



# Deciding When to Claim Social Security

MANAGING RETIREMENT DECISIONS SERIES



## Deciding When to Claim Social Security

The decision to claim Social Security benefits is one of the most important retirement decisions a person will make. Many people decide to claim their Social Security benefits early without considering other options. Perhaps they do not know that they have options or they may think that one option isn't much different from another. Options do exist, however, and some of them can significantly improve retirement security. This Decision Brief discusses many of those options.

Social Security retirement benefits may be claimed as early as age 62. Most people claim their benefits when they retire, which for the majority of workers occurs before their full retirement age. For anyone born January 2, 1943 or thereafter, the full retirement age is 66 or older. However, if that person has other resources, delaying Social Security may be the best decision. This is because Social Security benefits increase as the age at which benefits are claimed increases, up to age 70.

Of course, personal circumstances, resources and goals often influence the decision of when to claim benefits. Other factors include finances, taxes, health, and life expectancy. While these are important considerations, it is also important to understand the basic Social Security claiming rules.

The Social Security Administration website, [www.ssa.gov](http://www.ssa.gov), provides a wealth of information that can help when making the decision to claim benefits. It also discusses several ways to obtain an estimate of one's Social Security benefit.

**Caution:** The Social Security Administration website will not necessarily help people determine the best age to claim benefits. In addition, for those already receiving Social Security benefits (such as a spousal benefit), the website may not provide information about other benefit options; for help with this, contact the Social Security Administration directly.

### Availability of Other Assets

Unfortunately, many Americans have little in the way of savings and retirement assets to live on if they want to delay taking Social Security benefits after they stop working. According to the Federal Reserve Survey of Consumer Finances, families where the head of household is age 55 – 64 had median financial assets in 2013 of about \$52,000. For lower-income families, the available assets were much lower.

The best option for people with insufficient assets may be to build a more secure retirement by working longer, providing they are able to do so.

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### Full Retirement Age

This is the age at which a person is eligible for a full or unreduced Social Security benefit. For people born in 1943 or later, their full retirement age is between age 66 and age 67 depending on their date of birth. The Social Security Administration website details how to determine a person's full retirement age.

Those who continue to work will want to think about delaying Social Security until after they stop working. Consider that, for workers who are under their full retirement age and collect Social Security, a portion of their Social Security benefit will be withheld if they earn more than a threshold amount (\$16,920 in 2017).

If some of a person's benefit is withheld due to earnings, the benefit will increase starting at full retirement age. The increase incorporates the benefits withheld while working. This benefit payback is not immediate, however, and it could take some time before the full value is paid out. This earnings test applies to spousal and survivor benefits as well as a worker's retirement benefit.

**Important:** Many people fail to consider the effect of their claiming decision on their spouse's future income. Delaying Social Security benefits may increase the survivor's benefit that a spouse can receive after the first spouse dies.

### Workers Retirement Benefits

Those who have sufficient financial resources to consider delaying the date of claiming their Social Security benefits may find value in learning about the alternative claiming strategies that are available to them. The following discussion focuses on some of those claiming strategies.

An individual may claim Social Security as early as age 62 or delay claiming as late as age 70. If a person claims at full retirement age, the person will receive 100 percent of the benefit due. But for every month the person claims benefits before reaching his or her full retirement age, the benefits will be reduced by a set percentage. Similarly, for every month that benefits are delayed after reaching full retirement age up to age 70, the monthly benefit will be increased by a set percentage. The table below illustrates how this works for people born in 1943 through 1954, with a full retirement age of 66.

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### ***How Social Security Benefits Vary by Claiming Age (\$1,500 monthly benefit at full retirement age 66) For People Born in 1943 Through 1954***

Claiming Age	Percent of Full Retirement Age Benefit	Monthly Benefit Payable at Claiming Age
62	75.0%	\$1,125
63	80.0%	\$1,200
64	86.7%	\$1,300
65	93.3%	\$1,400
Full Retirement Age 66	100.0%	\$1,500
67	108.0%	\$1,620
68	116.0%	\$1,740
69	124.0%	\$1,860
70	132.0%	\$1,980

Working longer can further increase Social Security benefits depending on the person's earnings history. For someone who does not have a full career of earnings (35 years for Social Security) or has higher wages now than in prior years, the additional years of earnings can provide an additional increase in their Social Security benefits.

### **Single Individuals**

For single individuals, delaying the start of Social Security benefits and working longer are two options available to them.

