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Women and Social Security

How to help women enhance this source of retirement income

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It seems only fitting to focus our May issue of Advanced Markets Explained on women as we celebrate women around the world this month. When it comes to preparing for retirement, women have a unique set of challenges that are less likely to be experienced by their male counterparts. These challenges present an opportunity for you to help your female clients more adequately prepare for retirement. The first step is knowing what those challenges are.

Less Earned, Less Saved

In a study by the National Women's Law Center in March 2021, data indicates that women who work full-time, year-round earn on average .82 cents for every dollar earned by a man in the United States.[1] As the gender pay gap continues to narrow and the labor force participation rate of women increases, many women are still challenged with disjointed work histories. They may leave work temporarily or permanently to have children or take on other family responsibilities such as caring for aging parents. As a result, they may have smaller retirement savings than men. Women who have breaks in work history or choose to work part-time tend to have fewer Social Security retirement benefits as a result. As of December 2019, Social Security Administration's (SSA) master beneficiary record reported the average Social Security benefit of a man to be $1,646.18 while a woman's benefit averaged $1,281.60.

Living Longer, Retired Longer

According to SSA, a 65-year-old man in 2021 can expect to live until age 84, while a 65-year-old woman can expect to live until age 87. Because women typically have less saved for retirement and must generally plan for more years in retirement, Social Security benefits are likely a more significant part of their overall retirement income. This is also highlighted by the fact that 96% of survivor benefits are paid to women.[2]

Less Confident, Left Out

According to the 2019 Allianz Women, Power and Money study, 62% of women surveyed said they felt financially insecure. Of those working with financial professionals, 60% felt left out of financial planning discussions, yet they are more likely to seek information to help them achieve financial literacy.[3]

Operation Education – Critical

The challenges typically faced by women require them to take the driver's seat for their own retirement. As a financial professional, you can help create a more informed and empowered client by appreciating her circumstances and catering your conversations to her. Understanding Social Security basics is a critical ingredient to crafting a retirement income plan that will last as long as she does. Your ability to answer these questions will help your female clients take control of their Social Security claiming decision.

Am I eligible?

To be eligible or fully insured by Social Security, an individual must have earned 40 credits or work for roughly 10 years. In 2021, one credit is worth $1,470[4]. A maximum of 4 credits may be earned per year. Someone who earns $5,880 in 2021 would earn 4 credits, even if they were earned in just one or two quarters, provided they live the entire year.

Once 40 credits have been earned, any future earnings are just gravy – meaning that the worker will always be entitled to a benefit and additional years of earnings will only increase the benefit received.

Women Short of 40

If a woman lacks the 40 credits, explore how close she is to earning the requisite credits to push her over the 40. Can she return to work, perhaps even part-time? Absent that possibility, she may still be eligible to file for benefits under a spouse or ex-spouse's record (more on that later).

How is my benefit calculated?

I would guess that most near-retirees, male and female alike, have a limited understanding of how Social Security benefits are calculated. While it is crucial for everyone to understand, women are more likely to rely on Social Security benefits more and collect more cumulative benefits over a lifetime since they typically live longer.

The Primary Insurance Amount (PIA) is the amount a worker can expect to receive at Full Retirement Age (FRA)[5]. It's important to understand is that the PIA is calculated using the highest 35 years of indexed earnings, converted into average indexed monthly earnings (AIME), and applied to a 3-tier formula[6]. Indexing the earnings up to the year that the worker turns age 60 ensures that earlier earnings are adjusted to keep up with inflation. Earnings at age 60 and later are not indexed. Lower earners will receive a greater replacement of pre-retirement earnings than those with higher earnings history.

Close the 35 Year Gap

Since some women may have abbreviated work histories, they may lack 35 years of earnings. The PIA of a woman who has 23 years of earnings, for example, will be based on those 23 years plus 12 years of zeros to make up the 35 years required for the calculation.

Encouraging your female clients to work longer to close the 35-year earnings gap will not only help them increase their future monthly benefit but will likely equate to fewer years in retirement.

What is my Full Retirement Age?

Critically important is for women to realize that no two FRA's are alike. An individual's FRA is based upon her year of birth. The only exception is for a woman born on January 1st; in this case, she would refer to the year prior to her birth year to determine her FRA. Refer to the chart below to determine FRA:

Year of Birth	Full Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943 - 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

A woman's FRA is critical for many reasons. First, it is the age at which a woman can expect to receive 100% of her Primary Insurance Amount—filing before her FRA can produce a reduced benefit of up to 25-30% and impede her ability to work and collect benefits simultaneously. Conversely, claiming benefits beyond FRA could produce a higher benefit by as much as 24-32% depending upon her FRA[7].

