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FEATURE ARTICLE

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File and Suspend

Overview: Deciding when to begin taking Social Security benefits is an important financial decision for retirees. While many take benefits as soon as they are eligible, delaying benefits may result in receiving additional income overall. The following discusses one strategy for maximizing Social Security benefits.

The Social Security Administration offers three types of benefits for retirees and their spouses:

- ▲ Retirement Worker Benefit — Basic benefit determined by work history
- ▲ Spousal Benefit — Benefit (up to 50 percent if spouse has reached full retirement age [FRA]) provided to retirees' spouses once they have claimed their own benefit
- ▲ Survivor Benefit — Benefit provided to surviving spouses

Benefits are determined by birth year, retirement age and lifetime earnings. Once workers reach FRA, they are eligible for full retired-worker benefits, also known as the primary insurance amount. Currently, the FRA is from age 65 to age 67 depending on year of birth.

Workers who claim benefits prior to reaching FRA will receive a reduced benefit of up to 25 percent of the primary insurance amount. Delaying a claim until age 70 results in a larger benefit of up to 32 percent more than the primary insurance amount due to cost-of-living adjustments and delayed retirement credits.

File and Suspend

Different strategies for taking benefits can help maximize the amount individuals receive over their lifetimes. The "file and suspend" strategy is one such strategy that married couples can employ that may provide them with additional Social Security benefits.

The file and suspend strategy requires the higher-earning spouse to file at FRA and immediately suspend benefits. This can be done at filing in the remarks section of the application. Doing so entitles the lower-earning spouse to a spousal benefit of up to 50 percent of the higher-earning spouse's primary insurance amount, depending on when he or she begins collecting Social Security benefits. Additionally, the higher earner can work or withdraw other income and collect benefits at a later date to receive a larger payment.

Should the higher earner die first, the surviving spouse would be entitled to a larger survivor benefit (100 percent of the higher earner's delayed benefit). Also, by delaying benefits, the couple could draw down their IRA for supplemental income. This not only reduces the IRA balance and future required minimum distributions (RMDs), but could also help minimize the taxes on future Social Security benefits.

File and Suspend Example

The following is an example of the file and suspend strategy where the husband (age 66) is a higher earner than his wife (age 63). The husband files and suspends his benefits now. Had he immediately drawn his Social Security benefits, he would receive $3,000 per month. Three years later, his wife files for her spousal benefit and begins receiving half of her husband's primary insurance amount, or $1,500. The husband works until age 70 while drawing income from his IRA. At age 70, his monthly benefits would be $3,960. It is important to note that the wife would get a step up in benefits and receive the survivor benefit of $3,960 (not $3,000) if the husband dies first.

	Both claim at 66 (FRA)	File and suspend (until 70)
Husband Benefit at 66 (FRA)	$3,000	N/A
Spousal Benefit at 66 (FRA)	$1,500	$1,500
Husband Benefit at 70	$3,000	$3,960
Survivor Benefit	$3,000	$3,960
Total Social Security Benefits Received	**$1,098,000**	**$1,172,880**
Net Present Value of Total Social Security Benefits Received	**$885,663**	**$916,093**

Note: Totals assume husband lives to age 83 and wife lives to age 85. Calculations for net present value of total Social Security benefits received do not take into consideration taxes or cost-of-living adjustments and uses TIPS yield with maturity equal to life expectancy to discount cash flows through life expectancy.

Summary

The file and suspend strategy potentially allows for:

- ▲ The higher-earning spouse to delay benefits and receive up to 32 percent more than the primary insurance amount
- ▲ The lower-earning spouse to receive the spousal benefit before the higher-earning spouse begins taking claims
- ▲ The lower-earning spouse to receive a larger survivor benefit
- ▲ The reduction of RMDs by taking withdrawals from IRAs when needed prior to claiming benefits at age 70, potentially keeping more Social Security benefits tax free

This strategy works best for couples in good health where the husband is older than his spouse and is the higher income earner. If one of the spouses is in poor health or there is an immediate need for income, benefits should not be delayed. Alternatively, if there is a need to preserve the IRA because valuations are down and withdrawals should be delayed, Social Security benefits could be taken early. A good way to determine the best strategy is to work with an advisor and contact the Social Security Administration to find out what estimated benefits will be at age 62, 66 (or FRA) and 70.