PacificCPE

COURSE
82253A

# Claiming Strategies, SSI, and Applying for Benefits

Deciding when and how to claim Social Security benefits is one of the most consequential financial decisions your clients will make. This course examines the timing and strategic considerations behind claiming retirement and other Social Security benefits, along with a thorough look at Supplemental Security Income for low-income individuals. It also walks through the application process itself—what to expect, what's required, and how to help clients avoid common missteps. Professionals advising clients on retirement or elder care planning will find this course especially relevant.

CREDIT HOURS **2** | FIELD OF STUDY **BUSINESS** | EXAM QUESTIONS **10**

Start Course ↓ | Final Exam Copy ↓

## LEARNING ASSIGNMENTS AND OBJECTIVES

## Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

## Course Objectives

- Recognize the issues around early claim of benefits.
- Identify SSI eligibility requirements.
- Identify where to get advice on applying for benefits.

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# Chapter 1: WHEN TO CLAIM SOCIAL SECURITY BENEFITS AND WHICH ONE TO CLAIM

*Chapter Objective*

**After completing this chapter, you should be able to:**

- Recognize the issues around early claim of benefits.

As explained in Chapter 1 of course 82251A of course 82251A through Chapter 1 of course 82252A of course 82252A, the age at which you claim Social Security retirement, dependents, or survivors benefits affects the monthly amount you receive—earlier claims (up to age 70) mean lower monthly benefits. In some situations, an early claim will also reduce how much you will receive if you later switch to a different benefit. Also, the age at which you claim your benefits can affect how much your survivors collect. Altogether, the difference between filing a claim before, at, or after full retirement age can be many thousands of dollars over your and your family's lifetime.

So, how do you choose the best time to claim a Social Security benefit? And which benefit should it be? There is no simple answer, but several factors can help you make a decision that best fits your personal situation. This chapter discusses the factors that apply to everyone and then explains how specific situations—which depend on your family situation and work history—might present you with certain options.

## CONSIDERATIONS FOR ALL BENEFICIARIES

You can claim your Social Security retirement or dependents benefits as early as age 62, or your survivors benefits as early as age 60 (or sooner if you're disabled or caring for the deceased worker's child who is younger than 16 or disabled; see Chapter 3 of course 82252A).

But the monthly amount you receive—for your lifetime—is reduced for every month before you reach full retirement age that you claim these benefits. (See Chapter 2 of course 82251A to learn about full retirement age.) On the other hand, you can increase your retirement benefit amount for every year past full retirement age (up to age 70) that you wait to claim benefits. Also, by delaying retirement benefits, you increase the amount your surviving spouse can collect.

### Your Lifetime Total: The Break-Even Point

Based on the way the Social Security system calculates benefits, if you claim benefits early but you live past a certain age—called your "break-even point"—you will wind up collecting less in total lifetime benefits than if you had waited to claim them at full retirement age. Similarly, if you wait

until full retirement age to claim benefits, or delay them further, but don't live past your break-even point, you will have collected less in total lifetime benefits than if you had claimed benefits early.

Here's how these break-even points work.

**Early claim break-even point.** For people who claim benefits at age 62, their break-even point is generally between 75 and 76 years old (the exact point depends on your earnings record and the year you were born). That means that if you claim early benefits but live past the age of 75 or 76, your total lifetime benefits will be less than if you had waited until full retirement age to claim them. The longer you live past the break-even point, the more you lose by having claimed early benefits. Because average life expectancy for people age 62 is about 21 years for men and 24 years for women, most people will lose money over their lifetime if they claim benefits at age 62. (Remember, though, that you might want or need to claim early benefits despite this, for other reasons discussed in this chapter.)

**Delayed claim break-even point.** For most people who delay claiming retirement benefits until age 70, their break-even point is about age 79 or 80. For people who live past that age, after delaying benefits until age 70, total lifetime benefits will be more than if they had claimed them at full retirement age.

**Your personal break-even point.** Your personal break-even point may differ from the figures above. Your actual break-even point will depend on a combination of factors, including your earnings record and when you were born. However, the figures above will give you a close estimate. To review your options, you can call Social Security at 800-772-1213 and ask them to do the calculations for you, or go to the Social Security website's page "When to Start Receiving Retirement Benefits" at www.ssa.gov/pubs/EN- 05-10147.pdf.

### Factors to Consider

Many people jump at the chance to begin collecting benefits as early as possible, regardless of their break-even point. For some, claiming early benefits is a necessary, or at least sensible, financial choice. But for others, it might be a poor decision that can cost them many thousands of dollars over a lifetime. Before you decide whether to claim early benefits or to delay your claim, consider the following factors.

### Immediate Financial Need

You might be in a financial situation that leaves you no real choice—you need your Social Security benefits now, even though your monthly benefits (and probably also your total lifetime benefits) will be lower than if you wait. For many people in these difficult economic times, the extra income of even a substantially reduced Social Security benefit is what allows them to afford the bare essentials of daily life.

