Couples Can Boost Their Social Security Checks

Strategies that can increase your retirement income

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SAN FRANCISCO (MarketWatch)—You'd think claiming Social Security would be a simple retirement decision—you retire and you start your benefits. But there are certain complex strategies that can help pad a married couple's retirement savings with tens of thousands of dollars of additional income.

Don't make your claiming decision lightly, said Joe Elsasser, an Omaha, Neb., certified financial planner and creator of Social Security Timing, a software program for pre-retirees and advisers to run scenarios to assess strategies.

"It's a decision that's going to impact you for your entire life, and it's a decision that's going to make up a substantial portion of your income," he said.

Specific strategies can help maximize savings, but couples also need to avoid a common mistake. "Almost everyone thinks of it as their own earnings record, their own benefit, as opposed to integrating what they receive," Elsasser said.

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Instead, make the decision as a couple. Consider a hypothetical situation. The husband, the higher earner, believes he's going to die relatively early and the wife thinks she'll live a long time. So the husband claims his benefits as early as possible and the wife delays.

"That's exactly opposite of the scenario that should happen," Elsasser said.

Each year you delay claiming your benefits past your normal retirement age, your benefit ticks about 8% higher, up to age 70, thanks to what the Social Security Administration calls "delayed retirement credits." And in the event of a spouse's death, the surviving spouse can take the higher of her own benefit or that of the dead spouse.

If the husband claims early and then dies first, "effectively he's shortchanged his wife's survivor benefit," Elsasser said. Instead, that husband should delay his claim, so if need be the wife can claim the highest possible benefit for the rest of her life. If the wife dies first, the husband simply keeps his own benefit.

"You're trying to maximize benefits over both spouses' lives. That's the key that most people miss," said Brett Horowitz, wealth manager at Evensky & Katz Wealth Management in Miami.

The 'file and suspend' strategy

A claiming strategy called "file and suspend" can help get the most money. Say a husband plans to delay his benefit until age 70. He is allowed to claim his benefit at his normal retirement age—say it's 66—and then immediately suspend it.

That way, his benefit amount keeps growing—thanks to those delayed retirement credits—but since he did make that initial claim, his wife, at her full retirement age, can file a "restricted" application to claim spousal benefits based on her husband's record, but not her earned benefit.

Generally, spousal benefits are up to 50% of the other spouse's monthly benefit at full retirement age (some age restrictions apply). In this scenario, her own benefit now can grow until she hits 70, too.

In one hypothetical "file and suspend" scenario, a couple, both 66, could collect an additional $60,000 by delaying their benefits and the wife taking spousal payouts while they wait, according to Lisa Colletti, New York-based director of wealth management at Aspiriant.

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Say a husband and wife, both 66, are entitled to monthly benefits of $2,500 and $1,500, respectively. The husband decides to file and suspend—he wants to delay until age 70, when his monthly benefit will be $3,300.

But, meanwhile, the wife can collect a 50% spousal benefit based on her husband's benefit at his full retirement age—that's one-half of $2,500, or $1,250 a month—from her age 66 to 70. Then, at 70 she switches to her benefit, which has grown to almost $2,000 a month.

End result: $60,000 more in benefits than had the couple simply delayed their benefits. This scenario assumes that delaying benefits until age 70 makes sense for the couple.

A 'restricted' application

Another use of a "restricted" application: Say a 66-year-old husband decides it makes sense for him to delay his benefits until he's 70. His wife started her benefits at 62.

"What the husband doesn't realize is he is entitled to 50% of his wife's benefit while he waits, because she already filed," Horowitz said.

When he turns his full retirement age, the husband can tell the Social Security Administration that, rather than filing for his own benefits, he wants to restrict his benefits to his wife's record. If he changes his mind, he can switch over to his own benefits at any time.

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Assuming his wife's benefit at her full retirement age would have been $1,750 a month (she's getting less because she filed at age 62), the husband will get $875 a month.

"If he waits till age 70, he will receive $875 a month for 48 months, or $42,000," Horowitz said.

Note that the spouse who files a restricted application must be at least full retirement age. "If you apply for spousal benefits prior to full retirement age, then 'deemed filing' applies. You are deemed to have filed for both your own benefit and the spousal benefit at the same time," said Jim Blankenship, a certified financial planner in New Berlin, Ill., and author of "A Social Security Owner's Manual."

It's tough to generalize about Social Security strategies. Each spouse's age, benefit amounts and health outlook play a big role in how and when to claim. The point is, don't claim before you assess your options.

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