It's Time to Rethink Your Social Security Claiming Strategy

March 14, 2016
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Retirees in the US can control when they begin to receive Social Security benefits, but a recent rule change has narrowed the options for married couples. Now is the time to reevaluate your plan. You may be among the lucky few who can still claim benefits under the old rules, if you act before April 29.

Workers in the US can begin to receive Social Security retirement benefits as early as age 62. However, the annual benefit at 62 will be some 25% less than if you wait until full retirement age (FRA), which is age 66 to 67, depending on your date of birth. Between FRA and age 70, you can earn delayed retirement credits that can increase the annual benefit by as much as 8% per year.

Given these choices, some people simplify the question to: Should you wait and receive higher annual benefits, or would you be better off receiving smaller payouts over a longer period of time? Yet, this simple question does not account for variations in longevity. Also, married retirees need to coordinate their claiming strategies.

In our analysis, when you should begin receiving benefits depends primarily on the overall health of your retirement plan—on whether you have enough core capital, the wealth needed to fund your spending needs throughout retirement. We quantify core capital for retirees using a proprietary financial model that stress tests spending through poor markets, periods of high inflation, and long life expectancies. The key drivers are your current age, marital status, spending rate, and investment allocation.

If your assets are at or above your core capital amount, then the most important factor in your decision should be your life expectancy. As long as you expect at least an average lifespan, we generally recommend initiating benefits at FRA or even later, instead of age 62. Fewer but larger payments are likely to maximize your wealth.

If you're married, it is important to base your expectations on your joint life expectancy with your spouse, because your spouse may be eligible for a survivor benefit that is equal to the value of your own benefit. Waiting until age 70 to claim benefits can maximize the benefit for yourself and for your surviving spouse.

If you haven't met your core capital requirement, you would be better off waiting until age 70, our research shows. You might think that it is better to support spending with Social Security payouts as soon as possible, because your plan is underfunded. But waiting until age 70 to get higher benefits in effect provides low-cost, inflation-adjusted longevity insurance that is backed by the federal government. If you or your spouse, or both, live well into your 90s, you'll need it.

The New Rules

In order to close "unintended loopholes," the Bipartisan Budget Act of 2015 eliminates the file and suspend tactic as of April 30, 2016, and further restricts eligibility for the restricted application.

The file and suspend tactic allowed a married person (here, the "Primary") to file for retirement benefits at his or her FRA and then suspend the actual payments. This allowed the spouse to collect spousal benefits based on the Primary's earnings record, while allowing the suspended retirement benefit to grow by 8% a year to age 70.

However, you can still take advantage of the file and suspend tactic if you will be at least 66 on April 29, 2016, and submit a request to suspend benefits by the same date. If you meet these guidelines and are interested in this option, check with your Social Security office to see if you are eligible.

The restricted application tactic allowed one-half of a dual-earner married couple to claim spousal benefits at FRA without also claiming his or her own retirement benefits. By filing a restricted application at FRA, one-half of the couple could receive a "free" spousal benefit while allowing their primary retirement benefits to grow by 8% a year to age 70.

You can still file a restricted application when you reach age 66, if you were born in 1953 or earlier. However, the change in file and suspend rules outlined above means that your spouse will have to be receiving a worker benefit when you apply.

Choosing the right claiming strategy ultimately depends on your unique circumstances and goals. Bernstein's investment planning and core capital framework can help you understand your options and secure your retirement goals.

Bernstein does not provide tax, legal or accounting advice. Please consult professionals in those areas before making any decisions.