Creative Social Security Claiming Strategies: Understanding the Nuances

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–Elaine Floyd, CFP®

With more people learning about file-and-suspend and claim-now-claim-more-later strategies, mistakes are being made – like trying to do certain things before full retirement age. Also, the Budget Act of 2015 changed some of the rules about who can do what and when.

File-and-suspend

One now-closed strategy is file-and-suspend, where the higher-earning spouse files for Social Security upon reaching full retirement age (FRA) in order to entitle his spouse to her spousal benefit, and then immediately suspends his benefit in order to earn delayed credits to age 70.

As of April 29, 2016, this strategy is no longer valid. If you filed and suspended before April 29, 2016 your spouse may claim a spousal benefit off your record whenever he or she is ready to do so. However, if you did not file and suspend before April 29, 2016, your spouse will not be able to claim a spousal benefit until you actually start receiving your benefit.

Please note that it is still possible to suspend your benefit at full retirement age in order to build delayed credits; the difference now is that spousal benefits cannot be paid off your record if you suspended after April 29, 2016.

Claim now, claim more later

The other major strategy is claim-now-claim-more-later. This strategy turns the usual way of claiming spousal benefits on its head by having the high-earning spouse claim HIS spousal benefit off the low-earning spouse's earnings record from age 66 to 70 while his own benefit builds delayed credits.

To do this, you must file a restricted application for your spousal benefit at full retirement age or later. In other words, you tell SSA that you are not filing for your own retirement benefit at this time.

Rather, you want to restrict the scope of your application to your spousal benefit so you can receive 50% of your spouse's primary insurance amount (PIA) from age 66 to 70 while your own benefit increases by 8% a year.

With the passage of the Budget Act of 2015, you must have attained age 62 by the end of 2015 (born in 1953 or earlier) to file a restricted application upon turning full retirement age.

Below are some general rules for spousal benefits.

1. You can't claim a spousal benefit until your spouse has filed for his or her benefit.

This is a basic rule. Any spousal strategy, whether traditional or innovative, requires that the spouse on whose record the spousal benefit is based apply for his own benefit first. This means the spouse must sometimes wait.

If Jack is only 64 when Jill wants to file for her spousal benefit, and if Jack wants to delay filing in order to earn maximum delayed credits, Jill has no choice but to wait until Jack is ready to file before starting her spousal benefit.

However, if Jill also qualifies for a benefit based on her own work record, she may start that benefit as early as age 62 (it will be reduced for early claiming). When Jack files for his benefit, she may add on a spousal benefit at that time. The spousal add-on will be the difference between Jill's PIA and one-half of Jack's PIA. This amount (also reduced if she takes it before her FRA) will be added to her existing reduced benefit.

2. You must be over full retirement age to receive a spousal benefit if your own benefit is higher AND you must have turned 62 by the end of 2015.

Normally, when you file for Social Security, they will compare your own retirement benefit to your spousal benefit and pay you the higher amount. Under the claim-now-claim-more-later strategy, it is possible to receive a spousal benefit from age 66 to 70 even if your own benefit is higher. This allows you to have some income now and more income later.

The Budget Act of 2015 closed this loophole so that it is available only to people who were 62 or older by the end of 2015. However, you still must wait until you turn full retirement age (66) to file a restricted application for the spousal benefit.

3. You must be over full retirement age to suspend your benefit.

Some people file for Social Security at 62 without realizing how much money they are leaving on the table. One way to remedy this mistake is to suspend your benefit so it will build 8% annual delayed credits. You cannot suspend your benefit until you turn full retirement age – currently age 66 for people born between 1943 and 1954.

If you suspended after April 29, 2016, spousal benefits cannot be paid off your record. This means the couples who lost out on this strategy will have to decide which is more valuable: spousal benefits or delayed credits.

For example: If Jack and Jill are both 66, and if Jill wants to claim a spousal benefit off Jack's record, Jack could go ahead and file to entitle Jill to her spousal benefit. But this would cause him to lose out on four years of 8% annual delayed credits from age 66 to 70.

Would Jack's benefit increase by enough to compensate for the loss of four years of spousal benefits for Jill? It depends on how long the longer-lived spouse lives. It probably does make sense to forego the spousal benefits so Jack can maximize his own benefit, which will transfer over to Jill as her survivor benefit if he dies first.

4. Both spouses cannot claim a spousal benefit off the other's record at the same time.

Here's a case of people taking creative claiming strategies a step too far. If Jack can claim spousal benefits off Jill's record, why can't Jill also claim spousal benefits off Jack's record while they each earn delayed credits to age 70?

The answer is that in order for Jack to claim a spousal benefit off Jill's record, Jill must file for her own benefit.

Remember, this is a basic rule for spousal benefits: the spouse on whose record the spousal benefit is being paid must have filed for benefits. Once Jill files for her own benefit, she can't restrict her application to her spousal benefit.

An important purpose of the Savvy Social Security Spousal Planning Calculator is to help married couples decide which spouse should claim the spousal benefit and when.

Maximizing spousal benefits through innovative claiming strategies can help baby boomers gain an edge in retirement planning. Just make sure you understand the rules.

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