



FEATURE ARTICLE FROM ALWAYS BEST CARE

Spousal Benefits Can Provide “Found Money”

Social Security’s spousal benefit was created in 1939, at a time when women, by and large, didn’t work outside their homes. So, even though they had never received a paycheck, it was a way for the government to recognize women’s unpaid contribution for raising children and running a household.

Today, both spouses often work, and the spousal benefit is providing an unintended reward for married couples. In fact, there are stories of three divorced wives all collecting the spousal benefits from their marriages to the same man. A few years ago, academics and financial advisors started touting the benefit as “found money.” In fact, this benefit strategy has been so well-publicized that the Obama administration has proposed ending it, reportedly because the benefit is taken mainly by wealthier workers.

Spousal benefits are available to spouses, divorced spouses and widows/widowers. Married retirees can choose between their own monthly Social Security benefits or a percentage of their spouse’s, whichever is greater, but not both. For knowledgeable and savvy retirees, one spouse can collect half their spouse’s payments and thus reap a higher Social Security payment from his or her own earnings record by waiting until the maximum delayed retirement age.

But it helps to be knowledgeable, because spousal benefits are one of the more confusing aspects of Social Security, and much has been written about it. One economist claims that information on the Social Security website about spousal benefits is misleading (see sidebar, “Get Good Advice and Plan Early”).

How It Works

The financial advantages come at full retirement age when one spouse takes the allowable 50 percent of the other spouse’s Social Security benefit at an earlier allowed age and then takes their own full benefit at a later age. Social Security sets three retirement dates: early retirement, when retirees get 75 percent of their benefit; full retirement age (FRA), when they get 100 percent; and delayed retirement, when they receive 132 percent.

For example, Beth is 66, her FRA, and her husband, Mike, is 70, which is his maximum age to get delayed benefits. Mike’s monthly benefit is \$2,000, while Beth’s benefit, if she started collecting, is \$1,000. Beth can either collect her own benefit of \$1,000 or collect the spousal benefit—50 percent of Mike’s benefit—and delay getting her own benefits until she is 70, at which point she would collect 132 percent of her own benefit—\$1,320. If she chooses to wait, in the intervening four years until turning 70, she would have an extra \$48,000 from the spousal benefit plus an increase in her own benefit at age 70. Her own retirement benefit essentially would be growing at 8 percent a year.

This only works if both spouses are past their FRA. The confusion and difficulty arise when one spouse tries to take the benefit before their FRA. Although the spousal benefit kicks in at retirement age (62, in the example given above), you could be penalized for several reasons, which might not make the spousal benefit worthwhile.

Complications Before FRA

First, if Beth started taking the spousal benefit before age 66, the benefit is reduced to 37-46 percent, rather than 50 percent, depending on the age at which she takes it.

Second, if she takes Mike's benefit before her FRA, Social Security "deems" that she is also applying for her own benefits and will start sending Beth her monthly benefits—either the allowable percentage of her husband's amount or her own benefits, whichever is higher. (You can't receive both yours and your spouse's.) In either case, Beth's benefit will be permanently reduced, because she is below the FRA. To see how this reduction is calculated, visit the [Benefits For Spouses](#) section of the Social Security website.

Also, Beth cannot collect a spousal benefit until Mike files for his own benefit. This is where it starts getting tricky if one spouse wants the spousal benefit but the other spouse is not ready to start collecting. The way around this is for Mike to apply for benefits and then "suspend" them. The file and suspend rule was added to Social Security in 2000 as part of the Senior Citizens Freedom to Work Act to help couples plan their retirements.

Another point that needs to be considered is that Beth's spousal benefit is based on Mike's retirement benefit at FRA. It is not based on when either Beth or Mike start receiving their own Social Security benefits. There is no increase in benefits for delaying Mike's benefit beyond his FRA.

Figuring Out the Benefit

To estimate the spousal benefit, you can take these steps (from "Social Security spouse benefits - the rules of the road," [MoneyWatch](#)):

- Estimate the Social Security benefits the higher earner will receive at their FRA.
- Divide the result by two. That's the amount of the spouse's benefit, starting at the spouse's FRA.
- Now determine the amount the spouse will receive if they start the income before their FRA (it will be a lower amount than if they had waited until his or her FRA).
- If the spouse's benefit works out to be greater than the benefit based on the spouse's own earnings, this is the income the spouse will receive while both are alive. (Social Security makes the determination of which benefit is larger; you don't need to do this on your own.)

Benefits for Widows/Widowers

If Mike dies, his benefits stop, and Beth, if she is over 60, would receive the greater of the Social Security benefit based on Mike's earnings, or the Social Security income that Mike was actually receiving, based on when Mike started Social Security benefits. Therefore, it is to Beth's advantage that Mike not take Social Security benefits too early, which could result in a significant—and permanent—reduction in the surviving spouse's benefit.

If Beth remarried after age 60, she could continue to receive survivor benefits. After one year, she would be eligible to collect a spousal benefit based on her new husband's work record, if it's larger than Mike's.

Benefits for Divorced Spouse

If you have been divorced for at least two years, your marriage lasted 10 years or longer, you and your former spouse are age 62 or older, and your former spouse is entitled to Social Security benefits, you can receive spousal benefits based on your former spouse's work record.

The good news is that your former spouse does not need to know that you've filed for a divorced spousal benefit, nor do they need to have filed (or filed and suspended) for their own Social Security in order for you to claim it. Your benefits do not affect your divorce spouse's benefits.

The same rules apply to divorced as married couples, as far as waiting until FRA to avoid a reduced benefit. At that time, you can restrict your application to divorced spousal benefits only and then file at age 70, based on your own work history, thus maximizing your own benefits. "I believe their 'advice' traps people into making the wrong decisions. Furthermore, the checks you get in the mail don't clarify what benefits you are and aren't receiving. So you may think you are getting a spousal benefit, when actually it's only a reduced retirement benefit since your excess spousal benefit is zero."

Get Good Advice and Plan Early

For married couples, Social Security may be one of their largest assets. How you manage it—by deciding which benefits to collect and when—can have a huge effect on your retirement savings and income. It pays for married couples to coordinate how and when they should each begin collecting benefits.

Because of the variety of factors—ages of spouses, when the benefits are taken and the different amounts—it helps to get professional advice to find out which combination would reap the most benefits. You should talk to your financial or tax advisor before filing for spousal benefits. Your Certified Senior Advisor® can provide information about the benefits or direct you to someone who is knowledgeable.

Information on the Social Security website about spousal benefits may not give the whole picture. Larry Kotlikoff, who writes an advice column for the PBS News Hour website, warns readers not to trust the advice found there ("The Danger of Trusting Social Security's Online Advice," September 23, 2013, [PBS News Hour](#)).

"You never want to trust what you read on Social Security's websites. What's written is never literally wrong. But it's far too often incomplete," he writes.

Referring to the fact that the only way you can get a full spousal benefit is to wait until FRA and apply just for the spousal benefit at that time, Kotlikoff writes, "So, why doesn't Social Security provide this information? Either they think that no spouses ever worked...or they think explaining everything I just explained is too hard ... They trap people into thinking they are going to get a spousal benefit, but then don't give it to them.

Sources

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