# Understanding Social Security claiming strategies

*Important information about alternatives for married couples*

**One size doesn't fit all**

It's important to note that there is no "one size fits all" age or strategy for claiming Social Security benefits. You'll need to analyze the financial impact of choosing one claiming strategy over another, define your financial goals and assess your retirement income needs. You'll also need to weigh many qualitative factors in your evaluation process, including your:

- Current and anticipated health and that of your spouse
- Family histories, especially regarding longevity
- Income needs
- Sources of income
- Investment assets
- Retirement age
- Ability or desire to continue working (full or part-time)
- Dependent children or parents and your need or desire for survivor benefits

For previous generations, claiming Social Security benefits was relatively simple. Once they decided on a retirement age (typically at or after age 62), they called the Social Security Administration and applied for their benefits. But as life expectancy has increased and baby boomers are looking to maximize their retirement income from a variety of sources, a number of Social Security claiming strategies have become increasingly common. Understanding some of your alternatives — and knowing how to discuss them with your local Social Security Administration representative — can give you a head start on determining which, if any, may fit your retirement income strategy.

This report assumes you are familiar with the basics of Social Security, such as how the program works, its various benefits for family members, earnings limits and the taxation of benefits. If you need a brush-up on these basics, ask your Financial Advisor for a copy of our report, "Social Security and Your Retirement." And before you begin evaluating strategies, be sure you talk with your local Social Security Administration representative or go online to view an estimate of your benefits based on your work record. If you or your spouse receives a pension from employment where you did not pay into Social Security, such as being a teacher or a federal, state or local government employee, the strategies discussed may not work as described. Contact the Social Security Administration to determine whether you are subject to the Windfall Elimination Provision (WEP) or the Government Pension Offset (GPO).

The claiming strategies discussed in this report provide varying outcomes. Some may increase your spendable income from Social Security prior to age 70; others may not increase your cash flow but may position you for greater overall lifetime benefits if you live many years into the future. Most are suitable only for married couples, but some may apply to widow(er)s and/or divorced individuals. As with many other financial strategies, there are tradeoffs as you choose one strategy rather than another. These tradeoffs typically affect your budgeting, portfolio management and tax strategies. That's why it's important to consult with both your Financial Advisor and your tax advisor as you narrow your choices.

You may have found or experimented with some of the online Social Security calculators. Although the results may guide you somewhat in your decision-making process, realize that no calculator can factor in your comfort level with a particular income stream, expectations about your life expectancy or long-term health patterns, ability to provide for your spouse or children after death, or other non-quantitative factors.

In this report, we will familiarize you with a number of potential claiming strategies and considerations, including:

- File and suspend (sometimes referred to as claim and suspend)
- Claim now, claim more later
- Combination strategy

***Note:*** *The examples in this report are simplified and typically revolve around key trigger dates for Social Security: age 62, full retirement age and age 70. Be aware that benefit calculations are based on the number of months prior to or after full retirement age. A benefit reduction or increase will likely not be the "round" numbers used in these examples. In addition, because of the unpredictability of cost-of-living adjustment (COLA) amounts, we have not included any COLAs in our examples. As you evaluate your own situation, you'll want to work closely with a local Social Security representative to determine more precisely the monthly benefits you might expect.*

## Understanding the spousal benefit

Spousal benefits are sometimes misunderstood as being simply one-half of the worker's benefit. In fact, spousal benefits rarely end up being one-half the worker's benefit due to reductions. The Social Security Administration looks at several factors when calculating a spousal benefit:

- If the applicant for a spousal benefit is at least age 62 and has a work record of his or her own, the Social Security Administration will pay his or her benefit first (reduced if the spouse is filing before full retirement age).
- If the other spouse is drawing or deemed as drawing benefits and the applicant qualifies for a higher benefit amount as a spouse, the Social Security Administration will add the difference to the applying spouse's benefit. The maximum benefit equals one-half of the other spouse's benefit (reduced if filing before full retirement age).
- If the spouse began receiving his or her own benefit before reaching full retirement age and later qualifies for a spousal benefit, the spousal benefit rate will be less than the full 50%.

