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Optimizing Social Security Benefits is Still Complicated

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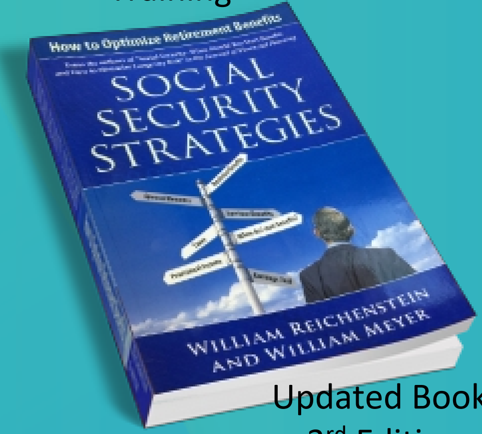
Supporting Materials and Help

This stuff is complicated…we have software so you can easily handle all the cases in this presentation

SSanalyzer.com was rated as #1 software in 2019 T3 Advisor Survey

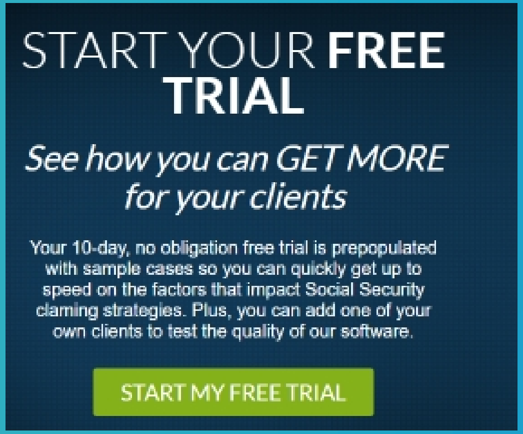
Journal of Retirement
Winter 2019

Reference and Training



Updated Book, 3rd Edition

SSANALYZER
powered by social security solutions



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Agenda

- Summary of Major Changes in Bipartisan Budget Act of 2015
- 10 Complications that Still Make Selecting an Optimal Social Security Claiming Decision Complicated
- Complication 1: Two Full Retirement Ages
- Complication 2: Strange Dating Features
- Complication 3: Two Sets of Rules
- Complication 4: Redo Strategies

Agenda

- Complication 5: Strategies for Surviving Widow(er) Younger than 70
- Complication 6: Earnings Tests
- Complication 7: Children's Benefits
- Complication 8: Divorced Benefits
- Complication 9: Disability Benefits
- Complication 10: Pension from Work Not Covered by Social Security Taxes

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Disclosure

We base our recommended claiming decisions on current Social Security promises. That is, we assume Congress will make necessary changes to ensure that currently promised benefits will be met before the trust fund in exhausted. However, Congress has the right to change these promises at any time.

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1. Summary of Major Changes in Bipartisan Budget Act of 2015

- This Act made two significant changes.
- First, it eliminated the file-and-suspend strategy after April 29, 2016.
- Second, it eliminated the ability of people born January 2, 1954 or later to file a restricted application for spousal benefits before switching later to their retirement benefits. Someone born January 1, 1954 or earlier can file a restricted application. ***To file this restricted application, 1) that person has to have attained FRA_R and 2) his or her spouse has to have filed for retirement benefits.***

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Continued

- ***Lesson: It often pays for the lower-PIA spouse to file for retirement benefits at the latter of 1) when the higher-PIA spouse (who was born on or before January 1, 1954) turns FRA$_R$ and 2) when the lower-earner can first file for retirement benefits.***
- Example 2A: Bill's PIA is $2,700 and Betty's, his wife's, is $900. Betty is one year younger than Bill. Both have FRA$_R$ of 66. ***When Bill attained his FRA$_R$*** and Betty was 65, she filed for retirement benefits of $840 and Bill files a restricted application for spousal benefits of $450. Bill will receive 48 months of spousal benefits. At 70, Bill will switch to his retirement benefits of $3,564, [$2,700 x 1.32], and Betty will add spousal benefits.
- Example 2B: The same except Betty is six years younger than Bill. Betty files for her retirement benefits at 62, and Bill, who is 68, files a restricted application for spousal benefits of $450 at that time. At 70, Bill will switch to retirement benefits of $3,564, and Betty will add spousal benefits.