Regarding the delay strategy, for those with average life expectancy, the present value of benefits is roughly the same regardless of the age they claim benefits. (This ignores the value of additional benefits that these individuals might earn if they work longer, as noted above.) Put another way, these individuals will receive roughly equivalent lifetime benefits regardless of the age they start receiving benefits.

The advantage of delaying Social Security benefits is that it can reduce the risk of running out of money at a later age. This is because the monthly checks will be larger, as illustrated in the preceding table. For singles, this can be vitally important.

### **Married Couples**

Married couples can realize even greater benefits than single individuals by delaying their benefits. At the very least, they have more options to delay. This is because one spouse may start receiving Social Security benefits early while the other spouse can delay. Worth noting: Social Security planning for married

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couples works effectively when based on the probability that at least one of the two spouses will exceed life expectancy.

Each partner in a married couple may receive:

- A retired worker benefit, determined by length of employment and earnings; OR
- A spousal benefit, based on half of the other spouse's full retirement age benefit with reductions for beneficiaries claiming before their own full retirement age. This benefit is not dependent on the retirement age of the other spouse; OR
- A survivor's benefit, based on the deceased spouse's actual benefit, with reductions if the surviving spouse claims before the survivor's own full retirement age.

No one can simultaneously receive more than one type of Social Security benefit. Although a retired worker benefit can increase if delayed beyond full retirement age, spousal and survivor's benefits do not increase beyond full retirement age.

A spousal benefit is only payable after the other spouse (the primary worker) has filed for his or her benefits. In addition, for those born in 1954 or later, a spousal benefit is only available to a spouse whose own full retirement age benefit is less than half of the primary worker's full retirement age benefit.

**Note:** Divorced spouses that were married for at least 10 years are eligible for spousal benefits if they are currently single. A divorced spouse can receive a spousal benefit if the ex-spouse has reached the age of 62, even if the ex-spouse has not filed.

The spousal benefit is a combination of benefits. If a spouse is eligible for his or her own retired worker benefit, the spouse may start that benefit any time at or after age 62. Then, when the primary worker files for his or her own benefit, the spousal benefit will be calculated for the other spouse. Here is a summary of that calculation:

- If the first spouse claims before reaching full retirement age, the total spousal benefit for that person will be between 32.5 percent and 50 percent of the primary worker's benefit.
- But if the first spouse claims at or after reaching full retirement age, this spouse will receive his or her own benefit and that benefit will increase to

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50 percent of the primary worker's benefit when the primary worker files. Once again, a divorced spouse will see the increase as soon as the ex-spouse turns 62.

For those born on or before January 1, 1954, there is one other option. Upon reaching age 66 (or attained age 62 if divorced), a spouse may file a "restricted application" for spousal benefits while delaying application for his or her own benefit, provided that the other spouse has already filed. This restricted application strategy means that the spouse who delays will, between ages 66 and 70, be able to receive 50 percent of his or her spouse's full retirement age benefit. Then, at age 70, the spouse who delays can switch to his or her own (delayed) benefit. This strategy makes sense if at age 70, this spouse's own benefit will be greater than his or her spousal benefit at full retirement age.

Some people want to know how this works for spouses who born on January 2, 1954 and after. These individuals are not allowed to use restricted applications to claim spousal benefits while delaying their own benefits. A few exceptions may be allowed, however.

Unless a married couple can take advantage of the restricted application, it rarely makes sense for both spouses to delay their benefit until age 70. As a rule-of-thumb, the older and/or higher benefit spouse will generally delay taking his or her benefit until age 70 and the other spouse may choose to claim at any time after age 62 based on other considerations.

### Marital Status Matters

A person's marital status can open the door to creative claiming strategies:

<b>Marital Status</b>	Receive other benefit while delaying own	Receive own benefit while delaying other
<b>Single</b>	Not available	Not available
<b>Married</b>	If born on or before January 1, 1954, a married person may file a "restricted application" for a spousal benefit while delaying taking his or her own benefit. Note: The other spouse must have already filed.	Not available