Let's take a look at a hypothetical couple, Raymond and Martha. Raymond waited until full retirement age to begin receiving his $2,000 per month benefit. Martha is age 62, her full retirement age benefit is $800 per month, but she would like to begin receiving benefits now.

- Because Martha is applying early (age 62), her monthly benefit based on her own work record is reduced by 25% to $600.
- Since Raymond is currently drawing a benefit, Martha is also eligible for a spousal benefit. The spousal benefit is based on 50% of Raymond's Primary Insurance Amount ($1,000) but reduced for the number of months (48) that Martha is taking the benefit before her full retirement age. As a result, the spousal benefit is reduced to $700, and Martha receives her $600 reduced benefit (based on her own record) plus an additional $100 as a spousal benefit, totaling $700.
- On the other hand, what if Raymond had deferred applying for benefits until age 68? Martha would be limited to her own benefit until Raymond starts to draw. By Raymond waiting to draw until age 68, he would earn himself delayed retirement credits on his own work record. Although Raymond's own monthly benefit amount would increase, these delayed retirement credits would have no effect on Martha's spousal retirement benefits. Maximum spousal benefits do not increase after the worker reaches full retirement age (there are no delayed-retirement credits for spouses). However, Raymond's delay, and the subsequent delayed retirement credits earned, will increase Martha's survivor benefit if she outlives Raymond.

## Strategy #1: File and suspend

| ***This strategy may fit if:*** |
|---|
| You are married |
| The higher-earning spouse has reached full retirement age |
| You would like to generate some income now but allow the higher-earning spouse's Social Security benefit to grow until age 70 |

The file-and-suspend strategy increases overall benefits for couples who retire at different ages. This strategy may be most applicable to a married couple where one spouse has cumulatively earned more than the other. It allows the couple to generate some Social Security income in the years before reaching age 70 through a spousal benefit while allowing the higher-earning spouse's benefit to grow to its maximum (at age 70).

Normally, one spouse must be collecting Social Security benefits to enable the other spouse to claim spousal benefits. However, upon reaching full retirement age, a worker can file for benefits and then immediately suspend them to allow delayed retirement credits to accrue on his or her benefit. By filing for benefits, the first spouse enables the other with little or no benefit – as long as he or she is at least age 62 – to start receiving spousal Social Security benefits based on the first spouse's work history. Meanwhile, the worker's benefit continues to increase.

This strategy is most effective when the higher earner (worker) files for and suspends benefits, resulting in a greater benefit when he or she starts receiving benefits (typically at age 70).

It works best for couples with different earnings histories where the higher-earning spouse would like to keep working or optimize later benefits. The lower-earning spouse may want to retire and/or begin receiving Social Security benefits and would be better off with the spousal benefit than his or her own benefit.

If the lower-earning spouse is younger than the higher-earning spouse, he or she could then apply for spousal benefits before reaching full retirement age. However, doing so will result in reduced benefits.

Either spouse (as long he or she has reached full retirement age) can file and suspend, but not both. Conversely, only one spouse may claim spousal benefits at a time.

### Putting it into practice

For example, Albert is at full retirement age and his monthly benefit is $2,400. Victoria, his wife, is age 62.

- Albert (the higher earner) files and suspends his Social Security benefits. As a result, he receives no benefits from full retirement age until age 70.
- Victoria files for Social Security benefits and qualifies for a spousal benefit based on Albert's work record since it is higher than hers and he is deemed as drawing. The unreduced spousal benefit would be $1,200. However, because Victoria is filing at age 62, this amount is reduced by 30% to about $840 per month, which is the total benefit the couple will receive from Albert's full retirement age until he reaches age 70.
- When Albert reaches age 70, he claims his maximum Social Security benefit of about $3,168 per month. Added to Victoria's $840 per month, this gives the couple a combined monthly benefit of approximately $4,000.

Although file and suspend is a possibility for Albert and Victoria, other strategies may better meet their goals.

