ONRETIREMENT

# Deciphering Social Security survivor benefit rules

## Multiple regulations complicate claiming decision for an adviser and his widowed client

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A financial adviser from South Carolina reached out to me recently for help sifting through the numerous Social Security rules affecting potential benefits for his recently widowed client.

"This is probably the most complex situation I have run across," Lee Carter of Armstrong Wealth Management Group in Florence, S.C., wrote in an email. "I spent two to three hours researching and giving the client questions to email to her Social Security contact, but I never felt comfortable with the answers she was given."

Sound familiar?

Here are the facts of the case. Feel free to play along with this real-life version of the board game Clue to see if you can identify the right claiming strategy.

The husband claimed his reduced Social Security retirement benefits at age 62 and died the same year. The widow turns 60 this year, the earliest eligible age for claiming reduced survivor benefits.

She works and earns about $45,000 per year, and plans to continue working. She is eligible for her own retirement benefit of about $1,440 per month at her full retirement age of 66 and 8 months.

Bottom line: The client can claim reduced survivor benefits as early as this year or her own reduced retirement benefit beginning as early as age 62. Because retirement benefits and survivor benefits represent two different pots of money, she could collect one type of benefit first and switch to the other later. But earnings restrictions could significantly reduce her benefits if she claims either before her full retirement age.

### KEY QUESTIONS

The key questions are: When should she claim benefits; how much could she collect; and should she switch benefits later?

The husband's full retirement-age benefit amount was $2,335 per month but because he claimed four years early, he received just $1,726 per month. In general, when a worker starts receiving retirement benefits before full retirement age, the maximum survivor benefit is limited to what he would receive if he were still alive, according to the Social Security website.

When should the widow claim benefits? Not now.

If she claims any type of Social Security benefit before her full retirement age (FRA), she would forfeit $1 in benefits for every $2 earned over $17,040 in 2018. In this case, her $45,000 annual salary would reduce her Social Security benefit by about $14,000 per year. ($45,000-$17,040 = $27,960/2 = $13,980). In addition, a portion of her benefits would be taxable.

If she claimed survivor benefits this year at age 60, they would be worth just 71.5% of her late husband's FRA amount or $1,669 per month, equal to about $20,000 per year. The earnings cap would wipe out about $14,000 in benefits, leaving her with just $6,000 per year.

How much would she receive?

If she waits until her full retirement age, when the earnings restrictions disappear, she can claim a larger benefit. For people born from 1955 through 1962, the age to collect full survivor benefits is different than the age for full retirement benefits.

Although her survivor benefit would normally be limited to the amount her husband claimed before he died ($1,726), there is an exception known as the minimum widow's benefit. That rule says if a surviving spouse or eligible surviving ex-spouse claims benefits at full retirement age or later, she would receive the larger of what the deceased worker was collecting ($1,726) or 82.5% of his full-retirement-age amount ($1,926 per month).

**71.5%**

PORTION OF HUSBAND'S FRA BENEFIT A WIDOW CAN CLAIM AT 60

Survivor benefits are worth the maximum amount if collected at the surviving spouse's full retirement age. They do not qualify as delayed retirement credits. But the widow's own retirement benefits will continue to grow by 0.66% per month for every month she postpones claiming them beyond her full retirement age of 66 and 8 months, up to age 70. Her estimated full-retirement-age benefit of $1,484 would increase by 26.4% to $1,875 at 70.

Although her estimated retirement benefit at 70 is currently less than she could collect in survivor benefits, every year she continues to work means her future retirement benefit could increase if her current earnings replace one of the lower-earning years used to calculate her benefit. Social Security benefits are based on the top 35 years of indexed earnings.

If the widow's own retirement benefit — plus any delayed retirement credits — results in a larger amount than her survivor benefits, she could switch to her larger retirement benefit at 70.

**(Questions about Social Security? Find the answers in my new e-book, available at InvestmentNews.com/MBFebook.)**

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### BENEFIT ASSUMPTION

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The retirement benefit estimate assumes you will continue to work and make about the same as you did in 2017. Generally, the older you are and the closer you are to retirement, the more accurate the retirement estimates will be.

For example, my estimated retirement benefit at full retirement age increased by about $800 per year from last year's statement because I continue to work and pay taxes. My latest year of earnings replaced one of the earlier, lower-earning years in the 35-year calculation used to determine future benefits. My husband's benefit estimate remains the same as last year — his part-time earnings over the past few years have not boosted his average lifetime earnings.

Advisers often ask me what happens to a client's benefit if he retires now but doesn't plan to claim Social Security until later. The Social Security Administration's Retirement Estimator can calculate personalized benefit estimates in such cases. If you have clients who are public employees who have pensions based on work where they did not pay FICA taxes and who also worked long enough in the private sector to earn a Social Security benefit, be aware their future benefit could be smaller than estimated.

The statement also includes an estimate of your benefit if you became disabled right now and how much your spouse and any eligible minor child could receive in survivor benefits if you were to die this year.

Pages 2 and 3 list your year-by-year lifetime earnings up to the maximum taxable wage base subject to Social Security taxes and total wages if above that annual amount subject to Medicare taxes. It serves as a timeline of your lifetime earnings and can help you map out plans for clients' retirement savings and future income needs.

You and your employer each paid 6.2% of your earnings up to the taxable wage base of $128,400 in 2018. If you are self-employed, like me, you pay the combined employee and employer amount, which is 12.4%, up to the maximum taxable wage base.

**(Questions about new Social Security rules? Find the answers in my ebook at InvestmentNews.com/mbfebook.)**

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