



# NAVIGATING SPOUSAL SOCIAL SECURITY BENEFITS



When thinking about Social Security, it can feel like an endless puzzle made up of multiple moving pieces that must be considered to determine **which Social Security benefits strategy is right for you and your family**. When and how you apply for your benefits can result in a difference of tens of thousands of dollars over the span of your retirement. For couples, navigating this process can feel even more uncertain. Details like survivor benefits, ex-spousal claims, and potentially higher income taxes add to an already full plate of considerations.


What if my spouse has never had a job?  
What happens if I choose to get remarried?  
What happens if one of us passes away? If you have asked yourself these same questions, you are not alone. Countless couples are faced with these exact thoughts when planning for retirement. To ensure you make the right choices and maximize your social security benefits, it is important to do your research. We have compiled a guide to the most valuable Social Security factors you and your partner should be aware of as you begin to plan for retirement.

It is no surprise that married couples who coordinate their Social Security benefit strategies are more likely to maximize their benefits than those who don't. Together, we can select the Social Security strategy right for you, and make sure you and your family are taken care of for years to come.

# ELIGIBILITY FOR SPOUSAL BENEFITS

Most Americans can and will claim benefits on their own earnings record, but in quite a few cases it may be equally—if not more—beneficial for them to claim a benefit on their spouse’s record instead. Known as Social Security spousal benefits, these payments are particularly helpful for nonworking spouses or spouses who historically had a lower income throughout their career. Broken down, this strategy means that even if they have never worked or paid into Social Security, your spouse may still be eligible to receive benefits.

When calculating benefits, the Social Security Administration will plug your highest **35 years of earnings** (adjusted to account for changes in average wages since the year the earning was received) into a formula to determine your basic benefit, or “primary insurance amount.” The calculated value represents the amount you will receive in benefits if you begin to collect at your full retirement age (FRA).



After you and your spouse have your individual estimated primary insurance amount, you can begin to decide your best course of action. It is important to know that you both are automatically entitled to receive whichever spousal Social Security benefit provides the higher monthly amount. That means, if you are the higher earner, your spouse can apply to collect benefits based on your work record.

Be aware, if you begin to collect spousal benefits before your full retirement age, as early as age 62, it may lead to a reduction in payments. It is worth noting that there are exceptions to this age rule, including caring for a child under 16 years old or younger. Unless you meet this exception; however, you can assume your monthly payments will be reduced by 25% to 30% as a result of collecting early.

To make the most of your spousal benefits, it is important to weigh all the relevant factors while you decide when, and which, social security benefits to collect. Be aware of the amount you are eligible for, as well as how the timing of your claim can impact how much in benefits you receive.



## FULL RETIREMENT AGE

Full retirement age (FRA), or the age you must reach to be eligible to receive full benefits from Social Security, is based on your birthday. Currently, FRA in the U.S. is 66 years and two months for everyone born in 1955. For those born in 1960 and later, FRA steadily increases up to 67 years of age.

Even though most Americans can begin to collect Social Security benefits before they reach their FRA —starting at age 62—those benefit payments will be reduced for each month they are received early. Conversely, if you wait and begin to receive benefits after you have reached FRA, you become eligible for delayed retirement credits.



The longer you wait, the higher your return will be up until age 70. At this time, you max out your available credits and there is no longer an incentive to delay. For most, it makes financial sense to collect retirement benefits at 70 since these delayed credits can increase your total payment amount by 38%.

For those who choose to claim their Social Security benefits early and continue to work, there is the added risk of making too much and subjecting your benefits to further penalty. In 2021, the Social Security earnings limit is \$1,580 per month or \$18,960 per year for someone age 65 or younger. If you earn more than this amount, expect to have \$1 withheld from your Social Security benefit for every \$2 earned above the limit. Thankfully, this reduction is only applicable until you reach your full retirement age.

**Our Team** can help you determine what age makes the most sense for your individual situation and needs.

## SURVIVOR BENEFITS

In the unfortunate event that your spouse passes away, you are qualified to collect their full benefits payment. Referred to as Social Security survivor benefits, these payments are double what you would receive with the aforementioned spousal benefits. Keep in mind, even though you can begin to collect these benefits as early as 60 years of age, doing so before your own full retirement age will permanently reduce your monthly payment.