## Strategy #2: Claim now, claim more later

| *This strategy may fit if:* |
|---|
| You are married |
| The lower-earning spouse's own benefit is greater than his or her spousal benefit |
| The higher-earning spouse has attained full retirement age and is the same age or older than the lower-earning spouse |
| You would like to generate some income now but allow the higher-earning spouse's Social Security benefit to grow until age 70 |

This strategy may be appropriate for spouses where the difference in overall earnings is less extreme, making the spousal benefit less attractive than the worker's own benefit. For example, if the worker's own Social Security benefit is $1,000 per month and the spousal benefit is only $800, the worker may prefer to claim his or her own benefit. Nevertheless, the strategy does involve a spouse claiming spousal benefits at full retirement age. Maximum benefits from this strategy will be achieved where the older spouse is the higher earner.

To implement this strategy, the worker filing for spousal benefits must have reached full retirement age. If both spouses are at or over full retirement age, either earner could benefit from this strategy by deferring his or her benefit while claiming spousal benefits without invoking deemed filing. However, to maximize overall benefits, the higher-earning spouse should be the one who claims spousal benefits while delaying claiming his or her own benefit until age 70.

1. The lower earner begins benefits before the higher earner reaches full retirement age. This generates spendable income early in retirement. (**Reminder:** To be able to file for spousal benefits, the spouse with the lower benefits must already be drawing benefits or at least have filed for benefits and suspended them.)
2. When the higher earner reaches full retirement age, he or she files a restricted claim for spousal benefits only. This provides additional income in the subsequent years and allows the higher earner's Social Security benefit to continue to earn delayed retirement credits until age 70.
3. When the higher earner reaches age 70, he or she claims benefits on his or her work record, which now includes delayed retirement credits, and maximizes the higher earner's Social Security benefit for his or her lifetime.

As you can see, married couples may be able to achieve more in overall payments by having one spouse claim his or her own benefit while the other claims spousal benefits (deferring his or her own worker benefits based on his or her earnings record). This strategy is most useful in households that can accept lower monthly checks in the early stages of retirement in return for higher payments later. Additional benefits may be seen by couples where the lower-earning spouse is in good health and expected to live a long life, thus providing potentially higher survivor benefits.

It's important to note several key factors regarding this strategy:

The lower-earning spouse must have filed for his or her own benefits, thus enabling the spousal benefit option for the higher-earning spouse.

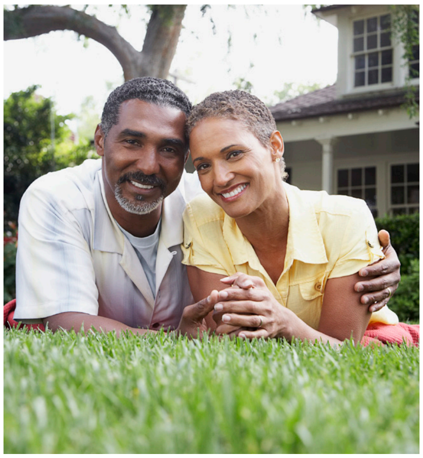
The higher-earning spouse seeking a spousal benefit only (not his or her own benefit), must have reached full retirement age. Otherwise, the Social Security Administration will compare the higher-earning spouse's own benefit to his or her spousal benefit and give that spouse the higher benefit. It is only after reaching full retirement age that a spouse may restrict his or her claim to a spousal benefit.

Only one spouse may apply for spousal benefits. Both spouses cannot receive spousal benefits simultaneously.

### Putting it into practice

For example, Mike has reached full retirement age and Mary is 62. If Mary's full retirement age benefit is $1,000 per month and Mike's is $1,800 per month and they employed this strategy:

- Mary could file for her reduced benefit of $750 per month benefit, which is higher than a spousal benefit of $630 (48-month reduction).
- Mike could file for a spousal benefit, which would be half of Mary's Primary Insurance Amount, or approximately $500 per month.
- The couple's total monthly benefit would be approximately $1,250 until they reach age 70.
- At age 70, Mike could file for his own benefit, which would increase to about $2,370 per month. Added to Mary's $750 per month, the couple would have a combined monthly benefit of approximately $3,120.



## Strategy #3: Combination strategy

| ***This strategy may fit if:*** |
|---|
| You are married |
| Both spouses have reached full retirement age and would like to maximize each of their Social Security benefits |
| You would like to generate some income now |
| You're concerned about a survivor benefit |

This strategy focuses on maximizing benefits for both earners at three different stages of life. It involves combining certain elements of both the file-and-suspend and claim-now, claim-more-later strategies. The result could optimize three benefits: worker, spouse and survivor.

