

Understanding Social Security Survivor Benefits

An earlier issue of The ElderCounselor addressed social security benefits generally and when to apply. In this issue, we will address the critical yet often-misunderstood topic of Social Security survivor benefits. This e-newsletter is based in part upon an article by Frank Rainaldi and William Rainaldi, first published in Trusts & Estates magazine and available on WealthManagement.com.

Survivors Benefits

According to the Social Security Administration, a surviving spouse may be eligible to receive the deceased spouse's full retirement benefits at full retirement age ("FRA"). For survivor benefits only, FRA is 66 for anyone born before 1957, and it increases two months every year until it reaches 67 for those persons born in 1962 or later. (For a regular retirement or spousal benefit, FRA is 66 for anyone born before 1955 and it increases two months every year until it reaches 67 in 1960.) (E.g., see <http://www.ssa.gov/pubs/EN-05-10084.pdf>.)

Simply stated, survivors benefits are determined by looking first at the age of the deceased spouse, and then at the age of the surviving spouse. In other words, we look at the amount of the benefit available to or being paid to the *deceased spouse*. Then, we use the age of the *surviving spouse* to determine if benefits are paid early or at FRA; if the surviving spouse's benefits are paid before 65, we must apply an actuarial reduction to the deceased spouse's benefits.

It is important to note a key difference between survivor benefits and spousal benefits. Spousal retirement benefits provide a maximum 50% of the other spouse's primary insurance amount (PIA). Alternatively, survivors' benefits are a maximum 100% of the deceased spouse's retirement benefit.

Also, note the difference between the PIA and retirement benefit, which is critical when considering

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deferred retirement credits (DRCs). DRCs can increase benefits by 8% per year when the worker elects to start collecting after FRA, up to a maximum increase of 32% for deferral to age 70. Note, however, that DRCs apply only for survivor benefits; DRCs do not increase the PIA and thus they aren't applicable to spousal benefits. Therefore, if one spouse has the higher personal benefit and waits until age 70 to begin collecting, the full benefit with DRCs would be payable to the surviving spouse.

The Most common Scenario – Both Spouses Reach FRA

The most common scenario is when death occurs after both spouses have reached their respective FRA. In this case, the survivor benefit is simply the higher of the two benefits. If one spouse is collecting \$2,500 and the other is collecting \$2,000, the surviving spouse's benefit would be \$2,500. It actually does not matter which spouse dies, the survivor benefit is still \$2,500.

For example, assume Mr. A has a personal benefit of \$2,000, the amount he would receive at age 66. If he elects to defer until age 69 he would get a 24% increase in his personal benefit to \$2,480.

Now let's say Mrs. A. never worked outside the home. When Mr. A. is age 66, the spousal benefit would be 50 percent, or \$1,000. Note, however, that the spousal benefit would still be \$1,000 (not \$1,240) when he is age 70 because the 24% increase does not apply to spousal benefits. However, DRCs do apply to survivor benefits. Therefore, when Mr. A. dies, Mrs. A. would get the full \$2,480 as a survivor benefit.

What if the first spouse dies prior to age 62? The benefit will be the deceased worker has recalculated PIA, which is based on a different set of assumptions. It uses the worker's earnings for a "substitute year" and a different set of required Social Security credits for the applicable age. This special PIA calculation can only help; it can't hurt. It only applies if it provides a higher PIA than the regular PIA calculation.

What if death occurs after age 62 but prior to FRA after taking early retirement benefits? The benefit will be the deceased worker has reduced retirement benefit. This is one good reason not to retire early. Note that there is a minimum benefit of 82.5% of the deceased worker's PIA, not including any actuarial reduction in benefits.

Surviving Spouse Collects Early

If the surviving spouse elects to collect before her own FRA, as with other Social Security retirement benefits there is an actuarial reduction. For a personal, spousal or divorced spouse's benefit, one can start as early as age 62. However, a surviving spouse can start collecting as early as age 60. If the survivor benefit is at FRA or later, there is no actuarial reduction.

It's important to note that the surviving spouse has additional options. Suppose the surviving spouse is age 60 and not collecting any benefits. When the other spouse dies, she has the option of receiving her actuarially reduced personal benefit, then later switching to a full-unreduced survivor benefit at FRA. This could limit the downside of collecting early.

To determine the monthly reduction amount, simply take 28.5% divided by the number of months between age 60 and the survivor FRA determined above. The "Widow Limit" caps the survivor's benefit at the larger of the benefit the deceased would have received if he or she were still alive, or

82.5% of the deceased PIA. This Widow Limit only comes into play if the deceased claimed benefits prior to his or her FRA. The following, from SocialSecurityTiming.com, graphically explains these options.

Deceased DID File		Deceased DID NOT File	
Filed prior to FRA	Filed After FRA	Died prior to FRA	Died after FRA
Max Widow Benefit = Larger of deceased reduced benefit or 82.5% of deceased PIA	Max Widow Benefit = Deceased Benefit including Delayed Retirement Credits	Max Widow Benefit = PIA of Deceased	Max Widow Benefit = Deceased benefit as if deceased elected on date of death including Delayed Retirement Credits

Examples

Suppose the surviving spouse started collecting a reduced personal benefit at 62, and her spouse dies when she is 64. At that point, she has the option of continuing to collect her personal benefit for two more years and then switching to a full, unreduced survivor benefit at age 66. Of course, the survivor cannot collect both benefits at the same time; the survivor must choose one or the other. Only one switch is allowed. If the surviving spouse is already collecting a personal benefit, she could not go from a personal benefit to a survivor benefit and then back to the personal benefit.

Understanding survivor benefits is especially important when there is a significant age difference between the two spouses. When one spouse may outlive the other by a considerable margin, survivor benefits are a much more important than “file and suspend” or “spousal only.” In that case, it is often a good idea to make sure that the spouse with the higher personal benefit defer until age 70, if possible.

Divorce

A former spouse who is age 60 or older (50-59 if disabled) can get benefits if the marriage lasted at least 10 years. However, there is no age or length of marriage requirement if the former spouse is caring for her or his natural or adopted child who is younger than 16 or who is disabled and entitled to benefits based upon your work. Benefits paid to a former spouse who meets age or disability requirement does not affect the benefits for other survivors based upon the worker’s record. However, the benefits paid to a former spouse who is caring for a minor or disabled child do affect other survivor benefits.

Remarriage

Generally, the survivor cannot get survivor’s benefits if he or she remarries before age 60. But remarriage after age 60 (or age 50 with a disability) will not prevent the survivor from getting benefit payments based on the former spouse’s benefits. Moreover, at age 62 or older, the survivor may get benefits based on the new spouse’s work, if those benefits would be higher.

Conclusion

Social Security survivor benefits offer a surviving spouse the opportunity to significantly increase her or his benefits based upon the benefits payable to the deceased spouse. Therefore, it’s important that seniors and their loved ones understand how to maximize those benefits. Accessing survivor benefits and understanding what is available is an important piece in helping seniors with their overall planning goals. Please contact our office if you have any questions or if we can be of assistance to someone you know.