Helping her explore the relationship between filing age and the benefit amount is one of the first steps to help maximize her retirement income plan.

A Delayed Claim Could Mean a Better Retirement

With all the changes to Social Security claiming strategies over the years, the one that has not been targeted is the value of a delayed claim. For each month beyond FRA an individual chooses to claim, she will earn 2/3 of 1% each month or 8% (plus COLAs) for every 12 months of delay[8].

When working with female clients who have a solid work history and saved for retirement (and therefore have choices), exploring the benefit of waiting to file beyond FRA should be high on the list. Generally, if she lives beyond age 81-82, she will receive more cumulatively by waiting until age 70 to file instead of filing at FRA or age 62. This may be particularly important for a single earner who is reliant solely on her own benefit for the rest of her life.

Am I entitled to a higher benefit from my spouse?

Asking the right questions is vital to uncovering otherwise missed opportunities for more significant benefits. If someone is entitled to more than one benefit, the higher benefit, but not both, will be paid to the recipient. The maximum spousal benefit is 50% of the worker spouse's PIA. An eligible spouse is one who[9]:

- Is at least age 62, or older, or
- At any age, if caring for a qualified dependent, age 16 or younger, and
- Her own benefit is smaller than the spousal benefit*, and
- Married for at least 1 year, and
- Her spouse is collecting a benefit.

*An individual born before January 2nd, 1954 has the option to file first for spousal benefits and later file for her higher retirement benefit as late as age 70. Anyone born after that date will only collect a spousal benefit if it's greater than her own retirement benefit. And remember, her spouse must be collecting a benefit (retirement or disability) for her to be eligible for spousal benefits!

Timing Matters

Whether the dependent spouse collects the maximum spousal benefit depends upon her filing age, not her spouse's. If she waits until her FRA, she will get the full 50%; conversely, if she files earlier, her spousal benefit could be reduced by as much as 35% for a woman with an FRA of 67 who files at age 62.

If her spouse files for their benefit at age 62 but she waits until her FRA, for example, she's still entitled to 50% of her spouse's benefit at FRA, not 50% of their reduced benefit, an often-misunderstood point. Conversely, waiting beyond FRA to file when the spousal benefit produces a higher benefit than her own has no merit because her spousal benefit will never exceed 50% of her spouse's PIA, even if she waits beyond FRA to claim it!

What about benefits from my ex?

The maximum ex-spousal benefit mirrors those just discussed with a maximum of 50% of the former spouse's PIA, reduced if claimed early.An eligible ex can also collect a benefit from her ex-spouse while their current spouse also collects benefits from them, if applicable.

An eligible ex-spouse is one who[10]:

- Is at least 62 years of age, and
- Has been married for 10 or more years to the former spouse, and
- Is currently unmarried, and
- Her own retirement benefit is less than the ex-spousal benefit*, and
- Her former spouse is collecting his benefit, or
- The former spouse is at least 62, and the divorce occurred at least 2 years before the claim.

*Refer to the special rule for individuals born before January 2nd, 1954 above.

Cherry Picking isn't just for Farmers

What if you're working with a female client/ prospect who's been married and divorced more than once? If she has been married for 10+ years to more than one person, she can use the highest PIA among her former spouses and claim a benefit on that one! Remember, the benefit must produce a higher benefit than her own, and she must remain unmarried to continue collecting a benefit from a former spouse. If she remarries, those benefits will stop.

My spouse just died. What happens to his benefit and mine?

It's never easy to work with a distraught widow during the loss of her spouse. But being proactive in reviewing her options could be the difference in her successful planning. Generally, when one spouse dies, the lower benefit is replaced with the higher benefit. If the higher benefit belonged to the spouse who died, that point alone might be a relief to a widow concerned about how she will make ends meet. But remember, there is still a loss in income as the lower monthly benefit she previously collected will no longer be paid to her.

Survivor 100/Spousal 50

One of the essential differences between survivor benefits and spousal benefits (when both spouses are alive) is the percentage that a survivor can expect to receive. While spousal (or ex) benefits are capped at 50% of the worker's PIA, survivor benefits can be as much as 100% of what the deceased spouse was collecting or entitled to collect at their death, depending upon how old the survivor is when she files for the benefit[11]. What's more – any delayed retirement credits earned by the deceased spouse, whether collected or not, will be inherited by the surviving spouse!

For this reason, when you are working with married couples, particularly those with a wide disparity in benefit amounts, you should encourage the higher wage earner to wait until at least FRA or longer to file. The higher earner's claiming age decision is going to be critical to the surviving spouse's income!

