

The Signalert Scoop

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SOCIAL SECURITY SURVIVOR'S BENEFITS

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A Potential Boon for Married Couples

Social Security remains a linchpin of elder Americans' retirement security. Married couples receive particularly generous benefits. This article will describe those benefits and offer suggestions on how you can maximize them for yourself.

Basic benefit

Every legal worker pays a flat tax of 6.2% of wages (up to \$127,200 in 2017) into the Social Security system, as does his employer. The self-employed must pay both the worker's and the employer's tax, with only the latter being deductible from taxable income.

Key points

- Married couples receive two bonus subsidies from Social Security: spousal benefits and survivor's benefits.
- Married couples can maximize their potential Social Security benefits over their joint lifetimes if the higher-earning spouse waits until age 70 to begin claiming retirement benefits.

Even though the tax is flat-rate, benefits are steeply progressive: The Social Security benefit of lower wage workers represents a far larger fraction of their average wages than does the benefits for higher wage workers. Once you retire, your benefits increase in line with inflation (Consumer Price Index for Urban Wage Earners and Clerical Workers).

The government calculates a "basic benefit" for workers based on their 35 highest-earning years. This is the benefit you would receive if you start collecting at your "full retirement age". The full retirement age used to be 65 years old, but has been raised to 67 years for workers born in 1960 or later. However, you can claim your Social Security benefits as

early as age 62 or as late as age 70. Those workers who claim benefits before reaching full retirement age will receive less than their basic benefit each month, while those who wait beyond their full retirement age will receive more than their basic benefit. The government's goal is to pay the same total dollars to workers regardless of when they claim benefits. (That is, if you claim later than your full retirement age, you will receive fewer monthly payments over your remaining lifetime so each payment will be larger.)

Claim at full retirement age and invest the benefits

Single retirees who don't want to speculate on how long they will live can have the best of both worlds: They should claim benefits at full retirement age. Then, they should invest all benefits received until age 70 rather than spending them.

At age 70, they can spend their basic benefit and use the Social Security checks accumulated from prior years to supplement that benefit by 24%. Depending on the tax bracket and investment return, this could be the optimal strategy for all except those who live well into their 80s.

Should you claim benefits early or late?

For every year you are younger than your full retirement age when you start receiving benefits, your monthly benefit will be 8% less than your basic benefit. For every year you are older than your full retirement age, your monthly benefit will be 8% more than your basic benefit. That means that a worker who waits until age 70 to claim benefits will receive a monthly benefit 24% greater than his basic benefit. This is called a "delayed retirement credit." A high earner who waits until age 70 to start collecting Social Security could receive a maximum benefit of over

\$30,000/year. (The increase or decrease in your basic benefit is calculated according to the number of months from full retirement age at a rate of 2/3% per month.)

If you think you will live longer than average (based on family history, for example) then it might be in your best interest to wait until age 70. Conversely, if you already know you have health issues you might be best off claiming as soon as possible.

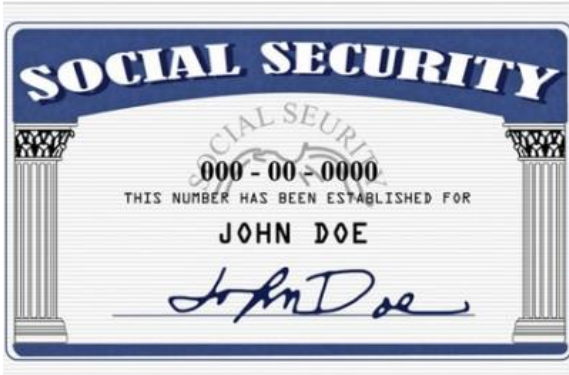
All else being equal, single women are more likely than single men to be better off claiming later because their life expectancy is above-average compared to the entire population.

Spousal benefits

If you are married and receiving Social Security benefits then your non-working (or lower-earning) spouse can claim benefits as well based on your work history. At the non-working spouse's full retirement age the spousal benefit is half the worker's basic benefit. The spousal benefit is adjusted up or down based on the age at which the spouse claims the

spousal benefit. Note that if the spouse has his/her own work history, that spouse will receive only the higher of his/her own basic benefit or the spousal benefit but not both. **The implication is that a married couple in which only one spouse worked can receive one and a half times the basic retirement benefit as long as both spouses are alive.**

The spouse benefit depends only on the age of the non-working spouse and the basic retirement benefit of the working spouse. Your delayed retirement credits do not increase your spouse's benefits.



Survivors' benefits

The surviving spouse of a married couple receives the retirement benefit of the higher-earning spouse. So in the case of a couple where only one spouse worked, upon the death of either spouse the survivor would get one retirement benefit, compared to one and a half times one benefit while both were alive. If both spouses worked then the surviving spouse will retain only the higher of the couple's two Social Security benefits.