Even if you don't need your Social Security benefit to meet essential daily expenses, you might want to collect a reduced benefit early in order to have a little extra money to make yourself or your family more comfortable. Having the extra money to use now—to do things you might not otherwise be able to afford—might be worth the chance that you will collect less in benefits over your entire lifetime. For example, you might want to use the extra money to do some traveling that you couldn't otherwise afford or might not be physically able to do later. Or, you might want to use the money to offer financial help to your children or grandchildren at a time when they could really use it. If there's any reason why you feel that using the money now is important to you, you might want to claim benefits early even though, in a purely financial sense, it might not be the best decision.

### *You Can Undo an Early Claim*

Some people claim early benefits because they need the money immediately, but then their financial situation improves. If, after claiming early benefits, you find new work, switch jobs, get a pay raise, or otherwise come into money, your new income or assets might reduce your need for early benefits. Or your income could even wipe out those benefits entirely (if the new money is earned from work you do) because of the earned income offset rule. (For more about this rule, see "Continuing to Earn Before Full Retirement Age," below.)

If you find yourself in this situation, you're not stuck with the decision you made to claim early benefits. You have the following two options.

**Suspend benefits.** You can ask Social Security to suspend your benefits. This means your benefits will stop until you notify Social Security that you want your benefits to resume. While your benefits are suspended, your lifetime benefits won't suffer the monthly percentage reductions that would have occurred if you had continued to collect early benefits. When you resume collecting your benefits, Social Security will recalculate them, with a reduction based only on those months you actually collected early benefits.

**Withdraw the claim and repay benefits.** Another option is to withdraw your benefit claim. You can withdraw your application within 12 months after first becoming eligible for benefits, if you repay all the benefits you've received so far. Withdrawing your claim would remove all early claim reductions from Social Security's calculation of your benefit amounts, meaning you would be able to claim your full benefit at full retirement age, or a greater amount if you delay your claim even further. To learn more about how to withdraw a claim and what you would have to repay, see Social Security's online information "Cancel your benefits application" at www.ssa.gov/manage-benefits/cancel-your-benefits-application.

## Continuing to Earn Before Full Retirement Age

Even if you could really use your retirement benefits before you reach full retirement age, it might not make sense to claim them now if you're going to keep working and earning more than a very small income. As explained in Chapter 2 of course 82251A of course 82251A, Chapter 2 of course 82251A of course 82252A, Chapter 1 of course 82252A of course 82252A, a Social Security penalty takes $1 from your retirement, dependents, or survivors benefits for every $2 in income you earn over a low, yearly limit (until you reach full retirement age).

If you'll be earning only a slight amount over the yearly limit, it might still make sense to claim early benefits if you need the money. But if you'll be working and earning a substantial amount over the yearly limit, claiming your benefits early would be a double mistake: Your immediate benefits would be substantially reduced if not wiped out altogether by the $1-out-of-$2 earnings offset rule, and your lifetime benefits would be permanently lower because you claimed them early.

**Life Expectancy**

If a health condition makes it likely you won't live past your mid-70s, then claiming early retirement benefits makes sense. You'll get to use or save the money, even though it's a reduced amount, for however many years you live.

If, instead, you wait until full retirement age to claim benefits but die within a few years of receiving them, you'll have received less in total lifetime benefits even though your monthly benefit amount will have been greater than if you had claimed early benefits.

If, on the other hand, you have no life-threatening medical conditions, your health is generally good, and you have a family history of relatively long life, you might want to delay claiming retirement benefits at least until, and perhaps even later than, full retirement age. With a long life expectancy (likely to live into your 80s), you're more likely to collect greater total lifetime benefits by delaying your benefits claim.

**Availability of Other Benefits**

Your eligibility for Social Security survivors benefits (see Chapter 3 of course 82252A) might allow you to delay claiming your own retirement benefits past full retirement age, making those retirement benefits higher than if you claim them earlier.

Claiming early survivors benefits might be a good idea even if those benefit amounts are lower than your early retirement benefits. That's because in the long run, the yearly increase in your unclaimed retirement benefits can make up the difference between lower dependents or survivors benefits you claim now and what your present retirement benefits would be.

Note that you can no longer claim Social Security dependents benefits (see Chapter 2 of course 82252A) early while delaying claiming your own retirement benefits past full retirement age (you had to be born before January 2, 1954).

The scenarios for claiming one benefit while delaying another are discussed in the following sections.

## CONSIDERATIONS WHEN YOU'RE ENTITLED TO MORE THAN ONE BENEFIT

In addition to the factors that apply to everyone (discussed above), if you qualify for more than one type of Social Security benefit, you might want to delay claiming one benefit while you collect another type instead. Whether you're able to do this varies according to your prior and current marital status, the benefits available to you, and, with regard to dependents benefits, the year you were born.

### Unmarried, Divorced, or Widowed

If you've never been married, or if you were married but are now divorced or widowed, the best time to claim benefits depends on which benefits you're eligible for and whether you have dependents yourself.