Age 60, not 62

Another unique difference with survivor benefits is that they can be claimed as early as age 60 (50, if disabled). A claim at age 60 will provide the survivor with 71.5% of the deceased spouse's benefit. Each month beyond age 60 up to the survivor's FRA will produce a higher benefit up to 100% of what the deceased spouse was collecting or entitled to collect at death.

Hold the Wedding Bells until age 60

At age 60 or later, remarriage does not preclude a surviving widow (or ex-spouse with 10 years of marriage under her belt) from claiming the survivor benefit. This is vastly different than collecting a spousal or ex-spousal benefit from a spouse's record who is still living.

If you are working with a young widow who is contemplating remarriage, it may make sense for her to wait to take the matrimonial leap once she reaches her 60th birthday. 100% of a survivor benefit compared to 50% of her new spouse's PIA may be worth waiting to collect the higher survivor benefit.

The Survivor Switch Technique

Hands down, one of the most overlooked strategies to enhance the overall lifetime benefit is what I call the survivor switch technique.

Suppose your longtime client Janice recently lost her husband of 25 years. She is 63 and her husband, John, was 73. His monthly social security benefit was $2,950, and Janice is currently collecting her own retirement benefit of $1,675. Janice has two choices.

Option 1: Janice could claim John's higher benefit immediately and collect a reduced survivor benefit of $2,507 for the rest of her life[12]. Note that individuals born between 1957 and 1961 have a survivor FRA that differs from their retirement FRA. Refer to: www.ssa.gov/benefits/survivors/survivorchartred.html.

Option 2: Janice could continue to collect her retirement benefit until she reaches her survivor FRA of 66 and 4 months so that she can collect the full 100% of John's survivor benefit. This option will provide a higher lifelong survivor benefit and will pay her more cumulatively than had she made the switch earlier.

Here's another example:

Grace, age 62, recently lost her husband, Frank, to a heart attack. He was collecting $2,000 at the time of his death. Grace's PIA is projected to be $1,900 at her FRA.

Option 1: Grace makes an appointment with SSA and files for benefits. Her retirement benefit, at age 62, is $1,342, and the survivor benefit is $1,606. She collects the higher of the two benefits, which was Frank's benefit, for the rest of her life.

Option 2: Grace restricts her filing to Frank's survivor benefit only and collects $1,606. At age 70, she switches to her own retirement benefit, which is worth $2,381. Doing so produces not only a higher lifelong benefit but also increases her cumulative lifetime benefits.

Making a restricted claim for either survivor or retirement benefits after one spouse dies does not require the claimant to be born before January 2nd, 1954. It is one of the most overlooked strategies to enhance lifetime benefits.

Can I work and collect my benefit at the same time[13]?

So far, we have talked about the various benefits that your female (and male) clients may be eligible for and the importance of fact-finding to avoid missed opportunities. We have also covered that an early claim produces a reduced benefit while a post-FRA claim produces a higher benefit.

While working longer is likely key to a greater sense of comfort in making retirement assets last, working can be problematic for an early (i.e., pre-FRA) filer. Here's why.

Under FRA the entire year

A claimant who files in a year that does not include their FRA is subject to an annual earnings cap of $18,960. Earned income is what counts here, not other types of income like dividends, IRA distributions, or rental income, nor do spouses' earnings apply. Income above $18,960 (2021) causes the benefit to be reduced by 50% of income over $18,960. For example, someone with a monthly benefit of $1,000 but with excess income of $10,000 will not collect the first $5,000 of her benefits (50% of the excess income) and will not receive a benefit until month 6.

Ensuring that your working clients understand how work affects an early claim is critical. Particularly, since excess income will cause benefits to be withheld until the excess is accounted for, planning for immediate monthly income is impossible for someone who exceeds the earnings limit.

The Year of FRA

If an early filer reaches her FRA in 2021, she gets a more generous earnings limit of $50,520. Excess income over that amount will only reduce her benefits by 1/3 of that excess; only the months leading up to her FRA month are subject to the earnings test. Once she reaches FRA, earnings become a non-issue as the earnings limit no longer applies.

It's important to understand that ALL benefits (retirement, spousal, ex-spousal, and survivor) are subject to the earnings test. Practically speaking, if you can encourage your working client to wait to file until at least FRA, she can then collect 100% of her PIA and avoid the earnings test altogether.

Gone but not Lost Forever

Being proactive rather than reactive to the earnings limit is critical. If a working client insists upon claiming early while expecting to earn more than the limit, encourage her to let SSA know beforehand so her benefits can be withheld on the front end rather than catching up to her later. It will catch up to her in the form of an overpayment letter with an expectation of sending the excess benefits back immediately. Equally important is to ensure that your client knows that her previously withheld benefits will be restored in the form of a higher monthly benefit once she reaches FRA.

