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Delayed Retirement Credits

By Elaine Floyd, CFP®

It is common knowledge by now that if a person applies for their Social Security benefit after full retirement age (FRA), the benefit will include delayed retirement credits (DRCs) of 8% per year up to age 70.

This is enough to entice savvy people—especially higher earners—to claim at 70 even if they retire before then. Our Savvy Social Security Planning Calculators do a good job of estimating a person's age-70 benefit and showing the lifetime income stream in both numerical and graph form, including the impact on the survivor benefit. For the most part, this is all you need to know to optimize your claiming strategy.

But there are some nuances surrounding DRCs—how they are figured, when they are credited—that you should know about. Here are the details.

WHEN ARE DRCS CREDITED?

If you file for Social Security at age 70—that is, you file an online application up to three months before the month you turn 70—your benefit will be your COLA-adjusted primary insurance amount (PIA) plus DRCs equal to ⅝ of 1% for each month between FRA and age 70. We usually shorten this to say 8% a year, but it's important to understand that if you apply mid-year, or if your FRA is 66 plus some number of months, you will get credit for each month past FRA that benefits start. The monthly credit is ⅔ of 1% of the PIA, or the PIA x 0.55555556.

If your start your benefit the month you turn 70, that first check, payable the following month, will include all of the delayed credits. So if your PIA is $3,000 and your FRA is 67 and you file at 70, your first check will be $3,000 x 1.24 = $3,720, not counting COLAs. Note that DRCs are not compounded. They are a straight 8% a year.

If you file before age 70, you may be surprised to find your first check is lower than you expected. That's because for anyone applying before age 70 DRCs are credited once a year, in January. Let's say Bob (PIA $3,000, FRA 67) was planning on claiming at 70, but he ends up filing in July of this year, at age 68. When he gets his first check, in August, it will be for the $3,000 PIA plus the one annual DRC he earned last year: $3,000 x 1.08 = $3,240. It will not include the six months of DRCs earned from January through June of this year. Next January Bob's benefit will be adjusted to give him the 6 months of DRCs for January through June of this year. His check will be raised to $3,360 and he will be paid a lump sum of $240 representing the DRCs he missed out on this year. Note that this adjustment is for the DRCs only. There will also be a COLA adjustment at the same time. If he's still working, later in the year he may get a benefit adjustment to account for the additional earnings. All of these adjustments are automatic. They have been programmed into SSA's systems, and they are very accurate.

CAN I SUSPEND MY BENEFIT TO EARN DRCS?

Let's say you filed early, before realizing how much more you could get by delaying. Is there any way you can earn DRCs? Yes. It is not possible to voluntarily suspend before full retirement age (FRA), but once you turn FRA you can suspend your benefit and begin to build DRCs on the amount of the benefit at the time of suspension. Let's say your PIA is $3,000 and you took it at age 62 so you're receiving $3,000 x .70 = $2,100. Ignoring COLAs for these examples, you can suspend your benefit and build 8% annual delayed credits on the $2,100, so when you resume your benefit at 70 you'll start getting $2,100 x 1.24 = $2,604. Our calculators have suspension built in as one of the auto-generated scenarios. If you can maximize lifetime benefits by suspending at FRA, the calculator will show it as the Maximum Benefit Scenario. Not everyone will want to do this—it's hard giving up that income once you've become used to it—but you can at least consider it as an option.

If it's been less than 12 months since you filed, you can withdraw your application, repay benefits, and refile at a later date earning DRCs without any reductions—that is, the DRCs will be applied to the full PIA as if you had never filed. When considering maximization strategies, withdrawal would always be preferable if possible, but if not, suspension can be done at FRA.

DO SURVIVOR BENEFITS EARN DRCS?

Yes and no. To answer this question we must distinguish between the "potential" survivor benefit a future widow might receive and the current survivor benefit a widow might receive from an already-deceased spouse (or ex-spouse).

While both spouses are still alive, the higher-earning spouse can maximize the survivor benefit that will eventually be paid to the surviving spouse by delaying his own benefit to age 70. The DRCs applied to his benefit while he is alive will carry over to the benefit his wife will receive after his death. It often comes as a revelation to couples that the wife's future standard of living may depend on that one decision the husband makes in his 60s about whether or not to claim Social Security early. For every month he delays past FRA, his benefit—and his wife's eventual survivor benefit—will increase by ⅔ of 1%. (The increase between age 62 and FRA is similar but slightly more complicated.) If a high-earning husband doesn't expect to live to age 70, he should still delay, even if it means he may not receive any benefits himself during his lifetime, because his credits will be included in his wife's survivor benefit.

Once a person dies, the survivor benefit paid off their record is set. There will be no DRCs paid after the date of death. This survivor benefit is held, so to speak, until the widow claims it. If she is FRA or older when her husband dies, and if his benefit was higher than hers, she will immediately switch over to that survivor benefit and drop hers. If she is under FRA when he dies, she has a choice about when to start the survivor benefit. She can claim it right away, as early as age 60 (50 if disabled), but it will be reduced; if she waits until FRA she'll get the full amount, including any DRCs that accrued while the husband was alive, plus COLAs applied in the intervening years. There is no point in waiting past FRA to claim the survivor benefit because it will not earn DRCs after her FRA. She may, of course, get DRCs on her own benefit by claiming after FRA, which is why some high-earning widows start their survivor benefit early and switch to their maximum retirement benefit at 70.

DO SPOUSAL BENEFITS EARN DRCS?

No. If a lower-earning spouse qualifies for a spousal benefit (because her own PIA is less than half of her husband's PIA), she can maximize that benefit by claiming it at her FRA (assuming her husband has already filed for his benefit). The spousal benefit maxes out at 50% of the worker-spouse's PIA. Any DRCs the husband might have earned on his own benefit are not included in the spousal benefit. And the wife cannot get DRCs by starting the spousal benefit after her FRA.

For more information on Social Security claiming strategies and how you may be able to take advantage of DRCs to boost your benefit, talk to your financial advisor.

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