*Dependent Children Can Change the Equation*

Any decision about when to claim retirement benefits might be a bit different if you have a minor or disabled child who is eligible for dependents benefits (which would pay the child an additional 50% of your retirement benefits). Dependents benefits payable to a minor child last only until the child turns 18, so if your child is already close to that age, the extra benefits wouldn't last long and probably won't affect your decision one way or the other. If, on the other hand, you have a younger child, the total benefits your child could collect until age 18 might make it worth claiming your retirement benefits earlier than you otherwise would.

### With No Benefits From Anyone Else's Work Record

If you aren't eligible for dependents or survivors benefits based on the work record of a prior spouse, you probably need to consider only the factors discussed in the previous sections—your immediate financial need, continuing work, and life expectancy—in deciding when to claim your retirement benefits.

### With Benefits From a Former Spouse's Work Record

If you were married previously, you might be eligible for dependents or survivors benefits based on your former spouse's work record. (Remember, though, that if you're divorced, you must have been married for at least 10 years to be eligible for dependents or survivors benefits.)

A divorced spouse might be able to claim dependents benefits as soon as the former spouse reaches full retirement age, whether or not the former spouse actually claims retirement benefits then (see Chapter 2 of course 82252A). But you can't choose between dependents benefits and your own

retirement benefits. When you file for either, Social Security will pay you whichever one is higher. And filing for either dependents or retirement benefits early will cause your dependents or retirement benefits to be reduced by the same percentage.

But if your survivors benefits are higher than your own retirement benefits, you might be able to claim those instead of your own benefits. Whether and when to consider such a claim depends on the following rules.

A wrinkle in the Social Security laws allows you to claim early retirement or survivors benefits and then switch to the other of these two benefits without the early claim reducing the new benefit amount. It can work in either of two ways:

- You can claim survivors benefits as early as age 60 (or earlier if you're disabled or caring for the deceased worker's child who is younger than age 16 or disabled; see Chapter 3 of course 82252A). If you claim survivors benefits before full retirement age, your early claim reduces those survivors benefits but does not affect your own retirement benefits. Your retirement benefit will continue to grow (until you reach age 70) while you're collecting survivors benefits. At any point, you can switch to your own retirement benefits. Given this rule, even if your survivors benefits are somewhat smaller than your retirement benefits, you might want to claim those smaller benefits for several years while your retirement amount grows.
- You can claim your own retirement benefits before you reach full retirement age even if your survivors benefits would be larger. Why? Because your early retirement benefits claim won't affect your later survivors benefits, which can grow if you delay claiming them. So, you can first take your reduced retirement benefits without affecting your survivors benefits. When you switch to the survivors benefits later, they'll be higher for the rest of your life.

**Married Couples**

The rules for married couples allow for some manipulations that can mean higher lifetime benefits for one or both spouses.

**If Only One Spouse Is Eligible for Retirement Benefits**

Although their numbers are shrinking rapidly, there are still many married women who didn't do enough paid work outside the home during their lifetime to have earned Social Security retirement benefits. (This happens with men, too, of course, but the number of men in this situation is smaller, so the discussion here will assume the example of a no-retirement-benefits wife with a husband who has earned retirement benefits.)

A wife in this circumstance is eligible for dependents benefits (spousal benefits) only when her husband claims retirement benefits, and is eligible for survivors benefits when her husband dies. If

the wife claims dependents or survivors benefits before her full retirement age, she'll get a reduced benefit.

The husband, in this case, is eligible only for his own retirement benefits. He would have no dependents benefits based on his wife's work record, and no survivors benefits if she dies before him.

In addition to a reduction in benefits if the husband starts receiving benefits before reaching full retirement age, a married couple with only one retirement benefit is faced with two Social Security rules:

- If the husband delays his retirement benefits claim until after full retirement age (up to age 70), both his retirement benefits and the wife's survivors benefits (if she outlives him) will go up.
- The wife can't claim dependents benefits (spousal benefits) until the husband claims his retirement benefits.

You'll need to make some calculations to determine what makes sense for your household. Is the increase you'll get from delaying your retirement claim worth not getting spousal benefits for a number of years?

***Early Retirement or Dependents Claim Reduces the Other Benefit for You as Well***

You're eligible for a reduced early retirement benefit at age 62. If you claim retirement benefits at any time before you reach full retirement age, that early claim permanently reduces those benefits by 0.52% per month (until you reach full retirement age). The same is true for dependents benefits: If you claim dependents benefits between age 62 and full retirement age, those benefits are permanently reduced by 0.52% per month.

Many people don't realize, though, that claiming either early retirement or early dependents benefits also permanently reduces that other benefit for you. You can't claim early retirement benefits and then switch to full dependents benefits, or claim early dependents benefits and then switch to full retirement benefits. As soon as you claim one of those benefits early, the other one is also reduced by the same percentage.

**Note:** You claiming early retirement benefits doesn't reduce the amount of your spouse's or child's dependents benefit amount. Nor does your early retirement benefits claim affect the amount of the survivors benefits you can claim based on your spouse's work record when your spouse dies.

**If Both Spouses Are Eligible for Their Own Retirement Benefits**

In most couples now reaching retirement age, both spouses have earned Social Security retirement benefits. That means that each spouse is also entitled to dependents (and, eventually, survivors)