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Complication 1: Two FRAs

Date of birth	FRA for ret. and sp. ben.	FRA for survivor benefits
1/2/45-1/1/55	66 yrs	66 yrs
1/2/55 – 1/1/56	66 yrs & 2 months	66 yrs
1/2/56 – 1/1/57	66 yrs & 4 months	66 yrs
1/2/57-1/1/58	66 yrs & 6 months	66 yrs & 2 months
1/2/58 – 1/1/59	66 yrs & 8 months	66 yrs & 4 months
1/2/59-1/1/60	66 yrs & 10 months	66 yrs & 6 months
1/2/60 – 1/1/61	67 yrs	66 yrs & 8 months
1/2/61- 1/1/62	67 yrs	66 yrs & 10 months
[illegible]	[illegible]	[illegible]

Complication 2: Strange Dating Features

First, the Social Security Administration considers someone to “attain” an age one day before their birthday.

- Thus, someone born on January 1, 1958 has a FRA_R of 66 years and six months and a FRA_S of 66 years and two months.
- This also affects people born on the 1st of other months. For example, suppose you have a client who will turn 66 years old on November 1, 2019. She was planning to file for her retirement benefits in September at her FRA_R. She could file for benefits this month since she will “attain” age 66 on October 31, 2019.

Complication 2: Strange Dating Features

Second, someone is not eligible to file for retirement or spousal benefits until the first month that they have "attained" age 62 *for the entire month*.

- Consider people born in October 1957 who will turn 62 this month. People born October 2, 1957 can file for their age-62 benefits this month, since they will have attained age 62 for the entire month.
- People born October 1, 1957 can file for their *age-62-and-one-month benefits* this month; they will attain age 62-and-one-month on October 31, 2019.
- People born October 3 through 31, 1957 can first file for benefits in November, that is, the first month in which they will attain age 62 for the entire month. They can apply for their *age-62-and-one-month benefits* since they will attain that age in November 2019.

Complication 3: Two Sets of Rules

Group 1: People born January 1, 1954 or earlier. They can file a restricted application for spousal benefits and later switch to retirement benefits.

Group 2: People born January 2, 1954 or later. They cannot file a restricted application. Rather, whenever they apply for benefits, they are "deemed" to be applying for retirement and, if eligible, spousal benefits.

Complication 4: Redo Strategies

First, someone can ***withdraw an application*** for retirement benefits if done within 12 months of starting benefits. Second, someone can ***suspend*** benefits at FRA_R or later and thus earn delayed retirement credits.

Example 1: Mike will turn 62 on April 2, 2020. In February of 2020, he tells the SSA that he wants to begin his retirement benefits for April with the first payment received in May. He may redo this decision on or before April 30, 2021. If he withdraws his application (a.k.a., withdraws his claim) for retirement benefits then he must pay back all prior benefits based on his earnings record including, if any, spousal or children's benefits that are based on his record. An exception is that Mike would not have to repay an ex-spouse's spousal benefits if the divorce occurred at least two years earlier. Also, anyone receiving benefits based on Mike's earnings record (except an ex-spouse) must consent in writing to this withdrawal of application.

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Complication 4: Continued

Suspending benefits at FRA_R or later to earn delayed retirement credits.

