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Social Security:

File-and-Suspend for Higher Benefits

If you're married and looking for opportunities to increase retirement income, you may want to look closely at your Social Security benefits. One opportunity for maximizing Social Security income, called "file-and-suspend," may enable a married couple to boost both their retirement and survivor's benefits.

What is file-and-suspend?

Generally, a husband or wife is entitled to receive a Social Security retirement benefit based either on his or her own earnings record (a worker's benefit), or on his or her spouse's earnings record (a spousal benefit), whichever is higher. But under Social Security rules, a husband or wife who is eligible to file for retirement benefits based on his or her spouse's record cannot do so until his or her spouse begins receiving benefits. However, there is one exception--someone who has reached full retirement age may choose to file for retirement benefits, then immediately request to have those benefits suspended, so that his or her eligible spouse can file for spousal benefits.

File-and-suspend is a strategy that may be used in a variety of situations, but is commonly used when one spouse has much lower lifetime earnings, and thus will receive a higher retirement benefit based on his or her spouse's earnings record. (A husband or wife's spousal benefit may be as much as 50% of what his or her spouse is entitled to receive at full retirement age.) Using this strategy not only allows the eligible spouse with lower earnings to immediately claim a higher (spousal) retirement benefit, but can also increase the amount of available survivor protection. The spouse with higher earnings who has suspended his or her benefits can accrue delayed retirement credits at a rate of 8% per year (the rate for anyone born in 1943 or later) up until age 70. Because a surviving spouse will generally receive a benefit equal to 100% of the retirement benefit the other spouse was receiving (or was entitled to receive) at the time of his or her death, suspending a benefit to accrue delayed retirement credits may substantially increase the survivor's benefit.

Example

Let's look at one hypothetical example of how filing for, then suspending, Social Security benefits might help a married couple increase their retirement income and survivor's benefits. Henry is about to reach his full retirement age of 66, but he wants to postpone filing for Social Security benefits. At full retirement age his monthly benefit will be \$2,000, but if he waits until age 70 to file, his benefit will be \$2,640 (32% more) due to delayed retirement credits. However, his wife Julia, who has had substantially lower lifetime earnings than Henry, wants to retire in a few months at her full retirement age (also 66). Based on her own earnings record, Julia will be eligible for a monthly benefit of \$700, but based on Henry's earnings record she will be eligible for a monthly spousal benefit of \$1,000 (50% of Henry's entitlement).

So that Julia can receive the higher spousal benefit as soon as she retires, Henry files an application for benefits, but immediately suspends it. That way, he can also continue to earn delayed retirement credits, which will result in a higher monthly retirement benefit for him later.

Using the file-and-suspend strategy not only increases Julia and Henry's retirement income, but it also offers increased survivor protection. Upon Henry's death, Julia will be entitled to receive 100% of what Henry was receiving (or was entitled to receive) at the time of his death. So by suspending his own retirement benefit in order to increase it through delayed retirement credits, Henry has ensured that Julia will receive a survivor's benefit that is up to 32% higher for the rest of her life should he die first. (Note, though, that this hypothetical example is for illustrative purposes only and does not account for cost-of-living adjustments or taxes.)

Points to consider

- Deciding when to begin receiving Social Security benefits is a complicated decision. You'll need to consider a number of scenarios, and take into account factors such as both spouses' ages, estimated benefit entitlements, and life expectancies. A Social Security representative can help explain your options.
- Ask a tax professional to help you weigh the tax consequences of delaying Social Security income.
- Using the file-and-suspend strategy may not be advantageous when one spouse is in poor health or when Social Security income is needed as soon as possible.
- The spousal benefit will be reduced if the spouse claiming it is under full retirement age.