It is critical that couples maximize the benefit of the highest earner because upon the death of a spouse, the higher of the two benefit amounts is the payment that continues as the survivor benefit.

By accepting a lower payment amount, say by choosing to collect early as opposed to at your full retirement age or older, you are significantly reducing the surviving spouse's potential future income. If you wait until age 70, the year individual Social Security benefits peak, you will optimize your return.

Likewise, it is worth noting that if a surviving spouse chooses to remarry before the age of 60, this will eliminate their eligibility to collect on the deceased spouse's earning record. A decision like this has the possibility of significantly lowering an individual's Social Security benefit amount. Consider this, a spousal benefit entitles someone to 50% of their new spouse's benefits, while a survivor benefit would have entitled them to 100% of those benefits.

It is crucial that all possible combinations of strategies are considered during the retirement planning process.

## EX-SPOUSAL BENEFITS

As a divorced spouse, you are still eligible to receive Social Security benefits on your ex-spouse's earnings record. One common misconception that surrounds ex-spousal benefits is the belief you cannot collect benefits if your previous spouse has since remarried—this is not the case. Even if your ex-spouse has remarried and their current partner is collecting benefits based on their record, you are still entitled to collect based on their earnings record as well.

There are; however, requirements that must be met to qualify you for ex-spousal benefits. For one, the marriage must have lasted at least 10 years. Additionally, your ex-spouse must be actively collecting their benefits, unless they are at full retirement age and are eligible to receive benefits but are not yet collecting. If this is the case, you can apply for ex-spousal benefits on the condition you have been divorced for at least two years.

Another requirement worth noting is you cannot be currently married. If you did choose to remarry, but then later divorced, you are eligible to claim benefits from either ex-spouse so long as each marriage lasted a minimum of 10 years.



# TAXES ON SOCIAL SECURITY

For most Americans, their Social Security benefits are subject to income tax. For an individual with a combined gross income of at least \$34,000, or a couple filing jointly with a combined gross income of at least \$44,000, up to 85% of their Social Security benefits is taxable. Conversely, you won't owe federal tax on your benefits if your total income falls below the taxable thresholds set by the IRS—\$25,000.

If you do find yourself owing income tax on your Social Security benefits, there are multiple strategies you can implement in your tax arbitrage plan to minimize the amount you owe, one of them being the utilization of a Roth IRA.

To help offset potential taxation, individuals, as well as couples, can make after-tax contributions to a Roth IRA. These payments are shielded from income tax and **will not be subject to taxation** when the funds are withdrawn. As long as you are 59 1/2 years of age and have had the account for at least 5 years, distributions from your Roth IRA are tax-free, and therefore won't affect your income calculation.

It can feel daunting, but when you have a strategy for managing withdrawals from multiple accounts—say conventional savings, and tax-sheltered accounts—you minimize the taxes you owe on your Social Security benefits. Couples can and should use a **tax calculator** to help them prepare accordingly.





# TALK TO AN ADVISOR

Navigating the Social Security landscape doesn't have to be done alone. **Finding a trusted Financial Advisor** is the best way to eliminate guesswork and guarantee you create a financial strategy that meets all of your retirement needs. The JL Smith Group **specializes in Social Security benefits** and prides itself on taking a holistic approach to financial planning that maximizes your life savings to accomplish your unique retirement goals.

A Financial Advisor will walk you through the different approaches and strategies available to find which works best for your unique situation. These strategies may include:

- **Do Over Strategy**

- A one-time opportunity to withdrawal your Social Security application if you mistakenly began collecting too soon

- **Start-Stop-Restart Strategy**

- The ability to suspend Social Security benefits (after you reach FRA) to accommodate for a change in provisional income that may affect your income taxes

- **Tax Planning Strategy**

- This method focuses on evaluating your financial situation to plan your retirement income to ensure tax efficiency

- **Split Strategy**

- A Split Strategy is when one spouse draws benefits and one delays in order to optimize a couple's benefits

If you're ready to start planning for your future, there is no better time to start than now.

**Contact JL Smith today** to request a consultation.