

# SOCIAL SECURITY HIGHLIGHTS



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## Social Security and the Typical (and Atypical) Married Couple

One thing we've learned about Social Security planning over the years is the fact that *every situation is different*. Some people are married (and thus possibly eligible for spousal and/or survivor benefits), and some are not. Some people have young children at home, some do not. Some have become disabled at a young age, some are still working.

That said, in the majority of cases we see:

- The worker is married.
- The husband is older than the wife.
- The husband has a higher earnings history and thus a higher Social Security benefit than the wife.

This is not a discussion of why these realities exist; it is merely a statement of fact. We've developed numerous examples and case studies that try to show the options for a typical married couple: an older male who also has a higher Social Security benefit than his wife.

### Factors in a Typical Scenario

The key consideration in all those examples is relatively simple: in the majority of instances, the husband's Social Security benefit will eventually become the wife's survivor benefit.

Here's a typical example: assume the husband's benefit at Full Retirement Age is \$2,000. Wife's benefit is \$1,000. Assume the husband is three years older.

The longer you wait to collect, the higher the monthly benefit. The tradeoff, of course, is that you give up that income in the earlier years. Assuming the husband was born 1960 or later, he could collect \$1,400 a month at age 62 (the earliest possible date for a retirement benefit), \$2,000 at age 67, or \$2,480 at age 70 (the latest date to collect).

So what is the best option for him? It would be relatively simple if he was single. All he would do is make his best guess about his life expectancy.

With a short life expectancy, you would tend to think he'd be better off collecting early. With a longer life expectancy, you would tend to think he'd be better off collecting later.

### ***Don't Forget the Earnings Test***

*Always remember that if you want to keep working, the earnings test could effectively reduce or eliminate your benefit if you collect early. If you collect Social Security before your Full Retirement Age (age 67 for anyone born in 1960 or later), the Earnings Test may apply. In 2021, if you earn more than \$18,960 in wages, your Social Security benefit will be reduced \$1 for every \$2 over the limit. The Earnings Test goes away when you reach Full Retirement Age.*

But it all gets much more complicated when you consider the spouse. Basically, the survivor benefit (assuming both spouses live past Full Retirement Age) would be the higher of the two benefits. So in a typical situation—like the one outlined above—the surviving wife would be stuck with whatever the deceased husband had decided. And on average, women tend to outlive men. Based on CDC statistics, for someone born in 1960, a typical female would outlive a typical male by three years. In the case we outlined, with a wife three years younger, she could be reasonably expected to outlive her husband by a total of six years.

Of course we have no way of knowing when we're actually going to die. But the bottom line is that in a typical case, it often makes sense for the husband to collect as late as possible, simply because that higher amount could be available to the surviving spouse for an extended period of time. Unlike with someone who is unmarried, this may be the best alternative even if the husband has a relatively short life expectancy.

And here's an interesting tidbit: according to the Society of Actuaries, at age 65, the odds are more than 50 percent that *at least one* of them will remain alive until at least age 90. So that survivor benefit, whatever it is, could be payable for a very long time.

## **But What if the Roles Are Reversed?**

We also need to take a look at what happens for an atypical couple. For example, what happens when the wife is older than the husband, or when the wife's benefit is actually the higher of the two?

Keep in mind that the issue of gender is not really what's important here. It's actually life expectancy. And speaking in general terms, women tend to live longer than men. So on average, a wife who is three years older than her husband would have approximately the same life expectancy as her husband. And same-sex couples also need to look at it in terms of life expectancy rather than gender.

So speaking in gender-neutral terms, in most cases, the spouse with the higher Social Security benefit is the one who should wait the longest. This is especially true when there is a significant age difference (say 10 years or more), and the older spouse is the one with the higher benefit. For example, a wife who is ten years older than her husband would be expected to live to an older age than her husband, but she would still be expected to die seven years *before* her husband.

In a case like that, if she's also the one with the higher benefit, it would actually be the reverse of the more typical situation, where the husband is older and also has the higher benefit. As the higher earner (and the one who is expected to die first), there is an incentive for her to wait as long as possible, since her surviving husband would eventually receive whatever benefit she chose.

It gets more difficult to figure out if the older female spouse is the one with the *lower* benefit. One key factor in that case is the age difference. If there is a significant age difference, it could mean that the spouse is almost irrelevant to the decision. In other words, it goes back to being essentially an individual decision, where the key deciding factor is simply your own life expectancy. If you think you're going to live a long time, you'd be inclined to collect later. If you're not going to live a long time, you collect earlier.

## **What About Two-Earner Couples?**

We often see married couples where both spouses have worked full time, and each receives a comparable amount from Social Security on their own. In a situation like that, just recognize that the lower of the



two Social Security benefits will disappear when one of them dies. This can be up to half the household income, and it could have a significant impact on the survivor's standard of living.

We'll discuss this in more detail in a future article, but recognize that life insurance can be used to provide replacement income when one spouse dies. This could be the boost that allows the surviving spouse to stay in their own home.

## Other Issues to Consider

And of course, there are a number of other issues that could change the recommended strategy. One example would be the presence of children under the age of 18. Children's benefits can be up to 50 percent of the primary earner's benefit, but they are often less due to what's known as the Family Maximum Benefit.

Let's say you're age 66 and have children at home who are under age 18 (or 19 if still in high school). In a case like that, the child could get a separate children's benefit based upon your benefit. But they would "age out" at 18 or 19. So if you're 67 and have a 16-year-old, would it pay to wait until age 70? Maybe not, since by the time you reach 70, the child would no longer be eligible for that supplemental benefit.

And that's just one example. There are many other potential factors that you might need to consider.

So as we said, every situation is different. This is why you need a qualified Security Mutual life insurance professional to help.



*To learn about your Social Security options, contact your Security Mutual Life insurance agent. Using the Security Mutual Life Social Security Evaluator, your agent can provide you with an easy-to-understand illustration showing your various options, and then help you evaluate those options based on your personal financial needs and goals.*

## Sources

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