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<p><b>Surviving Spouse</b></p>	<p>If this spouse's own benefit is more than 75% of the deceased spouse's benefit, it probably makes sense for the survivor to begin taking the survivor's benefit early (as early as age 60) while delaying his or her own benefit until age 70.</p>	<p>If the surviving spouse's own benefit is less than 75% of the deceased spouse's benefit, it probably makes sense for the survivor to begin his or her own benefit early (as early as age 62) and delay taking the survivor's benefit until reaching full retirement age.</p>
<p><b>Divorced and Ex-Spouse Still Living</b> (married to ex-spouse for at least 10 years)</p>	<p>If born on or before January 1, 1954, divorced whose ex-spouse is still living may file a "restricted application" for a spousal benefit while delaying his or her own benefit. Note: those in this category must be currently single and the ex-spouse must be age 62 or older.</p>	<p>Not available</p>
<p><b>Divorced and Ex-Spouse Deceased</b> (married to ex-spouse for at least 10 years)</p>	<p>The surviving ex-spouse needs to check if his or her own benefit is more than 75% of the deceased ex's benefit. If so, it probably makes sense for this person to begin taking the survivor's benefit early (as early as age 60) and to delay taking his or her own benefit until age 70. Note: The surviving ex-spouse must be currently single or remarried after age 60.</p>	<p>If the survivor's own benefit is less than 75% of the deceased ex-spouse's benefit, it probably makes sense for the surviving ex to begin taking his or her own benefit early (as early as age 62) and to delay taking the survivor's benefit until full retirement age. Note: The surviving ex-spouse must be currently single or remarried after age 60.</p>

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**Heads up:** For those who have not reached full retirement age, and who plan to work, the earnings test could cause a portion of their spousal or survivor benefits to be withheld.

### Surviving Spouse

Maximizing Social Security benefits is extremely important to the economic well-being of surviving spouses. Careful planning can reduce the risk that an individual becomes impoverished when widowed.

The most important Social Security planning ideally happens while both members of a married couple are still alive. If the primary worker delays his/her benefit, this will provide the couple with a higher Social Security benefit and will provide a higher survivor's benefit as well. The survivor's benefit is the benefit that the deceased spouse was receiving or would have been receiving if they had filed the month of their death (unless death occurred before full retirement age, in which case the benefit is their full retirement age benefit).

**Eligibility:** Divorced spouses that were married for at least 10 years are eligible for survivor's benefits if they are single or if they remarried at or after the age of 60.

If the surviving spouse is widowed after filing for his or her own benefit, that spouse will receive whichever benefit is greater (one's own benefit or the survivor's benefit).

If the surviving spouse is widowed before filing for his or her own benefit, there may be an opportunity to coordinate benefits to the surviving spouse's advantage. If a surviving spouse does not have a significant benefit of his or her own, for example, the survivor may choose to receive his or her own (reduced) benefit as early as age 62 and switch to the (unreduced) survivor's benefit at full retirement age.

Alternatively, if the surviving spouse's benefit is more than 75 percent of the deceased spouse's benefit, the survivor will probably want to evaluate another option. If it makes sense, the survivor may choose to receive a (reduced) survivor's benefit as early as age 60 and switch to his or her own (increased) benefit at age 70.

### Special Income Tax Considerations

#### 1) Tax impact

A part of a person's Social Security benefit may be taxable. This depends on other sources of income the person may have. The actual percentage that could be taxable varies from 0 percent to 85 percent of the Social Security benefit. However,

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the taxability of Social Security can not only increase taxable income, but it can also result in a higher tax rate.

**Example:** Assume that George and Ruth are both age 65, file taxes as married filing jointly and take the standard deduction. Their annual income of \$64,000 is based on \$32,000 in annual Social Security benefits and \$32,000 in annual taxable 401(k) withdrawals. Currently, \$9,400 of their Social Security benefit would be taxable and their tax liability would be \$1,823. Their marginal tax rate is 10 percent.

They are considering withdrawing an additional \$1,000 from their 401(k) but wanted to determine their tax liability for doing so. Their taxable income would increase by the \$1,000 withdrawal. In addition, their Social Security benefit would be taxable at a higher level of \$10,250.

**Result:** The couple would have a \$1,850 increase in their taxable income and a \$261 increase in tax liability representing a 26.1 percent tax rate on the \$1,000 withdrawal. In addition, their marginal tax rate would increase from 10 percent to 15 percent after the withdrawal.

### 2) Tax planning

Single individuals or married couples impacted by these Social Security taxes may want to consider special tax planning strategies. A strategy of delaying Social Security to increase lifetime income may also have tax implications.