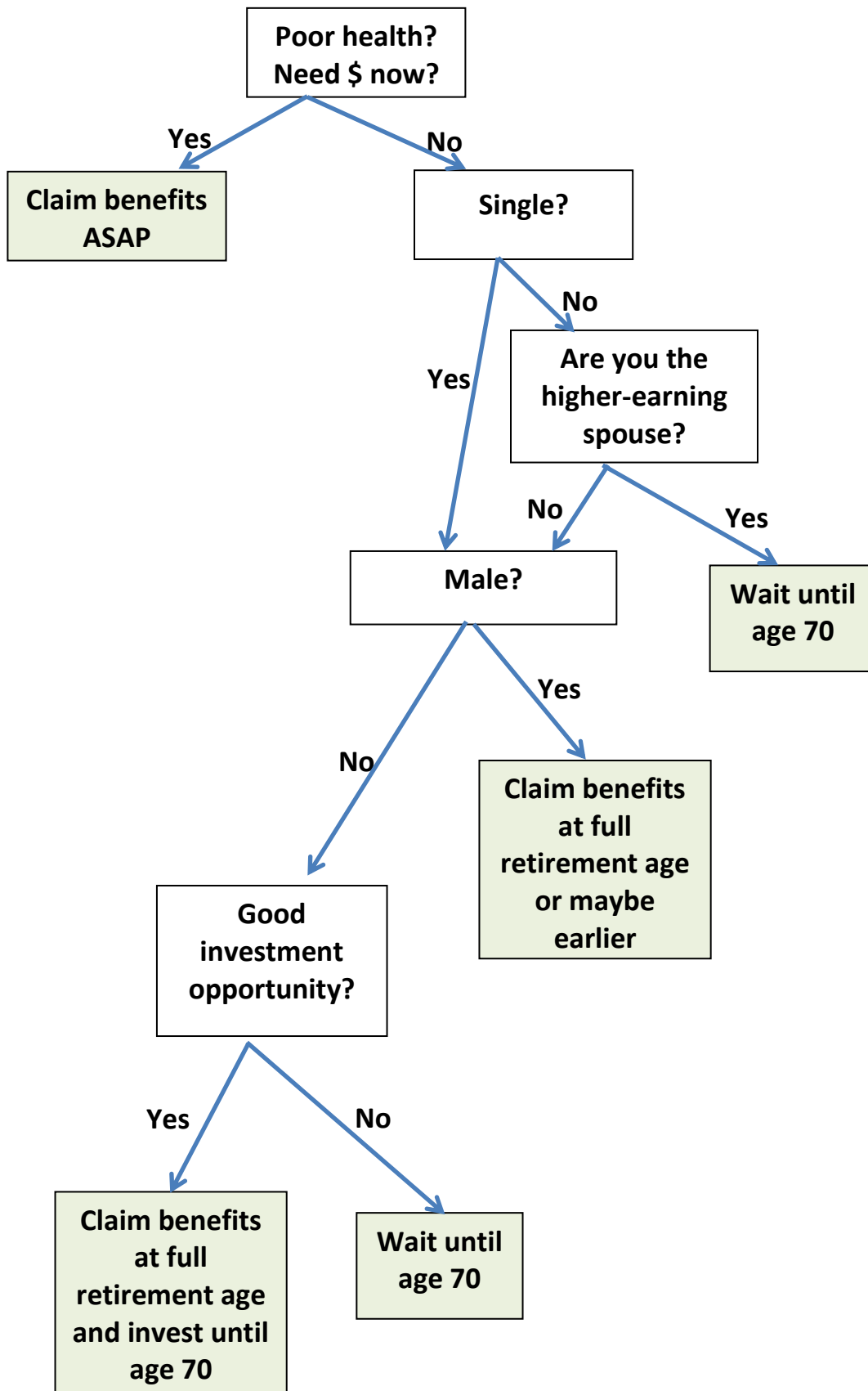
The important marriage subsidy is that the benefit that the surviving spouse receives will be higher by the amount of any delayed retirement credits. That means that a married couple is likely to get more total benefits from Social Security if the higher earner waits until age 70 to claim benefits. This is in contrast to the treatment of spousal benefits, where delayed retirement credits have no effect.

Conclusion

Changes to the law in 2015 eliminated a number of complicated strategies that married couples used to use to maximize their benefits. However, subsidies to married couples continue to provide potential windfalls if you weigh your options carefully. In particular, married couples in good health are likely to get more lifetime benefits out of Social Security if the higher-earning spouse delays claiming benefits until age 70. The chart on the next page shows a decision tree that you can use as an aide in your decision making.

Disclaimer: Signalert does not offer tax advice. We recommend that you consult with your investments, tax and/or legal advisors before acting on any recommendations in our Scoops.

Decision Tree: When to Claim Social Security Benefits



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