It doesn't always pay to delay Social Security

Some public employees may not be eligible for survivor benefits

By **Mary Beth Franklin**

Mar 28, 2014

Normally, I recommend that most married couples consider the ultimate impact of their Social Security-claiming decision on the survivor benefit they may leave behind for their spouse.

As a quick refresher, Social Security survivor benefits are worth 100% of the retirement benefit that the deceased worker collected or was entitled to collect at time of death if the surviving spouse begins collecting the benefit at his or her full retirement age or later.

So the larger the retirement benefit, the larger the survivor benefit.

Survivor benefits are available as early as age 60, but they would be worth just 71.5% of the deceased worker's benefit, compared with collecting 100% at full retirement age of 66 or later. Survivor benefits are also available to a spouse of any age who is caring for the deceased worker's child who is under 16.

I often counsel married couples to delay the retirement benefits of the higher-earning spouse until full retirement age or later to lock in the biggest retirement benefit — and consequently the biggest survivor benefit possible.

Retirement benefits earn delayed-retirement credits worth 8% per year for every year benefits are postponed beyond full retirement age up to 70. So someone whose full retirement age is 66 is eligible for a retirement benefit worth 132% of his or her full retirement age amount if he or she postpones collecting Social Security until 70. The actual benefit amount is even higher because annual cost-of-living adjustments for the four intervening years are applied.

A survivor benefit includes the deceased worker's delayed-retirement credits.

But delaying a claim for retirement benefits may not make sense for those couples where the surviving spouse may not be eligible to claim Social Security benefits.

Howard Loiterstein, an investment adviser with the The Loiterstein Group, wrote to me recently and noted that his wife is a retired schoolteacher and receives a pension from work where she did not contribute to Social Security. Consequently, she is affected by a special rule called the Government Pension Offset provision.

The provision applies only to benefits for spouses, ex-spouses and survivors. It reduces potential Social Security benefits by two-thirds of the amount of the government pension. (A separate Windfall Elimination Provision applies to workers who receive a pension from noncovered work and who are also entitled to Social Security benefits based on their own earnings from work in the private sector.)

For example, if Mr. Loiterstein's wife collects $900 per month from her teachers' pension, any Social Security spousal benefit she might receive is first be reduced by $600 per month — two-thirds of her teacher's pension. So if she is entitled to a Social Security spousal benefit of $800 per month, she receives just $200 per month after the GPO reduction ($800 - 600 = $200).

Public-sector employees — including some public schoolteachers in 15 states — are not covered by Social Security. Those states include Alaska, California, Colorado, Connecticut, Illinois, Louisiana, Maine, Massachusetts, Missouri, Nevada, Ohio and Texas, as well as certain local governments in Georgia, Kentucky, and Rhode Island.

Mr. Loiterstein said his wife's teacher pension is large enough that the GPO reduction could totally wipe out any Social Security spousal or survivor benefit.

“When I die, my wife will not receive Social Security survivor benefits, because of the amount of her pension,” Mr. Loiterstein wrote. “It would seem people in this circumstance would be better off taking Social Security at age 66. What do you think?”

I agree. When survivor benefits are not an issue, delaying Social Security benefits may not be the best decision. Of course, it also means the adviser forfeits the ability to increase his or her retirement benefits by nearly one-third if he or she claims benefits at 66 rather than delaying them until 70.

Here's a possible compromise: If Mr. Loiterstein thinks he may want to delay collecting benefits beyond his full retirement age in order to lock in delayed-retirement credits, he may want to file and suspend his benefits at 66. That way, if he changes his mind later, he could ask Social Security for a lump-sum payout of his retirement benefits back to the date he filed and suspended his benefits.

Of course, if Mr. Loiterstein requests a lump-sum payout, he cannot collect delayed-retirement credits for the same period. Going forward, his monthly Social Security payments will be based on the age when he initially files and suspends his benefits.