- Example: Tom is single, was born in April 1954, and has a FRA_R of 66. He retired and began his SS retirement benefits at age 63 with his benefits being 80% of his PIA. He now wishes he would have delayed his benefits until 70. Since more than one year has passed since he began his benefits, he cannot withdraw his application for benefits. However, at his FRA_R, he could suspend his benefits. At 70, he could reinstate his suspended benefits and receive 105.6% of his PIA, [80% x 1.32 = 105.6%], where 1.32 reflects the 32% delayed retirement credit for suspending his benefits from his FRA_R of 66 to 70.
- When benefits are suspended, prior benefits, including benefits received by a spouse or child based on his earnings record, **do not need to be repaid**. However, since he suspended his benefits, anyone (except his ex-spouse) receiving benefits based on his earnings record would lose those benefits until he unsuspends his benefits. *Furthermore, Tom could not receive spousal benefits during the suspension period.*

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Filing for Retroactive Benefits

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- Someone can file for retroactive retirement benefits up to six months prior as long as that filing date does not take their beginning benefits date to before their FRA_R.
- Suppose Jane has a FRA_R of 66. She could apply at age 66 and 10 months for retirement benefits at the level appropriate for age 66 and four months and also receive a lump sum check for six months of prior benefits.

Warning:

Be careful to make sure your clients understand they could be giving up significant cumulative benefits.

SSA received bad press for promoting retroactive benefits, where claimants did not understand the reduced monthly benefit.

Make sure your clients know they can work with you to properly evaluate the breakeven age between 1) filing for benefits including six months of retroactive benefits and 2) filing for benefits with no retroactive benefits.

Complication 5: Strategies for Retiring Widow(er) Younger than 70

Example 1: A widow has a PIA of $2,000, FRA of 66 for all benefits, and filed for her retirement benefits of $1,933 per month six months ago at age 65 years and six months. Today, when she turns 66, her husband dies. Her survivor benefits would be $1,800 per month. Three of her claiming strategies include the following (with all dollar amounts before COLAs).

1. She continues her retirement benefits of $1,933 per month.
2. She *suspends* her retirement benefits, begins survivor benefits of $1,800, and at 70 restarts her retirement benefits at $2,552, [$1,933.33 x 1.32].
3. She *withdraws her application* for retirement benefits and repays $11,598, that is, the six months of prior benefits. She begins survivor benefits of $1,800 per month and at 70 switches to retirement benefits of $2,640, [$2,000 x 1.32].

- Depending upon how long she expects to live, any of these three strategies may provide the highest expected lifetime benefits.

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Complication 5: Continued

Example 2: A widow has a PIA of $2,600, FRA_R of 66 years and 6 months, and FRA_S of 66 years and 2 months. Her husband has an FRA of 66 for all benefits and a PIA of $1,600. He began his benefits at age 63 at $1,280 per month. He dies a few years later when she is 63.

Strategy 1: Begin her retirement benefits of $2,015 per month, [0.775 x $2,600], and continue these benefits forever.

Strategy 2: File for survivor benefits now of $1,320 and switches to her retirement benefits of $3,328 at age 70, [$2,600 x 1.28].

Her survivor benefits level is the smaller of 1) the larger of his retirement income benefit of $1,280 at his death and $1,320 (that is, 82.5% of his PIA) and 2) her reduced widows benefits, where the latter is $1,378. She can receive full widows benefits at FRA_S or reduced benefits as early as age 60 (age 50 if disabled). Her age-60 widows benefits would be 71.5% of his PIA, but it increases pro-rata to 100% of her full widows benefit at her FRA_S of 66 year and two months. Thus, her widows benefits at age 63 and zero months would be $1,378, which is 0.86135, [1 – 0.13865], of his PIA of $1,600.

If she lives to at least age 73 and 10 months then the second claiming strategy would provide more lifetime benefits when benefits are expressed in today's dollars.

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Complication 6: Earnings Tests

- Monthly SS benefits can be reduced or eliminated due to earnings tests. Therefore, these earnings tests may effectively prevent someone from claiming benefits before attaining their FRA_R. There are two earnings tests. Let's look at how these tests apply in 2019.
- Test 1 applies to people who will not "attain" FRA_R by the end of 2019 (that is, people born January 2, 1954 or later). Their annual SS benefits for 2019 will be reduced by $1 for every $2 of 2019 earnings exceeding $17,640.
- Test 2 applies to people who will "attain" FRA_R by the end of 2019. Their benefits will be reduced by $1 for every $3 of earned income exceeding $46,920. However, only their earned income through the month before attaining FRA_R would be considered.
- The earnings tests do not apply after someone attains FRA_R.

