
Question: Is 'File and Suspend' a Loophole?

By Editorial Staff Thu, May 21, 2015

Should a high-earning, two-income couple be able to claim an extra \$48,000 from Social Security? Or should a law be passed to eliminate that possibility?

Question: Was the “file and suspend” strategy intended by the original architects of Social Security?

Answer: No, it wasn't. Steven Goss, the chief actuary of the Social Security Administration, told a National Public Radio Planet Money reporter last week that while “file and suspend,” which can yield a high-earning two-income couple as much as \$48,000 extra, is legal, it is an unintentional consequence of Social Security rulemaking.

For some, file-and-suspend is unfair gaming. Other say it's gaming an actuarially unfair system, and therefore not so terrible. It has been somewhat sensationalized in a recent book about Social Security benefits called, [*Get What's Yours*](#) (Simon & Schuster, 2015). If widely used, file-and-suspend could cost the Social Security system an extra billion dollars a year, according to Alicia Munnell, director of the Center for Retirement Research at Boston College.

Here's how file-and-suspend is described in *Get What's Yours*: Take a dual income couple, the same age, both eligible for maximum Social Security benefits. He (in this case) files for his worker benefits at full retirement age (FRA), but chooses not to receive them until age 70, when they'll be more than a third higher. She, at FRA, files for her spousal benefits (50% of his full benefit at FRA) and collects them until age 70, when she switches to her own worker benefits.

By then, she will receive about \$48,000 in spousal benefits—\$48,000 more than they couple would have received if both had merely filed for benefits at age 70. Whether or not you and your spouse can take advantage of this strategy will depend on your specific circumstances—your ages and incomes and your flexibility in choosing when to claim benefits. Single people, of course, can't use it.

When Social Security was created, the architects were concerned about the welfare of the stay-at-home wife and mother. So they gave her a spousal benefit (up to half of her husband's full benefit) as well as a survivor's benefit (100% of her husband's benefit) if he died first. In creating these spousal benefits, the New Deal architects didn't anticipate the

rise of the two-income couple, or the possibility that a type of double dipping might occur.

Reasonable people disagree about the ethics of using file-and-suspend. Eugene Steuerle, a former Social Security economist now at the Urban Institute, and author of [***Dead Men Ruling: How to Restore Fiscal Freedom and Rescue Our Future***](#) (Century Foundation, 2014) has mixed feelings about the broader design of spousal and survivor benefits in Social Security; in his opinion, they often distribute money unfairly.

“The biggest losers of the spousal and survivor system are the couples with fairly equal earnings and single heads-of-households. Single heads of households essentially pay for spousal and survivor benefits that they’re not eligible for. In an actuarially fair system, you’d reduce the worker’s benefit if you added a survivor’s benefit for his spouse,” he told *RIJ* in an interview this week.

“But, back in the history of the program, they made it a freebie. When they decided to favor the then-stereotypical stay-at-home spouse, they didn’t add on any cost to the individual worker who generated the benefit. Even then, unlike in many countries, they designed it so that the biggest winner was the stay-at-home woman (or man) with the richest worker as a spouse.”

The more unequal the earnings, the more valuable the spousal benefit, Steuerle added. “If you have a two-income couple, both averaging \$50,000 a year, and a one-income couple where the worker averages \$100,000, they will both pay the same amount of tax. But the one-income couple gets a lot more than the two-income couple, particularly after one spouse dies,” he told *RIJ*.

Alicia Munnell would like to the file-and-suspend loophole closed, because it costs about \$1 billion a year. Another loophole she was critical of, which allowed a “free” eight-year loan from Social Security, has already been closed. “The Social Security Administration did shut down, by administrative action, the ability to claim at 62, change your mind at age 70, repay the benefits received with no interest and then get the higher monthly benefit. Now people

have only one year to change their minds, I believe," she told *RIJ* in an email. But eliminating file-and-suspend would require legislation.

The takeaway: Get smart about your Social Security benefits or face the possibility of being a victim of the system's oddities. (We haven't even talked about the rules for divorced people: a working man could marry four non-working women, each for 10 years and a day, and create four spousal beneficiaries; a woman could marry four different men for only nine years each and never qualify for any spousal benefits.) The file-and-suspend strategy arguably has had one clear benefit: it has motivated more people to get acquainted with the Social Security rules.

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