To implement this strategy:

1. Once both workers have reached full retirement age, the higher earner files and suspends his or her Social Security benefit. He or she delays taking benefits as long as possible after full retirement age (no later than age 70) to maximize both his or her own benefit and the survivor benefit.
2. At full retirement age, the lower earner files a restricted claim for spousal benefits, allowing his or her own benefit to continue to grow.
3. At age 70, the lower earner claims his or her own benefit, which now has delayed retirement credits applied (assuming it is higher than the spousal benefit already in place).
4. If the higher earner dies first, the lower earner then claims the survivor benefit (again assuming that it will be higher than his or her own benefit).

The key assumption associated with this strategy is that the lower earner's benefit at age 70 exceeds 50% of the higher-earner's primary benefit amount (i.e., the lower earner's own benefit exceeds the spousal benefit).

### Putting it into practice

For example, Walter and Sarah have both reached full retirement age.

| | |
|---|---|
| Walter's benefit: | $1,800 |
| Sarah's benefit: | $1,500 |

1. Walter files and suspends his benefit, allowing it to grow until age 70. His age 70 benefit is approximately $2,370 per month.
2. Sarah files a restricted claim for spousal benefits, receiving $900 per month.
3. When Walter reaches age 70, he claims his $2,370 per month benefit (increased permanently by delayed retirement credits).
4. When Sarah reaches age 70, she claims her age 70 benefit, which has grown to approximately $1,980, increasing their combined monthly benefit to approximately $4,350.
5. Assuming that Walter predeceases Sarah, she will continue to collect Walter's $2,370 per month survivor benefit (equal to his full retirement benefit at death).

## Which strategy is best?

As previously noted, there are tradeoffs to the various strategies. Your personal situation may or may not favor using the alternatives discussed. Bottom line: Your analysis is unique. Only you and your spouse can answer such questions as:

- Do you need or want your Social Security income earlier in your retirement (such as between the ages of 62 and 70) while you are more active and typically healthier?
- Can you forego a higher monthly income later in life in order to generate a moderate Social Security benefit in your early- to mid-60s?
- Do you prefer to take Social Security benefits as early as you can in case the unforeseen happens?
- Would you rather draw Social Security benefits earlier to help meet your income need and postpone using your investment assets, giving you the potential to pass them on to your heirs?
- Would you prefer to delay receiving Social Security income so that later in life (say, age 70 and beyond) you have a potentially larger monthly income stream?
- How confident are you in your and your spouse's current and expected health? If you delay benefits, are you reasonably certain you will both be active and healthy enough to enjoy the increased income?
- If you elect one of the strategies that significantly increases monthly benefits later in life (after age 70), have you worked closely with your CPA or tax professional to project how this higher income plus any required minimum distributions (RMDs) from your tax-deferred accounts may affect your tax liability later in life? What after-tax cash flow will be available for spending?

You should also be aware that any of the strategies discussed earlier in this report could fail to achieve your objectives if:

- The spouse hoping to receive the age 70 maximum benefit has a much shorter life span than expected
- The timing of the retirement income stream generated by one of these strategies forces the couple to forego activities or expenditures that lower their quality of retirement living
- In order to delay taking benefits, the couple uses investment assets, which could have been passed on to heirs, to meet income needs
- Both spouses live long, healthy lifetimes and forego claiming each spouse's age 70 benefits, thereby not creating the highest Social Security benefit for both
- The rules surrounding Social Security change.

As you begin to form your strategy for claiming Social Security benefits, you'll want to work closely with a local Social Security Administration representative, your tax advisor and your Financial Advisor. As a team, you can analyze your specific situation. Once you've decided upon a strategy, your Financial Advisor can show you how it will affect your retirement income stream within your Envision® plan.

*Important: Wells Fargo Advisors does not provide individual calculations of projected or total benefits. You should talk with the Social Security Administration representative or go online to get an estimate of benefits. Then work with your accountant or tax advisor to determine which strategy may be most suitable for your retirement needs. Married investors, in particular, will want to discuss any strategy they are considering with their local Social Security Administration representative who may offer other spousal strategies.*

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