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SOCIAL SECURITY SPOUSAL BENEFITS

It is critical to understand the Social Security system when implementing a wise course of action that will maximize Social Security retirement benefits. The following article will explain common terminology and discuss important principles to help couples nearing retirement age gain knowledge of some basic facts and consider some underutilized strategies.

LEARN PIA & FRA BASICS

Discussion will begin with an explanation of two commonly used acronyms, Primary Insurance Amount (PIA) and Full Retirement Age (FRA). PIA refers to the benefit amount for which an individual is entitled when he or she reaches FRA. At one point, FRA meant age 65, but that number has gradually increased to age 67 due to longer life expectancies. You can determine your FRA by clicking here.

As of April 2011, Social Security paper statements were suspended due to budgeting constraints. However, one can easily acquire an estimate of PIA benefits using Social Security's online calculator here.

COMPARE WORKING RECORDS

Potential applicants may be unaware that both husband and wife receive benefits at retirement whether one, or both, have paid into Social Security. An individual is entitled to the best of several options: a) 50% of the working spouse's PIA, b) the individual's own working record, or c) a combination of the two, including up to 50% of the spouse's PIA.

When an individual has a work history, those benefits will be paid first. If an individual is the lower-income earner in the household, and his or her benefits are less than 50% of the spouse's benefits, then the spouse's benefits will be paid in addition to the individual's. However, an individual cannot receive spousal benefits unless his or her spouse has filed for (but is not necessarily receiving) his or her benefits.

EXPLORE EARLY BENEFITS VS. DELAYED

Applicants may also misunderstand the implications of early and delayed benefits. An individual can start collecting retirement benefits as early as age 62, although the total benefits he or she receives will be permanently reduced. Depending on the FRA, anything an individual is eligible to receive - whether based on a personal working record or a spouse's - will be reduced to the percentages shown in the chart below:

EARLY RETIREMENT AGE	FRA	% OF SPOUSE'S PIA	% OF OWN PIA
62	65	37.5%	80.0%
62	66	35.0%	75.0%
62	67	32.5%	70.0%

Conversely, if an individual has a personal working history, he or she can postpone collecting benefits until a time beyond FRA to accrue delayed retirement credits of 7% to 8% per year until age 70. Delaying beyond age 70 offers no incremental benefit. On the other hand, benefits based on a spouse's record are capped when an individual reaches FRA (not age 70), so there is no added advantage to delaying beyond FRA.

CASE STUDY (JOHN & MARY)

Often a case study can bring principles to life. In this example, Mary and John are a couple in their 60's.

Mary is eligible to receive $700 per month at her FRA (66), but opts for early benefits at 62 and receives $525 (75% of her own PIA) instead.

The following year her husband, John, retires at his FRA of 66 and opts to receive $1,800 per month. Mary, now 63, is eligible for spousal benefits (capped at 50% of John's PIA) of $900.

Since Mary is 63, she is only eligible for 35% of John's $1,800 (or $630). Mary will now receive an additional

$105 bump to her $525 benefit for a total of $630 per month.

If John wants to postpone until age 70, he will accrue an 8% per year credit to his $1,800 / month benefit. At 70, John will be eligible for a $2,376 / month benefit instead.

Note that Mary's spousal benefit, however, is still capped at 50% of $1,800, not 50% of $2,376.

COMPARE ALTERNATIVE OPTIONS

Finally, an individual must understand that he or she cannot claim any spousal benefits unless the spouse has filed for his or her benefits first. If a spouse, on the other hand, wishes to delay collecting until age 70 to get the maximum benefit, there is another option.

An individual may opt to apply for his/her benefits, but then immediately request a voluntary suspension – better known as "File & Suspend". This allows the wife or husband to claim the 50% (or lower) of the spouse's PIA while allowing the spouse to continue earning delayed retirement credits up to age 70. One can only opt for file & suspend if he/she is at FRA.

An alternative to the file and suspend strategy would be for the spouse who has chosen to delay their own benefits, to file for 50% of spousal benefits. This is a trade off and cannot be combined with file & suspend! Depending on earning history and many other factors, this may prove more advantageous.

PREPARE TO MAXIMIZE BENEFITS

Strategies to capitalize on Social Security benefits should be individualized in order to recognize and address unique personal, family, and financial dynamics. Applications are case-specific and can be influenced by such things as current financial status, health status, and individual earnings. To fully consider your options and learn how to best meet your retirement goals and objectives, contact your Vantage Relationship Manager.

VANTAGE NEWS

This past month several team members launched the summer travel season heading near and far for both business and pleasure trips. Michael headed east to Chicago, to attend the LPL Financial Business Leaders Forum which provided an opportunity to network with business leaders and share ideas. Dave headed west to Salt Lake City for the NAPFA National conference, returning with new ideas and technology considerations for the planning team. Our seasoned traveler, Sam Swisher, headed southwest to meet with several clients and friends in Houston.

Osprey Lake near Hayward, Wisconsin

To cover all points on the compass, both Dave's and Kim's families headed north for some rest and relaxation in the Northwoods of Wisconsin. Dave's family enjoyed their time at a cabin on a lake near Hayward, while Kim and her kids roamed between Arbor Vitae and St. Germain.

So where are you heading this summer? No matter the direction, or if your plans keep you home, we hope your summer is off to a great start!