

## Social Security: The Lower Earner- Making the Most out of Your Benefit

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Q: My wife, Jenny, worked and she has her own earnings record. Her monthly benefit at 62 is \$500 and is lower than the 50% spousal benefit that she's allowed to collect off of my record at age 66 (\$1,200). I am planning on waiting to collect benefits until I am older to earn delayed retirement credits. Can she begin receiving benefits off of her own record at 62 and then switch over to the full spousal benefit at 66? I don't want her record to go to waste.

-Bob

A: This is an excellent question as many do not fully understand the coordination of his or her own benefit with the spousal benefit and may be shortchanging themselves out of benefits. If Jenny begins receiving the \$500 per month benefit at age 62 and then at age 66 switches to spousal benefits off of your record, she will not receive the full spousal benefit of \$1,200. The fact that she started collecting her own benefit at age 62 impacts the amount that she receives as a spousal benefit at age 66.

The calculation is a bit convoluted. If Jenny's own benefit at 62 is \$500, that implies that her Primary Insurance Amount (PIA), or the amount that she would receive at full retirement age (age 66), is \$666, as there is a 25% discount from the PIA if she starts receiving benefits at age 62 (Source: Social Security Administration).

Under those assumptions, the amount that she would receive at age 66 when she switches over to the spousal benefit off of your record would be calculated as follows:

Take the full unreduced spousal benefit and add it to Jenny's reduced retirement benefit that she receives at age 62:

$$\$1,200 + \$500 = \$1,700$$

Then subtract Jenny's own Full Retirement Age benefit from the sum above:

$$\$1,700 - \$666 = \$1,034$$

Source: Social Security Administration.

The sum above equals Jenny's reduced spousal benefit that she would receive at age 66, as opposed to the full \$1,200 amount that she would have received had she never started collecting her own benefit at age 62. If she waits to start taking her spousal amount until FRA, her own working benefit, essentially, will never come into the picture. (Source: Social Security Administration.)

So, how long would it take for Jenny to break-even if she waited to start collecting her spousal benefit until age 66 as opposed to starting collecting her own benefit at age 62 and then switching to the reduced spousal amount at FRA? Keep in mind that once you as the higher wage earner pass away, assuming that you die first, Jenny's spousal benefit would cease and she would "step into your shoes" and receive the benefit that you were receiving since it would be higher than her spousal amount.

Assuming that you did not pass away before the break-even age, Jenny would be better off from a cumulative benefit standpoint, even if the Social Security benefits were invested.

Discount Rate	Break-even age of waiting until 66 over collecting at 62
0%	75
1%	76
2%	77
3%	78
4%	79
5%	80
6%	81
	* Assumes annual COLA of 2.8% as per Trustees' Report

You might be asking yourself what your chances are of living beyond the break-even ages. According to the Annuity 2000 Mortality table, life expectancy for two married, non-smoking, 62 year olds is as follows:



You can see from the above that a 62 year old non-smoker woman has about an 80% chance of living until age 80 and a 62 year old non-smoker man has about a 65% chance of living until age 80.

Also, keep in mind that if you, as the higher wage earner, have already filed when Jenny goes to submit her application and if she is below full retirement age (age 66 for retirees currently making Social Security decisions), she will be entitled to the higher of her own benefit or her spousal benefit; she does not get to choose which benefit she wants to receive. (Source: Social Security Administration)

## Conclusion

It's important for couples to coordinate their Social Security claiming strategies to help to optimize the potential benefit to be received by the family unit. Please consult your wealth manager to discuss the strategies available to you and your spouse.

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The information in this article is based on RegentAtlantic's current understanding of Social Security legislation. Congress may change the legislation at any time.

In the chart above, the break-even age was calculated using two scenarios, which the following assumptions:

Scenario 1: Individual with a PIA of \$666 begins taking her own reduced monthly benefit at age 62, \$500. She collects this until her full retirement age, age 66, and at that point in time, she switches over to her higher spousal monthly benefit of \$1,034. Her full spousal amount is \$1,200/month, but it is reduced as per the formula above to account for the fact that she started collecting her own benefit at age 62. A cumulative net present value of benefits is calculated at each age using the various discount rates listed above. This net present value is then compared to the net present value of Scenario 2 to determine the break-even age of Scenario 2 over Scenario 1.

Scenario 2: Individual with a PIA of \$666 collects her unreduced spousal monthly benefit of \$1,200 at full retirement age, age 66. She does not collect any benefits before that time. A cumulative net present value of benefits is calculated at each age using the various discount rates listed above. This net present value is then compared to the net present value of Scenario 1 to determine the break-even age of Scenario 2 over Scenario 1.

In both scenarios, the cost of living adjustment applied to benefits is 2.8%, as per the Social Security Trustees' report.

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