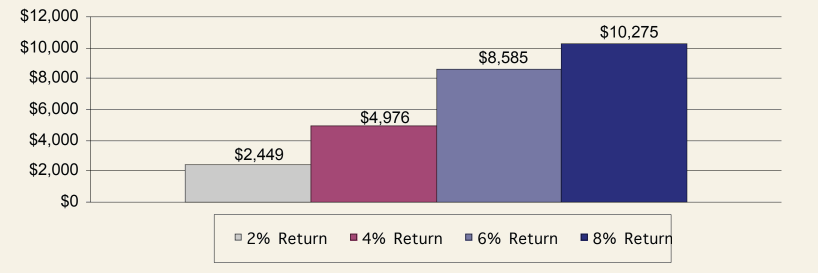


TABLE 3: CASE STUDY #3	
• Claimant aged 66 elects to claim benefits and then immediately suspend payments • Social Security increases at 1.5 percent annually	
Claimant's normal monthly benefit at age 66	$1,600.00
Claimant's nonworking spouse elects to receive spousal benefits equal to one-half of the suspended benefit at age 66	$800.00
Claimant elects to receive benefits at age 70	$2,176.78

Social Security Strategy #3: Benefit Suspension

The Senior Citizens' Freedom to Work Act of 2000 allows an individual to claim Social Security retirement benefits at the retirement age and then suspend payment. This allows the individual's spouse (perhaps a nonworking spouse) to claim a spousal benefit at the early retirement age equal to half of the suspended benefit. In the meantime, the monthly suspended benefit will increase until the recipient elects a deferred commencement date, which can be at any time up to age 70. This approach can increase both the amount of monthly retirement benefits as well as available survivor benefits. In essence, the value of delaying Social Security continues in the survivor benefit because the larger benefit is passed at death to a spouse (see table 3).

Result. By claiming and then suspending benefits until age 70, the claimant enables the nonworking spouse to receive a benefit. This also increases claimant's future benefits as well as the spouse's survivor benefit. I&W

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2 See 2003 Annual Report of the Boards Of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance, available at http://www.cms.hhs.gov/ReportsTrustFunds/downloads/tr2003.pdf.

3 Dennis Cauchon, Retiree Benefits Grow into 'Monster,' USA Today (May 24, 2006).

4 See David F. Babbel and *Craig B. Merrill, Rational Decumulation, Financial Institutions Center (May 22, 2007) for in-depth discussion, available at* http://fic.wharton.upenn.edu/fic/papers/06/p0614.htm.

5 David F. Babbel, Rational Decumulation, lecture notes, Prudential Retirement Strategy Program, January 2008.

6 Case study from Prudential Financial, available at on page 3 at http://www.prudential.com/media/managed/retirementincome/RI-HDLT7.pdf.

7 Note that the account value that the income benefit is based on is not the same as the actual account value in the annuity contract were the contract owner to decide to take the lump sum. The living benefit options only provide a minimum guarantee of the value that the income benefit is based on, not the actual account value.

8 Martha M. Hamilton, Live Long and Prosper, Washington Post (August 12, 2007), available at http://www.washingtonpost.com/wp-dyn/content/article/2007/08/11/AR2007081100104.html.

9 Olivia S. Mitchell, John Piggott, Michael Sherris, and Shaun Yow, Financial Innovation for an Aging World, NBER Working paper, 12444. abstract MPSY2006, available at http://www.schemearts.com/proj/nta/doc/repository/MPSY2006.pdf