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Social Security

Case study

We ran Paul and Mary's inputs through our system, which analyzes all of the claiming strategies available at their current ages (assuming that both would live to be 85 years old). Now they are faced with a choice.

	Paul claims at	Mary claims at	Total benefit
Option 1	62	62	$1,067,418
Option 2	66	66	$1,242,510
Option 3	70	70	$1,381,599

Should they simply claim benefits as soon as allowable (age 62) to start the income stream at the youngest possible age? Can they afford to wait to gain the highest possible benefit?

Keep in mind:
A strategy is considered optimal if it generates the highest dollar amount.

Paul and Mary

- Happily married
- Look forward to retirement

Paul is the higher wage earner and has a Primary Insurance Amount (PIA) of $2,000. Mary worked for over 30 years as a marketing consultant and is entitled to her own wage-earner benefit of $1,600/month at Full Retirement Age (FRA).

(Note: In a situation in which both spouses have worked, the Social Security Administration is supposed to compare the spousal benefit to the earned retirement benefit and automatically pay the higher of the two, but mistakes can be made, so you should know what benefit you are entitled to as both a wage earner and a spouse.)

Early claim
(both file at age 62)

Paul and Mary both have the chance to collect their benefits at age 62. Of course, by doing so, they will reduce their potential lifetime by $316,305 (if they live to age 85). If the couple feels they need the money immediately to pay for household needs, this might be their only option.

FRA claim
(both file at FRA — 66 years and 6 months)

Waiting until FRA would ensure Paul and Mary earn their full benefits (including Mary's $1,000 in spousal benefits). While the couple will lose money in potential income from age 62–66, they will nonetheless gain almost $200,000 in additional Social Security income for the 20 years they are expected to collect.

Late claim
(both file at age 70)

Perhaps if Paul and Mary do not need Social Security to maintain their retirement lifestyle, they could defer until 70, which will yield the maximum possible lifetime income. Since the couple is projected to live to age 85, this extra money could go a long way to offsetting certain age-related expenditures, such as rising healthcare costs due to increased use of medical services.

While maximizing income is usually the driving motivator behind most financial decisions, claiming Social Security is a bit different. Some may feel uncomfortable with leaving guaranteed income on the table, or may want to ensure some return for years of paying into the system; others may feel that earning hundreds of thousands of dollars more in lifetime income is worth a 4- or 8-year wait.

Ultimately, the choice of when to claim is highly personal and should be made with careful consideration of a number of factors — and the most important one is life expectancy.

Consider this:
If Paul and Mary both suffered from chronic illnesses and were only expected to live to age 70, the decision to claim at 62 would be simple. However, if they expect to live into their mid-80s (or longer), the couple will need more income for a longer period of time; therefore, deferring might be the best option.

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Important: While this case study summarizes certain information about Social Security benefits that we understand to be accurate and current, it is not an official explanation or discussion of these programs. This case study is for informational purposes only. In the event of a discrepancy between any information presented here and any information provided by the Social Security Administration, the latter information will prevail.

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