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Advanced Markets Insights

Advising Clients Who Claim Early

The Social Security retirement benefit is an important component in income planning for most retirees. It is an income stream that cannot be outlived and it is inflation-adjusted.

However, there are many different options for claiming Social Security, particularly for married couples, and these options may not be well understood.[1]

When mixed with concerns about the future of Social Security, the result is that 40% of all claimants claim at the earliest possible opportunity.

Claiming early may not be in your client's best interest. Benefits claimed before the recipient reaches full retirement age (FRA) will result in a reduced benefit.

Retire at FRA or earlier?

FRA is age 66 for most current retirees but rises to age 67 for those born after 1960. A worker claiming at 62 (the earliest opportunity for most claimants) will receive 75% of his or her full benefit, and a spouse will receive 65% of his or her spousal benefit.

Between age 62 and FRA, benefits are adjusted on a sliding scale. After FRA, a worker's benefit will be increased by delayed retirement credits of 8% per year until age 70. A simple example shows the wide range of payments:

- If the worker is entitled to a $1,000 per month benefit at FRA (age 66), then, ignoring inflation adjustments, the benefit at age 62 is $750 per month.
- If the benefit is deferred until age 70, it is $1,320 per month – a difference of $570 per month.

Over time, the aggregate amount received of a larger benefit started later will significantly exceed a smaller benefit started earlier if the recipient lives long enough. The crossover point will vary according to different claiming options, but they currently range from 78 to 83 for most strategies.

When is the best time to claim benefits?

There are two main considerations in determining the claiming strategy:

- How long your client expects to live.
- How soon your client needs the income.

If your client needs the income, the decision to file as early as possible is the correct choice. But if after considering planning options, your client determines that there are alternative sources of income or assets that can be turned into income for a period of time, a delayed claiming strategy may be more desirable.

Withdrawing an Application

Social Security retirement recipients can withdraw their application within 12 months of the filing date and repay the amounts received without interest. This allows them to file a new application at a later date and receive an increased benefit. This can be especially useful for recipients who filed for benefits at the earliest opportunity without understanding the claiming strategies that are available to them.

1 Source: www.SSA.gov, accessed on 11/17/2017.

If your client is married, the analysis is the same but the life expectancy consideration is now that of your client and your client's spouse — increasing the likelihood that at least one of them will live beyond the crossover point. In this case, maximizing one benefit is important.

It is the higher of the benefits that your client and your client's spouse receive that will be paid for the joint life — either as a survivor benefit or because the spouse with the higher benefit is the surviving spouse.

Alternatives for those already claiming

What if your client is already receiving Social Security benefits? Can your client change his or her mind? There are a couple of planning alternatives depending on his or her age and the date of the original application.

Social Security allows a participant to ***withdraw the original application*** if all the amounts received are repaid. Since December 2010, a participant can only do this once, and only within 12 months of the original filing. Repayment will also include any amount paid as a spousal benefit based on the worker's record but there is no interest charge.

Your client can then file a new application at FRA to receive the full benefit or later to take advantage of the delayed retirement credits. This technique can also be used if your client started taking a benefit at or after FRA and now want to take advantage of the delayed retirement credits.

The other alternative is that your client can ***suspend the benefit when he or she reaches FRA***. Your client cannot suspend his or her benefit before FRA. At FRA, your client suspends the benefit and he or she will be eligible for delayed retirement credits.

Note that these will be applied to the reduced benefit that your client was receiving. It will not cause a recalculation of the benefit amount. Consequently, someone who claimed at age 62 and is receiving a 75% benefit will see that amount increased by 8% per year for each year of deferral.

Finally, if your pre-FRA client doesn't want to repay the amounts received, or a year has passed since the original filing, another option is to ***return to work***. Social Security recipients who work after age 62 will lose $1 of benefit for each $2 that they earn above an annual limit.

In 2018, the limit is $17,040 per year for workers over 62 and before the year in which they reach FRA. For example, if your client earns $30,000 from employment in 2018, he or she will lose $6,480 of benefits.

In the year that your client reaches FRA, the calculation is different and he or she can earn considerably more before losing any benefit and there are no benefit reductions once he or she reaches FRA. The reason why this is a planning strategy is that the benefit is not lost entirely. The SSA will recalculate the benefit at FRA to take account of the lost benefit. This will result in an increased benefit after FRA. The earnings cap disappears after FRA.

Maximize your client's benefits

Understanding claiming strategies is important if your client wants to maximize the amount he or she receives from Social Security. While the opportunities are limited, if your client filed for Social Security benefits and then changed his or her mind, he or she may be able to take some actions to stop the benefits for a period of time and receive a larger benefit later.

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