How to Make Your Widow Merrier

By Kerry Pechter *Fri, Sep 21, 2018*

The generosity of the Social Security spousal benefit is something every primary earner should understand. Yet many spouses--and even some professionals--aren't sure exactly how it works.

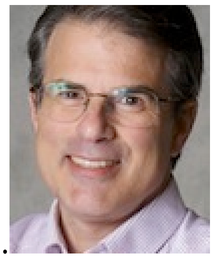
My wife, who is six years younger than I am, gets tired of hearing about retirement planning. Understandably so. But when I told her that I plan to keep working and delay Social Security until I turn 70 so that she will receive the largest possible monthly benefit after I'm gone, I was sure she'd get weepy and throw her arms around my neck.

"That's nice," she said, not looking up, and continued playing an electronic word game on her iPad.

It can be a long, lonely walk from age 62, when most working Americans become eligible for Social Security benefits, to age 70, when the government stops rewarding those who defer. Only about 4% of women and 2% of men claim at 70, even though their benefits would be as much as 50% higher than at age 62 and 25% higher than at 67.

Most people who promise to work to age 70 and wait for the highest benefit end up breaking that promise. I get that. If you're 63 and you see friends retiring, or if your bones tell your brain that it's quitting time, or if your advisors tell you can afford it, then you might as well retire and, while you're at it, file for Social Security.

Some people *should* file early. Our neighborhood plumber, Dell, is a chain-smoker in his mid-50s. He hacks and coughs through every house call. "My allergies are acting up again," he says. Dell works on his knees and elbows, with a flashlight, squinting at copper and PVC pipes. He'd be wise to claim at age 62 (if not Social Security Disability Insurance before then) because honestly, he may not see the other side of 70.



Other people have no reason to wait. Our friend Phil, a writer who has millions in real estate and low cost-basis Apple stock, filed for benefits at age 62. The cash flow, such as it is, helps him stay fully invested. As for longevity risk, he may need to liquidate something someday, but he'll never be broke. His ex-wife is rich and their kids have trust funds.

I'm not certain that Dell or Phil ever studied Social Security's rules. (Who does, besides Bill Reichenstein, Larry Kotlikoff, or Alicia Munnell's team at Boston College?) Most people file either at age 62, at full retirement age (FRA) or when they retire. Those are the most obvious options. It's simpler to use them than to study the rules (or use software) and try to optimize the claiming date. (FRA is 66 for Boomers born in 1954 or earlier. It increases by two months per birth year thereafter, reaching 67 for those born in 1960 or later.)

In my own case, I decided to delay retirement and Social Security until age 70 because A) I can, since I'm self-employed, and B) because I don't want to dip into savings until then. This strategy maximizes our family income stream while I'm alive, maximizes my wife's income stream when she's a merry widow, and conserves assets for our kids.

Curiously, many educated Americans have never heard of the spousal benefit. One friend of mine, a doctor in his 60s who was born outside the U.S. (where spousal benefits are rare or non-existent), didn't know that his non-working wife can receive half of his benefit while he's alive and his entire benefit when he's dead. A couple I know, both 61, where the Ph.D. wife was the primary earner, were surprised when I told them that the husband can claim either his own earned benefit or half of her benefit, whichever is higher (They plan to claim at FRA or later.)

Even the experts get confused about Social Security's rules. In early August, at the 20th Research Consortium of the Centers for Retirement Research at Boston College and the University of Michigan, which are funded by the Social Security Administration, I told one of the researchers, who represented a prestigious college, about my plans to maximize my wife's benefits during my absence.

She said I was flat wrong in believing that a widow or widower can inherit the benefit that a primary-earning spouse achieved by delaying benefits until age 70. She declared that the most a surviving spouse could receive from Social Security would be the late primary-earner's benefit as of full retirement age, or FRA. Busted.

Or maybe not. I opened my 2016 copy of "The Social Security Claiming Guide," produced by Steve Sass, an economist and researcher at the Center for Retirement Research at Boston College. On page 11, it said, "A husband can increase the monthly benefit his wife gets as his survivor more than 20% if he claims Social Security at 66, not 62, and *60% if he claims* *at 70*.” (Italics added.)

In an email exchange, Sass confirmed the accuracy of the text in the Guide, but urged me to call Stephen Goss, the Chief Actuary of Social Security, for the final word. Goss responded to my email by saying, “They’re both right!” The Guide was correct, he said, but added that it was true only if the surviving spouse had reached FRA.

“If for example the deceased had waited to start retired worker benefit until age 70, with a FRA of 66, then that worker was receiving 132% of PIA [primary insurance amount] at death,” Goss wrote. “If at that point the surviving spouse is FRA or older, they will get the 132% of the deceased worker’s PIA. If however, the surviving spouse is under FRA, say age 60 at the death of the worker, then they get 71.5% of the deceased worker’s benefit, which was 132% of PIA. So 1.32 x 0.715 x PIA” would be the 60-year-old’s benefit.

Later, I told my wife the whole yarn: how I thought I could maximize her benefits by working until age 70, then I worried that I couldn’t do that, but then the Chief Actuary of the Social Security Administration assured me that she would in fact receive the maximum benefit, just as soon as I migrate to the Great Platform in the Cloud.

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