

## What a spouse is eligible to receive

Excerpt from *New Approaches to Retirement Income Phasing* by James Mahaney and Peter Carlson, Prudential Retirement, presented at Pension Research Council Symposium

The spouse of a worker is always able to receive whatever benefit she earns on her own record. In addition, if the spouse's own worker's benefit is less than 1/2 of the primary's worker's benefit, then the spouse is also eligible to collect the excess of 1/2 of the primary's benefit minus her own benefit. Both the worker benefit collected on the spouse's own record and the spousal benefit collected on the primary's record receive reductions for taking the benefit before FRA. The spousal benefit reductions are greater than worker reductions. While the spouse's own worker benefit can receive Delayed Retirement Credits if the benefit is postponed after FRA, the spousal benefit does not receive these credits. This clause in the Social Security rules, more fully explained below, used to create a disincentive to delay receipt of benefits.

Social Security rules prevent a spouse from taking benefits based on the primary worker's benefit until he (the primary worker) becomes "entitled". Although a worker may be eligible for full retirement benefits, say at age 66, he is not entitled until he files for these benefits. And the spouse does not become entitled to the spousal benefits until the worker files for those benefits. Therefore, since a spousal benefit does not receive DRCs and the spouse could only take those benefits once the worker filed, it became clear that the value of delaying Social Security for a married couple was reduced if the worker was delaying Social Security and the spouse was eligible for benefits, but not receiving them. The spouse was not receiving any DRCs, and therefore "leaving money on the table" if she continued to wait to start her benefits....

Recent changes to Social Security, however, have changed the dynamics of these outcomes and what married couples should now consider. The Senior Citizens' Freedom to Work Act of 2000 allowed seniors to "file and suspend" their benefits upon reaching FRA, which enables the benefits of a worker to continue to accrue DRCs. This ability to "file and suspend" benefits is an option whether or not the primary worker is actually still working. Most importantly, it also allows the spouse to take Social Security benefits based on the worker's record (her spousal benefits) while the worker continues to delay his own benefit and receive DRCs. Thus, the disincentive to delay the primary worker's benefit due to spousal benefit concerns described above now only impacts a much smaller percentage of beneficiaries, those cases where the spouse is older than the worker and eligible for spousal benefits. Therefore, the value of delaying Social Security for a primary worker (and eventually a potential widow) improved since most of the time spousal benefits are not forfeited if the spouse is otherwise eligible to receive benefits. Thus, the Senior Citizens' Freedom to Work Act of 2000 provided more choice for the retirees and the decision on whether to collect Social Security benefits becomes a separate one for the worker and the spouse for a married couple. It is critical that retirees and advisors understand these choices and their value if they are to make informed decisions to maximize the Social Security benefits available to them.

With this flexibility, we've identified three primary strategies for couples when delaying Social Security. We feel that it is usually in a couple's best interest to delay the primary benefit as late as possible due to the fact that the benefit is passed on to the surviving spouse. The three options revolve around when the spouse takes her own worker's benefit. Scenario I involves the spouse starting benefits as early as possible. Under Scenario II, the spouse delays starting benefits until her FRA. With Scenario III, the spouse also delays her benefits until age 70.