

Social Security Retirement Benefits for Married Couples

BY JOSEPH DOERRER, CPA/PFS



When should we begin collecting Social Security benefits? This is a question nearly all Americans will need to answer in their lifetimes. Unfortunately, many married couples will struggle to answer this question thoughtfully, acting without careful consideration of the various rules at play. However, with diligent planning and prudent advice from a CPA — their trusted adviser — married individuals may position themselves to make an informed decision rather than a haphazard guess. Many Americans rely on Social Security as a main source of income during their retirement. As such, it is critical for advisers to understand the nuances of this system in order to offer valuable insight.

THE BASICS — INDIVIDUALS

Before making any planning considerations, it is important to understand the fundamentals of Social Security retirement benefits on the individual

level. How are benefit amounts determined? First, a qualifying individual's primary insurance amount (PIA) is calculated based on their earnings record. This is the amount one would receive if he or she began collecting benefits at his or her normal retirement age (NRA). NRA varies depending on date of birth. For example, those born in 1960 and later will have an NRA of 67 years old. Generally, an individual's benefit amount will be a product of their PIA and when they began collecting in relation to their NRA.

An individual may generally elect to begin benefits as early as age 62, collecting a permanently reduced benefit. The benefit reduction amount will decrease the closer one delays collection to their NRA. Inversely, an individual can accrue delayed retirement credits (DRC) by postponing retirement beyond their NRA. For those born in 1943 and later, an additional 8-percent benefit per year

can be accrued for each full year that retirement is deferred beyond their NRA, maxing out at age 70. For example, assuming retirement is deferred to age 70, the benefit for an individual with an NRA of 66 will be 132 percent of his or her PIA.

SPOUSAL BENEFITS

Spouses are eligible to collect the greater of their own calculated individual benefit or up to half of their spouse's PIA, not including any DRC from their spouse's deferral beyond NRA. Generally, to be eligible for a spousal benefit both spouses must be collecting benefits. As described in the previous section, NRA rules also apply when collecting spousal benefits. Spouses may begin collecting a reduced spousal benefit as early as age 62. Unlike individual benefits, deferring spousal benefits beyond NRA does not result in any DRC.

SURVIVOR BENEFITS

Surviving spouses may collect the greater of their own calculated benefit or their deceased spouse's benefit, including any DRC. NRA rules apply to survivor benefits in a similar fashion to spousal benefits. Qualified widows and widowers may generally begin collecting reduced survivor benefits as early as age 60. If the survivor is entitled to benefits based on their own record, they may switch from collecting survivor benefits to their own benefits as early as age 62.

LIFE EXPECTANCY AND OTHER CONSIDERATIONS

With the phase out of many popular planning techniques (e.g., File & Suspend, Restricted Application), much of Social Security planning hinges on life-expectancy estimates. Once collecting, the amount of benefits received is directly tied to the length of one's life. Unfortunately, life expectancy is nearly

impossible to predict. Beyond family health history, life expectancy statistics can be a helpful resource to consult. Aside from longevity, there are other considerations to be made in deciding when to collect benefits. Among these considerations are taxability of benefits and potential withholding of benefits.

Social Security is a main source of income for many married American retirees. Due to perceived financial constraints, many American couples opt to begin collecting benefits at age 62 or shortly thereafter. Those couples fortunate enough to consider delaying their starting benefit date to their NRA and beyond should be encouraged to analyze which scenarios best fit their financial situation. The rules are often misunderstood, and, as such, it is of the utmost importance for advisers to properly guide their clients in this area. Educating clients on Social Security, along with longevity statistics

and other planning considerations, could very well be the edge needed to ultimately ensure a sound decision is made. Advisers should consider Social Security as part of a client's overall retirement plan, reducing the taxability of benefits where possible, among other considerations. <#>

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