**Example:** Assume Mary is a single individual and decides to defer claiming her Social Security benefit and, instead, withdraw from her 401(k) funds to bridge the gap from retirement to the claiming of Social Security. In that case, the taxable funds she withdraws from her 401(k) will be added to any other taxable income and taxed at her marginal tax rate. Later, when Mary claims her Social Security benefit, her benefit will be higher due to the delayed retirement credits and she will likely need to withdraw less taxable money from her 401(k) than would be the case otherwise.

**Plan:** With careful tax planning, Mary may be able to even out her taxable income and remain within the same marginal tax rate throughout her retirement. Thus, she may avoid paying taxes in excess of such rate.

It is important for people to get expert tax advice and to understand the overall effect of claiming their Social Security benefit and their specific tax situation.

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### Careful Consideration

As the above discussion makes clear, deciding when to claim Social Security requires careful consideration. Fortunately, many resources are available to help with that. These include the Social Security Administration and written materials such as those shown in the Additional Resources box below. Time exploring these and other materials will be time well spent.

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### Additional Resources

For the website entries, please go to the website and enter the name of the article or author into the search box.

- The Social Security website [www.ssa.gov](http://www.ssa.gov) provides many details about the law and applicable rules. A couple of sources of information are “What You Need to Know When You Get Retirement or Survivor Benefits” at <https://www.ssa.gov/pubs/EN-05-10077.pdf> and “How Work Affects Your Benefits” at <https://www.ssa.gov/pubs/EN-05-10069.pdf>
- Anspach, Dana. “Social Security Sense: A Guide to Claiming Benefits for Those Age 60-70”. A guide to aid retirees with the decision of when and how to claim Social Security benefits.
- Franklin, Mary Beth. “Maximizing Social Security Retirement Benefits”. A resource for understanding what you need to know to get the most out of complicated new claiming rules.
- Mahaney, James and Peter Carlson. “Innovative Strategies to Help Maximize Social Security Benefits.” Prudential Insurance Company of America Retirement Report. Analyzes the impact and claiming strategy issues related to taxation of Social Security benefits. The report can be found at <http://research.prudential.com/view/page/rp/31290>.
- Reno, Virginia P., Jasmine V. Tucker, and Elisa A. Walker. “When Should I Take Social Security Benefits?” Social Security Brief, No. 43, National Academy of Social Insurance. The report can be found at [https://www.nasi.org/sites/default/files/research/BRIEF\\_When\\_Should\\_Take\\_Social\\_Security.pdf](https://www.nasi.org/sites/default/files/research/BRIEF_When_Should_Take_Social_Security.pdf)
- Shuart, Amy N., David A. Weaver and Kevin Whitman. “Widowed Before Retirement: Social Security Benefit Claiming Strategies.” Journal of Financial Planning. April, 2010. Focuses on claiming strategies for women widowed before reaching retirement age. [https://www.onefpa.org/journal/Documents/Contributions\\_Shuart.pdf](https://www.onefpa.org/journal/Documents/Contributions_Shuart.pdf)
- The National Academy of Social Insurance at [www.nasi.org](http://www.nasi.org) has additional information on Social Security benefits. A few brochures on claiming social security benefits are “What to Know, What to Ask”, at [https://www.nasi.org/sites/default/files/research/What\\_to\\_Know\\_What\\_to\\_Ask.pdf](https://www.nasi.org/sites/default/files/research/What_to_Know_What_to_Ask.pdf) and “Different People Different Choices” at <https://www.nasi.org/sites/default/files/research/Different%20People%20Different%20Choices.pdf>

The Society of Actuaries Post Retirement Needs and Risks committee has other Decision Briefs providing additional information on the major decisions encountered in retirement. All of the briefs can be located at: <https://www.soa.org/research-reports/2012/research-managing-retirement-decisions/>

*The Society of Actuaries would like to acknowledge the work of its Committee on Post-Retirement Needs and Risks in producing this series.*

*The committee’s mission is to initiate and coordinate the development of educational materials, continuing education programs and research related to risks and needs during the post retirement period. Individuals interested in learning more about the committee’s activities are encouraged to contact the Society of Actuaries at 847-706-3500 for more information. Additional information and research reports may be found at <http://www.soa.org>.*

#### DISCLAIMER

This Decision Brief is not intended to provide advice for specific individual situations and should not be construed as doing so. It is an information tool for general guidance. Individuals needing advice should seek the services of a qualified professional. Keep in mind that the tax code can change, the taxation of products and strategies vary, and individual tax needs and issues are unique. Consideration of tax issues is beyond the scope of this work.



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