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Complication 6: Continued

Example: Jim begins SS benefits at age 63 of $2,000 per month in January 2019. This $2,000 is 80% of his PIA of $2,500, where the 20% reduction is (5/9% of PIA per month) x 36 months. He told the SSA that he expects to earn $30,000 in a part-time job in 2019. Since his $30,000 of expected earnings is $12,360 over the $17,640 income limit, he would lose $6,180 in benefits. The SSA would withhold all benefits for January through April even though this amount is $8,000. If his actual 2019 earned income is 2019 is $30,000, as he predicted, then in 2020 he will be paid the additional $1,820, [$8,000 - $6,180], that was withheld for April.

When Jim attains FRA_R, the SSA will adjust his benefits. Suppose Jim loses 9 months of full or partial benefits before his FRA_R. (In 2009, he lost 4 months of full or partial benefits.) At his FRA_R, the SSA would increase his benefits to 85% of his PIA, where the 15% reduction is (5/9% of PIA per month) x 27 months. ***Thus, lost benefits before attaining FRA_R are not necessarily permanently lost.***

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Complication 7: Children's Benefits

Consider a single mother who is 62 with a child age 14. The mother's FRA is 66 years and six months and her PIA is 2,000. If she begins her retirement benefits at age 62 then she would receive $1,450 per month in benefits and her child would receive $1,000 per month through about age 18. However, this mother's benefits will remain at $1,450 (before COLA adjustments) for the rest of her life. In contrast, if she delays her retirement benefits until 70, she would receive $2,560 per month (before COLAs), but her child would not receive any benefits.

If this mother has a life expectancy exceeding 84 years, then her projected lifetime benefits in the latter strategy will be higher than her and her child's combined projected lifetime benefits in the first strategy. Thus, she may opt to forego her child's benefits.

In short, if someone who has child(ren) eligible for Social Security benefits, this would make his or her decision as to when to claim Social Security benefits more complex.

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Complication 8: Divorced Benefits

The following is written as if the divorced spouse is a female, but the same rules apply for divorced men. This material comes from Social Security Administration, "What Every Woman Should Know," www.ssa.gov/pubs/EN-05-10127.pdf.

"If your ex-spouse is living—

If you are divorced, you can receive benefits based on your ex-spouse's work if—

- Your marriage lasted 10 years or longer;
- You are unmarried;
- You are age 62 or older;
- The benefit you are entitled to receive based on your own work is less than the benefits you would receive on your spouse's work; and
- Your ex-spouse is entitled to Social Security retirement or disability benefits.

If your ex-spouse hasn't applied for benefits, but he can qualify for them because he is age 62 or older, you can receive benefits on his work if you have been divorced from him for at least two years."

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Complication 8: Continued

“If your ex-husband is deceased, you can receive benefits—

- At age 60, or age 50 if you are disabled, if your marriage lasted at least 10 years, and you are not entitled to a higher benefit on your own record.
- At any age if you are caring for his child who also is your natural or legally adopted child and younger than 16 or disabled and entitled to benefits. Your benefits will continue until the child reaches age 16 or is no longer disabled. You can receive this benefit even though you were not married to your ex-husband for 10 years.”

In short, the rules affecting someone’s eligibility for Social Security benefits based on an ex-spouse’s earnings record represent another complexity affecting the decision as to when to claim Social Security benefits.

Complication 9: Disability Benefits

Two Social Security programs pay disability benefits: the Social Security disability insurance program and the Supplemental Security Income program.

The bottom line is that the rules affecting disability benefits add another layer of complexity to the decision of when someone should claim Social Security benefits.

