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6 Savvy Questions About Social Security

By Elaine Floyd, CFP®

Social Security is more complicated than most people think. Here are six of the most common questions that come up on Social Security.

With the baby boom generation entering retirement, there's a lot of demand for good Social Security information. People are confused—both about how the system works, and how these inner workings affect their retirement decisions. These six questions address some of the most common sources of confusion around Social Security: When to apply, how to undo bad claiming decisions, how work affects benefits, and options for divorcees and survivors.

1. WHEN SHOULD I START SOCIAL SECURITY?

The answer to this question used to be, "whenever you need the income." Now, savvy retirees are taking a more strategic approach to claiming Social Security based on mathematical principles. If you consider the total amount of benefits you stand to receive over your lifetime, and if you live even one day past the average life expectancy, you will be better off claiming the maximum benefit at age 70 rather than a reduced benefit at 62.

Social Security is also good longevity insurance—just in case you do live to a ripe old age. Baby boomers used to claim at 62 saying, "I could die tomorrow." Now they are claiming at 70 saying, "I could live to 100."

If you are married the answer is even more complex. The age at which you claim your Social Security benefit will determine the amount you are receiving at the time of your death. This, in turn, could affect the amount your spouse stands to receive as a survivor benefit if you should die first. It is usually recommended that the higher earning spouse file for Social Security at age 70. This will provide the maximum income to the couple while both are alive and to the surviving spouse after one spouse dies.

2. I APPLIED FOR EARLY BENEFITS AND NOW REGRET THE DECISION. IS THERE ANYTHING I CAN DO?

If it's been less than 12 months since you first applied, you can withdraw your application and repay your benefits. You will then be free to reapply at any time in the future.

If it's been more than 12 months, and you are now over full retirement age (67 for those born after 1959), you can suspend your benefit and earn the 8% annual delayed credits on the current amount.

Example: Jim applied for Social Security at 62. His primary insurance amount (PIA) is $3,000. (The PIA is the amount he would receive if he claimed his benefit at FRA.) Because he claimed at 62, his benefit is 70% of $3,000, or $2,100. When he turns 67 he can suspend his benefit and earn 8% annual delayed credits on the $2,100. When he turns 70 he can claim his benefit and raise his permanent benefit to $2,604 ($2,100 × 1.24 = $2,604). Note that if Jim suspends, no spousal or dependent benefits can be paid on his record while it is in suspension.

If you are under full retirement age you may not voluntarily suspend your benefit. However, you can achieve the same result by going back to work and having your benefits withheld for the earnings test.

3. WHAT HAPPENS IF I GO BACK TO WORK AFTER STARTING SOCIAL SECURITY?

If you are under full retirement age, some or all of your benefits may be withheld. $1 will be withheld for every $2 that you earn over the earnings test threshold, which is $23,400 in 2025. But this is not a reason to not go back to work. In fact, it may be a good reason to go back to work, because your benefit will be recomputed at FRA to remove the actuarial reduction for those months in which your benefit was withheld. In other words, it will raise your benefit going forward.

Let's say your PIA is $3,000 and you applied for benefits at 62. Your reduced benefit is $2,100 (70% of $3,000). At age 64½, you go back to work and earn enough so that all of your benefits are withheld. When you turn FRA (67), your benefit will be recomputed to make it as if you had applied at a later age. Going forward you will get about 80% of $3,000, or $2,400. Then, if you were to suspend your benefit at FRA, you can earn 8% annual delayed credits on the $2,400. When you claim your benefit at 70, it will be $2,967 (not counting cost-of-living adjustments or the effect of additional earnings). Going back to work is a great way to increase your Social Security benefit, and also benefit from the earnings themselves.

4. CAN I RECEIVE A SPOUSAL BENEFIT BASED ON MY HUSBAND'S WORK RECORD?

Possibly. As the spouse of a worker entitled to Social Security benefits you may be able to receive 50% of your spouse's PIA if you apply for it at your full retirement age. Your husband must be receiving benefits in order for you to apply for a spousal benefit. If he wants to delay his benefit to receive the maximum amount, you may have no choice but to wait until he applies to start your spousal benefit. Our calculators can help you determine the best time to apply, taking into account spousal benefits and delayed credits.

Generally, you can only receive a spousal benefit if it is higher than your own benefit. When you apply, you will be paid the higher of the two benefits. Let's say your primary insurance amount (PIA) is $1,400. Your husband's PIA is $2,600. Half of that is $1,300. Since your PIA is higher than your spousal benefit, you would generally not be paid a spousal benefit.

5. I'M DIVORCED. CAN I COLLECT SOCIAL SECURITY OFF MY EX-SPOUSE'S RECORD?

Maybe, if the marriage lasted at least 10 years, and you are currently unmarried. Your ex-spouse must be at least 62. If it's been more than two years since the divorce, he or she does not need to have filed for their own benefit. The same rules that apply to spousal benefits also apply to divorced-spouse benefits. If your own benefit is higher, that's the amount you will be paid.

6. MY HUSBAND HAS DIED. WHEN WILL I BE ELIGIBLE FOR A SURVIVOR BENEFIT?

You can start your survivor benefit as early as age 60, but it will be reduced. There are two components to the survivor benefit. The first is what's called the "original benefit." This is the amount based on the decedent's PIA or his actual benefit if he has already started receiving his benefit. The second is the "actual benefit" which is based on when the surviving spouse claims it.

Example: Let's say Mike is 70 and Mary is 60. Mike has delayed his benefit to age 70 and is receiving $3,000 at the time of his death. This becomes the original survivor benefit. It's the amount Mary will receive if she claims it at her full retirement age. However, if Mary claims it now, at age 60, the original benefit will be reduced to 71.5%, giving her a permanent benefit of $2,145.

Savvy Social Security planning for couples usually involves the higher earning spouse claiming his benefit at age 70 in order to maximize the survivor benefit in case he dies first. At that time, the surviving spouse would step into his higher benefit and her own benefit would stop.

Savvy Social Security planning for widows and widowers involves coordinating the person's own retirement benefit with the survivor benefit. It is possible to sequence these benefits to maximum advantage. Talk to your financial professional or the Social Security Administration if you are eligible for both a survivor benefit and a retirement benefit based on your own work record.

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