

Social Security for Widows

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–Elaine Floyd, CFP®

If you, or someone you know, has lost a spouse, look into the rules and strategies for Social Security survivor benefits. By coordinating these benefits with your own retirement benefit, you may be able to maximize both benefits.

Social Security can be a lifeline for widows. If your husband dies after you have both started receiving Social Security benefits, you can switch to your husband's benefit amount if it is higher. This is why we generally recommend that the higher earning spouse claim benefits at 70 in order to maximize his own benefit while he is alive and to give his wife a higher survivor benefit after he dies.

It should also be noted that even though you would step up to your husband's higher benefit, your own benefit will stop. If most of the expenses go on as before, this could leave you with insufficient income. A key part of financial planning is ensuring that the widow will have enough income after the death of the husband. If a woman becomes widowed at a young age, before she and her husband have started receiving Social Security retirement benefits, you have a different situation. The rules vary depending on the widow's age and situation.

Mothers of young children

If you become widowed while you still have young children at home, you and your children may qualify for

survivor benefits based on your deceased husband's work record. The benefit for each of you is 75% of his primary insurance amount (PIA), not to exceed the family maximum. The children's benefits may continue until age 18 (19 if in high school). Your own child-in-care benefit may continue until the youngest child turns 16.

Attainment of age 60

Starting at the age of 60, you may be eligible for a survivor benefit based on your deceased husband's work record. However, if you claim your survivor benefit at age 60, it will be reduced to 71.5% of the full amount. For this reason, it may be better to start your survivor benefit at your full retirement age (FRA), which is 67 for widows born after 1961. On the other hand, if you have a strong work record and a high PIA of your own, you could go ahead and start your reduced survivor benefit at age 60 and switch to your own maximum retirement benefit at 70. Let's look at two examples.

Example 1: Sylvia's full survivor benefit, if she were to start it at full retirement age, is \$2,800. Her own primary insurance amount (PIA) is \$900.

Suboptimal scenario: Sylvia starts her survivor benefit at 60 and receives a permanent benefit of \$2,002 ($\$2,800 \times .715$). Because her survivor benefit is higher than her own benefit, she would not ever be able to take advantage of her own benefit. She would continue to receive the \$2,002 for the rest of her life, increased only by annual cost-of-living adjustments (COLAs).

Optimal scenario: Sylvia starts her own reduced retirement benefit at 62 and switches to her full survivor benefit at 67. She receives \$630 ($\$900 \times .70$) from age 62 to 67. At 67 she switches to her maximum survivor benefit of \$2,800 and receives this amount for the rest of her life, plus annual COLAs.

Long-term results: If annual COLAs average 2%, by age 90 Sylvia's monthly income will be \$3,626 under the suboptimal scenario, versus \$5,072 under the optimal scenario. Cumulative benefits will total \$1,014,120 under the suboptimal scenario, versus \$1,208,378 under the optimal scenario, according to the Horseshmouth Savvy Social Security calculators. Break-even age is 75. That is, if Sylvia expects to live longer than age 75 (average life expectancy for a 60-year-old woman is 84), she should follow the optimal scenario, even if it means delaying benefits for two years and taking a reduced benefit for four years after that.

What if your own retirement benefit with delayed credits would exceed the full survivor benefit? In this case it will be OK for you to start the reduced survivor benefit at 60 because you will be able to switch to a higher retirement benefit at 70.

Example 2: Susan's full survivor benefit is \$2,800. Her own PIA is \$2,500. Susan starts the survivor benefit at 60. The benefit will be reduced to \$2,002 ($\$2,800 \times .715$). However, she can take the lower benefit because she will be switching to her own higher benefit at 70. When she applies for her own benefit at 70, it will have increased to \$3,779, including 8% annual delayed credits from age 67 to 70 and 2% annual COLAs.

Many Social Security workers encourage widows to apply for their survivor benefit as soon as they are eligible for it, at age 60. However, this could cause you to end up with a permanently reduced benefit. Unless you are sure your own retirement benefit with delayed credits will exceed the maximum survivor benefit, be very careful about locking in a permanently reduced survivor benefit before full retirement age.

Before submitting an application for benefits, do the math. Find out the amount of your full survivor benefit if it is started at full retirement age. Compare that to your own maximum retirement benefit if it is started at age 70. If the survivor benefit is higher, as it is in Sylvia's case, you must preserve that full amount by not taking it until FRA. For income before then, you can take your reduced retirement benefit at 62. On the other hand, if the maximum retirement benefit with delayed credits will exceed the full survivor benefit, then, like Susan, you should allow those delayed credits to run by not applying for your retirement benefit before age 70. If you want income before then, you can take your survivor benefit as early as age 60.

Earnings test applies before full-retirement age

If you are working at full salary, most or all of your benefits may be withheld while you are under FRA. This is not a reason to stop working, but it may be a reason to wait until FRA to apply for benefits, when the earnings test no longer applies.

What about remarriage?

Remarriage after age 60 will not affect any survivor benefits the widow is entitled to. Sylvia could remarry at age 60 and still get her survivor benefit at 66. If she does remarry, she will be able to choose between the survivor benefit from her previous husband and the spousal benefit from her current husband. Since survivor benefits are 100% of the deceased's PIA and spousal benefits max out at 50% of the current spouse's PIA, the survivor benefit is likely to be higher. Again, she can maximize that benefit by claiming it at her FRA. The optimal scenario presented here is the right one for her to follow, whether or not she remarries.

Widowers too!

Social Security benefits are gender neutral. This means widowers can claim survivor benefits based on their deceased wife's earnings record – something men might not think to ask about. A widower who is still working (and subject to the earnings test before FRA) could file for his survivor benefit at full retirement age and switch to his own maximum benefit at 70. Depending on his former wife's earnings record, this could give him many thousands of dollars in unexpected benefits.

Divorcees too!

All the same rules apply if a divorced person's ex-spouse is deceased, as long as the marriage lasted at least 10 years and the person is either unmarried or, if remarried, the marriage took place after age 60. If you or someone you know has lost a spouse (or ex-spouse, if

the marriage lasted more than ten years), talk to Social Security about which benefits you may be entitled to. With the help of SSA and your financial advisor, find out how you can sequence your benefits to give you higher lifetime benefits and more income in your later years.

References:

Survivors Benefits: SSA Publication No. 05-10084

How Social Security Can Help You When A Family

Member Dies: SSA Publication No. 05-10008

Elaine Floyd, CFP[®], is Director of Retirement and Life Planning for Horsesmouth, LLC, where she focuses on helping people understand the practical and technical aspects of retirement income planning.

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