Pam began disability benefits of $2,000 per month – that is, her PIA – in June 2016. In December 2018, she attained her FRA_R. She could not suspend her benefits, file a restricted application for spousal benefits, and resume her retirement benefits at 70. Since she was entitled to disability benefits and they automatically converted to retirement benefits at her FRA_R, she was "entitled" to retirement benefits, and thus could not suspend these benefits and file a restricted application for spousal benefits.

Complication 10: Pension from Work Not Covered by Social Security Taxes

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Individuals who receive a pension from work not covered by Social Security taxes (henceforth, a non-covered pension) probably will have their Social Security benefits reduced. These individuals may include police officers, firefighters, teachers as well as employees of state or local government agencies. The Windfall Elimination Provision (WEP) applies to **retirement benefits** when he or she also receives a non-covered pension. The Government Pension Offset (GPO) applies to **spousal benefits** and **survivor benefits**.

The bottom line is that WEP and GPO add considerably complexity to the determination of how much Social Security benefits might be received and when those benefits should begin.

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Complication 10: Continued

Consider a same-age married couple, Kate and Larry. Kate receives $2,400 per month in retirement benefits from the Texas Teachers Retirement System, which is not part of the SS system. In addition, Kate paid SS taxes on “substantial earnings” for 20 years or less in prior jobs. If not for the WEP, she would have a PIA of $767. Larry has a PIA of $2,200 from a job covered by SS taxes. Both spouses will attain age 66, which is their FRA for all benefits, in November 2019.

Example 1: Kate files for her retirement benefits and Larry – being in Group 1 as defined in Complication 3 – files a restricted application for spousal benefits. Kate would receive a WEP-adjusted PIA $354 per month in Social Security retirement benefits instead of $767. Larry would receive $177, half of Kate’s WEP-adjusted PIA, in spousal benefits.

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Complication 10: Continued

Example 2: Larry files for retirement benefits at his FRA_R and Kate files for retirement and spousal benefits at her FRA_R. Larry would receive $2,200 per month. If not for the GPO, Kate would receive retirement benefits of $767 plus spousal benefits of $333, [$1,100 - $767, where $1,100 is half of Larry's PIA]. However, the GPO would reduce her spousal benefits by $1,600, that is, by 2/3rds of the amount of her non-covered pension. In this example, since $1,600 exceeds $333, the GPO would eliminate her spousal benefits. She would still receive $354 per month in retirement benefits.

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Complication 10: Continued

Example 3: Continuing with the prior example, where they both filed for benefits at FRA_R. Larry predeceases Kate. The size of Kate's survivor benefits after Larry's death would depend in part on the cumulative inflation rate between when they began benefits at 66 and Larry's death. Suppose the cumulative inflation rate between those dates is 50%. Kate's non-covered pension from the state of Texas is fixed at $2,400, while Social Security benefits would rise by 50% with inflation. Thus, Kate would receive $1,700 in Social Security survivor benefits after Larry's death, [$3,300 - $1,600, where $3,300 is his Social Security benefits level adjusted for the 50% cumulative inflation rate and $1,600 is 2/3rds of her non-covered pension].

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Complication 10: Continued

Suppose Larry has a short life expectancy, while Kate has an average life expectancy. Larry is deciding whether to delay his retirement benefits to 70. He decides to begin his retirement benefits at 66, because, he figures, the GPO would eliminate much of Kate's survivor benefits anyway. **This thinking is wrong.** If he delays his retirement benefits until 70, then his monthly retirement benefit would be $706 larger at $2,906 (before COLAs), [$2,200 x 1.32], due to receiving four years of delayed retirement credits. **Kate's survivor benefits would include all of this increase.** Her survivor benefits would be ($2,906 before COLAs - $1,600) instead of ($2,200 before COLAs - $1,600). **Thus, Larry should base his claiming decision on the age he would be, if alive, when the second spouse is expected to die.**

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