Social Security Survivorship Benefits

William F. Rainaldi, CFP®
Regional Vice President
607-760-3315 • wrainald@smlny.com

We often spend a considerable amount of time with our clients explaining how Social Security spousal benefits work. We do this because that is where so many people want and need help. But let's not forget about **survivor** benefits. In many cases survivor benefits can have just as much of an impact as spousal benefits.

Survivor Benefits

A quick summary of how they work: if both spouses are past age 70, the survivor benefit is fairly straightforward. It is simply the higher of the two benefits. If one spouse is collecting $2,500 and the other is collecting $1,500, the surviving spouse's benefit would be $2,500. It actually doesn't matter which spouse dies; the survivor benefit is still $2,500.

But what if one or both of the spouses have not yet reached their full retirement age (FRA)? As with other Social Security retirement benefits, there is an actuarial reduction if you start early. For a personal, spousal or divorced spouse's benefit, you can start as early as age 62. But a surviving spouse can start collecting as early as age 60.

Deferred Retirement Credits

Survivor benefits are different from spousal benefits in one other critical way: it has to do with Deferred Retirement Credits (DRCs). DRCs do not affect spousal benefits, but they do affect survivor benefits.

One quick example: assume Mr. Smith has a personal benefit, or PIA, of $2,000. This is the amount he would get at age 66, assuming that's his full retirement age. But let's say he elects to defer until age 70. His personal benefit would then increase 32 percent to $2,640.

Now let's say Mrs. Smith never worked outside the home. At Mrs. Smith's age 66, the spousal benefit would be 50 percent, or $1,000. But remember, she cannot collect the spousal benefit until Mr. Smith files for his personal benefit. So what happens if Mr. Smith waits until age 70? The spousal benefit to her would still be $1,000 (not $1,320) **because the 32 percent increase does not apply to spousal benefits.**

In other words, if he waits until his age 70, Mr. Smith gets a higher benefit for himself, but Mrs. Smith's spousal benefit stays the same. And worse than that, she has to wait an extra four years to collect!

But DRCs **do** apply to survivor benefits. So if Mr. Smith died, Mrs. Smith would get the full $2,640 as a survivor benefit.

So is it worth deferring the $2,000 personal benefit plus the $1,000 spousal benefit, just to get the enhanced $2,640 personal benefit four years later? In many cases it is, simply because the $2,640 then becomes the survivor benefit.

The Importance of Age Differences

One place where understanding survivor benefits can be especially important is when there is a significant age difference between the two spouses.

Let's say one spouse is 10 years older than the other. Some of the claiming strategies we've talked about before, such as "spousal only," would not be available with that big of an age difference. But when one spouse outlives the other by a considerable margin, survivor benefits become a much bigger issue. In that situation, it's often a good idea to make sure that if possible, the spouse with the higher personal benefit defers until age 70.

Switching Benefits

There is another real planning opportunity with survivor benefits: the ability to start with one type of benefit and switch to another.

For example, let's say the surviving spouse is already collecting a reduced personal benefit because she started at 62. Her spouse dies when she is 64. He had not yet begun to collect any benefit. At that point she has the option of continuing to collect her additional personal benefit for two more years, then switching to a full unreduced survivor benefit at age 66. This strategy is generally not available when both spouses are still alive.

Life Insurance

Is there a life insurance issue here? Absolutely. Consider what happens when a married spouse dies.

Let's say John Smith collects $2,500 per month in Social Security, and his wife Mary collects $1,800. When one of them dies, the survivor would get $2,500. That would be an increase if the survivor is Mary, but it's still more than a 40 percent reduction in household income. But many household expenses, such as the mortgage, maintenance and real estate taxes, will be the same. How do they replace that income? Life insurance can help solve this problem.

We're just scratching the surface when it comes to survivor benefits. Here's another example: what happens when a surviving spouse remarries? We'll have to save that one for another day.

For more information about Social Security Planning, visit Security Mutual's website at smlny.com

All information provided from the Security Mutual Life Social Security Evaluator is intended to be accurate and timely; however, Security Mutual does not guarantee its accuracy. Reliance on the information generated should be undertaken only after an independent review of its accuracy and, where applicable, in consultation with your tax, legal or other professional advisor.

This publication is intended for general information purposes or to support the promotion or marketing of the Company's products and does not constitute legal or tax advice. This publication is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed on the taxpayer under the Internal Revenue Code or any other applicable tax law. If legal, tax or other expert assistance is needed, individuals should engage the services of a competent professional.

SECURITY MUTUAL LIFE
INSURANCE COMPANY OF NEW YORK
SECURITY MUTUAL BUILDING • 100 COURT ST
P.O. BOX 1625 • BINGHAMTON, NY 13902-1625
607-723-3551 • www.smlny.com

The Company That Cares.®

YouTube LinkedIn