Pay Attention to Your Female Clients

The reality is that the role of women is shifting, and so is wealth in America. More women are becoming the primary breadwinners and managing their families' household financial decisions. Even more eye-opening is that a recent report indicates that, by 2030, women are expected to control as much as $30 trillion in financial assets once owned by baby boomers.[14] Engaging your female clients and understanding and addressing the unique challenges they face can be the gateway to a more trusting and long-lasting relationship.

Sources:

[1] https://nwlc.org/resources/wage-gap-state-women-overall-2017/

[2] https://www.ssa.gov/cgi-bin/currentpay.cgi

[3] Allianz Life: 2019 Women, Money, and Power Summary Sheet.

[4] https://www.ssa.gov/benefits/retirement/planner/credits.html#h0

[5] https://www.ssa.gov/oact/ProgData/nra.html

[6] https://www.ssa.gov/oact/cola/Benefits.html#aime

[7] https://www.ssa.gov/benefits/retirement/learn.html#h1

[8] https://www.ssa.gov/benefits/retirement/planner/delayret.html

[9] https://www.ssa.gov/benefits/retirement/planner/applying7.html#h2

[10] https://www.ssa.gov/benefits/retirement/planner/applying7.html#h4

[11] https://www.ssa.gov/benefits/survivors/ifyou.html#h6

[12] https://www.ssa.gov/benefits/survivors/1958s.html

[13] https://www.ssa.gov/benefits/retirement/planner/whileworking.html

[14] https://www.mckinsey.com/industries/financial-services/our-insights/women-as-the-next-wave-of-growth-in-us-wealth-management

Women's Top 6 Social Security Questions Answered

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1 How Are My Benefits Calculated?

Your Social Security benefit is formally known as the Primary Insurance Amount (PIA). The PIA is the amount you can expect to receive once you've reached your Full Retirement Age (FRA). Your PIA is calculated using the highest 35 years of indexed earnings converted into average indexed monthly earnings (AIME) and then applied to a 3-tier formula to give you your monthly benefit amount. Earnings are indexed until age 60 to ensure that your earlier earnings are adjusted to keep up with inflation. Any earnings after age 60 are not indexed. You can calculate your estimated benefit here.

2 Should I Delay My Claim After I Reach My Full Retirement Age?

If you wait to claim your Social Security benefits, you can earn an additional 8% for every 12 months you wait to file after you've surpassed your FRA. Discuss with your financial professional if you can afford to wait and claim your benefits later in life.

4 Can I Claim Benefits from My Ex?

If you have an Ex-Spouse, you may also claim up to a 50% maximum of their benefit if you meet the following criteria.

- Age 62 or older
- At any age, if caring for a qualified dependent, age 16 or younger
- Your own benefit is smaller than the spousal benefit*
- Married for at least 10 years
- Your Ex-Spouse is collecting a benefit

3 Am I Entitled to a Higher Benefit from My Spouse?

If you have a spouse, you might be able to receive a larger spousal benefit than your own individual benefit if you meet the following criteria:

- Age 62 or older
- At any age, if caring for a qualified dependent, age 16 or younger
- Your own benefit is smaller than the spousal benefit*
- Married for at least 1 year
- Your spouse is collecting a benefit

*The maximum spousal benefit is 50% of the larger spouse's retirement benefit at FRA. So, if your individual benefit is less than 50% of your spouse's benefit, you can claim a bigger benefit from your spouse.

5 What Happens to My Spouse's Benefit If He/She Dies?

If your spouse dies and he/she receives a larger benefit than you, typically, the lower benefit will be replaced with the higher benefit. This gives some widows relief who are concerned about making ends meet, but there is still a loss of income because their individual benefit will no longer be paid.

6 Can I Work and Collect Benefits at the Same Time?

You can work and collect your benefit simultaneously; however, your age is an important factor. If you have not reached your FRA in 2021, you will be subject to an annual earnings cap of $18,960. Any income exceeding $18,960 will cause your benefit to be reduced by 50% of the extra income.

For example, someone with a monthly benefit of $1,000 but with excess income of $10,000 will not collect the first $5,000 of their benefits (50% of the extra income) and will not receive a benefit for the first 6 months of the year.

If you reach your full retirement age in 2021, your annual earnings cap is increased to $50,520, and any excess income will only reduce your benefits by 1/3 of the excess. Once you reach your full retirement age, there is no earnings cap or benefit reduction.

Bonus – What is My Full Retirement Age?

Your FRA is based on your birth year. If you were born on January 1, refer to the year before your birth year. See the chart below to determine your FRA:

Year of Birth	Full Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67