POCONO RECORD

Social Security questions? Here are the answers

By Ralph Grauso | Aug. 14, 2016

Big changes hit Social Security benefits earlier this year. In Pennsylvania, as in the other 49 states, the days of the “file-and-suspend” and “restricted application” approaches to claiming Social Security benefits are over. The new rules that went into affect earlier this year ban file-and-suspend for those born after April 30, 1950, while restricted applications will be permitted only for beneficiaries who were 62 or older as of Jan. 1, 2016.

What were these old Social Security-claiming strategies?

The file-and-suspend tactic involved a 66-year-old beneficiary submitting a claim for benefits and then immediately suspending them. This would have made his or her spouse eligible to claim spousal benefits amounting to one-half of the beneficiary’s benefits. Because the suspended beneficiary would not have been receiving payments, his or her benefit would have continued to grow until it reached the maximum benefit allowed. With this strategy, the couple would have received income without lessening the beneficiary’s benefit — a neat trick, assuming the beneficiary lived long enough to claim the higher benefit.

With a restricted application, a spouse who had earned a benefit of his or her own, would have refrained from claiming that benefit. Instead, he or she would have claimed the spousal benefit, which would have been half of the beneficiary’s benefits. This tactic would have allowed the spouse’s benefits to continue to grow until it reached the maximum allowed, at which time the spouse would have begun collecting those benefits instead.

With these strategies no longer available, and with Social Security reaching its 81st birthday this August, there's no better time than the present to explore your options for claiming this important benefit.

Patience is a (benefits-maximizing) virtue

Despite the closing of these so-called loopholes, the most valuable claiming strategy is still available: delaying the start of benefits. Because payments increase at an annual rate of 8 percent following the year of full benefit eligibility (at age 66), delaying can be a very profitable approach. A 66-year-old eligible for a $2000 per month benefit would see that amount increase to $2640 if he or she were to wait until 70 to make a first claim. If you can get by without claiming benefits, waiting until age 70 can be a smart strategy as it will maximize your spouse's survivor benefits as well as your own. Of course, you would need to live long enough (and claim the higher benefit long enough) to make up for the years you waited, so there is a certain amount of guesswork involved with this approach.

Is it always better to wait?

Not necessarily. Although receiving benefits early (before age 66 and as early as 62) will result in a 25 percent reduction in benefits, for some married couples it might make sense. For example, a wife might decide to retire early on a reduced benefit. Her husband could then elect to receive spousal benefits when he reaches the full retirement age of 66. At age 70, he could switch to his own benefits (assuming that amount would be greater). Depending on the husband's and wife's respective ages and how much they earn, this strategy might be attractive.

How to handle a death or divorce

In the event that you have been receiving spousal benefits and your spouse passes away, you can switch to the higher survivor's benefit. But here again, it pays to wait until you reach full retirement age. If you have earned your own benefit, it might be advantageous to take the survivor's benefit early and then switch to your own benefit later on (assuming that amount is larger). If you were married for at least 10 years before divorcing and have not remarried, you can claim spousal and survivor's benefits based on your former spouse's earnings.

Correct an early-filing mistake

Did you file a claim for Social Security before full retirement age and wish you could do it over? You're in luck. Whatever your reason for filing early, if you regret your decision, there is a way to erase the mistake, but it will require you to repay any benefits you have received. With a one-time "Request for Withdrawal of Application" form, filed within one year of first claiming benefits, you can undo the damage of filing early and wait to claim your benefit until it has grown to your satisfaction.

Navigating the Social Security-claiming waters can be tricky; you want to receive the greatest benefit you can. These strategies (and the advice of a financial professional) can help you avoid running aground.

Ralph Grauso is the founder and president of ASC Financial Group an independent financial firm with offices in Allentown and Poconos. For more information on ASC Financial Group, visit ascfinancialgroup.com or call 570-213-4533.