

June 2015

# Social Security & Marriage Equality

*How would marriage equality affect the Social Security benefits of same-sex married couples?*

## INTRODUCTION

The American Social Security system is known for its strong benefits for married couples, including benefits for spouses and survivors of deceased workers. If the Supreme Court grants recognition of same-sex partners' marriages across the country it will materially impact the retirement security of same-sex couples for the better. Such a ruling would enable same-sex couples in every state to have access to Social Security's married-couple benefits, including spousal and survivor benefits. [This new benefit could add tens of thousands of dollars in additional lifetime benefits to same-sex couples.](#) Heterosexual married partners have benefitted from these important benefits for decades. With so much money at stake, it's important for same-sex couples to understand the valuable benefits that will likely be available to them and make the best decisions possible to optimize these benefits. It also provides a great opportunity for all married couples—regardless of their orientation—to review their Social Security claiming strategies to maximize their lifetime benefits.

The following summary outlines how much in additional benefits one same-sex couple would be eligible for if they are considered a married couple for Social Security purposes. In addition, we include the extra impact for this couple of optimizing when they start taking their Social Security benefits.

## SOCIAL SECURITY PLANNER

Financial Engines provides a Social Security Planner available to everyone at no charge to help with Social Security claiming decisions. Access it [here](#). This solution is especially valuable for married couples to ensure they fully maximize their benefits.

In the scenario below we assign this couple specific lifespans (Henry dies at 84, Logan at 90) for illustrative purposes. In reality, no one can predict exactly when they will die. The 84-90 combination is only one of many possible outcomes. Financial Engines' Social Security Planner takes into account all the possible lifespan combinations for a couple and determines the Social Security benefits for each possible combination to come up with the expected lifetime benefits for the couple. This makes our lifetime benefits estimates more accurate than simply guessing when you might die. Go to [www.financialengines.com](http://www.financialengines.com) to give it a try.

## MEET HENRY AND LOGAN

# Henry and Logan's Social Security benefits as two single people total \$797,280

Let's review a sample couple named Henry and Logan who live in a state where same sex couples' marriages will be newly recognized if the Supreme Court rules in favor of marriage equality. Henry is 2 years older than Logan. They are approaching their 64<sup>th</sup> and 62<sup>nd</sup> birthdays and facing the big decision of when to begin collecting the Social Security benefits they have earned. Henry's current salary is \$80,000 per year and based on his steady earnings history, his full benefit amount is \$2,500 per month if he begins collecting benefits at his full retirement age of 66 as a single person. Henry takes benefits early at age 64, so his monthly benefit amount is reduced to \$2,167. Meanwhile, Logan has spent his career in a lower paying occupation and has taken several years off from paid work, which affected his earnings history with Social Security. As a result, his full benefit amount is \$1100; however, since Logan is starting benefits early at age 62, his earned benefit is reduced by 25 percent to \$825 per month.<sup>1</sup> We assume that Henry dies at 84 and Logan dies at 90 for the purposes of this illustration.

Their total Social Security benefits would amount to \$797,280 as two single people if Henry and Logan start collecting their benefits at ages 64 and 62 as shown below.<sup>2</sup>

### Scenario 1

Monthly and total Social Security benefits if start benefits at 64-62 as two single people

	<b>Benefit Type, Amount</b>	<b>Age Starts Benefits</b>	<b># of Years Collects Benefits</b>	<b>Total Lifetime Benefits</b>
Henry	Earned benefit, \$2,167/month	64	20	\$520,080
Logan	Earned benefit, \$825/month	62	28	\$277,200
<b>Total for both, each as a single person</b>				<b>\$797,280</b>

## IMPACT OF MARRIAGE

### Marriage adds \$140,832 to the couple's Social Security benefits

If Henry and Logan claim their Social Security benefits still at ages 64 and 62, respectively, but this time as a married couple, their combined benefits over their lifetimes would increase to \$938,112 instead of \$797,280. The ability to claim as a married couple would increase their Social Security benefits by \$140,832. This is because Logan can now receive spousal and survivor benefits based on Henry's higher earnings history. Thus, instead of \$825 per month based on his own earnings history, Logan can now receive \$875 in spousal benefits for 20 years, based on Henry's full benefit amount.<sup>3</sup> More importantly, when Henry dies, Logan's survivor benefit is \$2,167 per month (same as Henry's earned benefit), which is much more than he would have received as a single person (\$825 per month).

As a married couple Logan and Henry are much better off, with Logan in particular benefitting from the official recognition of his marriage. If considered a single person, Logan would receive \$277,200 from Social Security over his retirement years. Instead, if his marriage is officially recognized then he would receive \$210,000 in spousal benefits and \$208,032 in survivor benefits for a total of \$418,032.

#### Scenario 2a

Monthly and Total Social Security Benefits if start at 64-62 as a Married Couple

	Benefit Type, Amount	Age Starts Benefits	# of Years Collects Benefits	Total Lifetime Benefits
Henry	Earned benefit, \$2,167/month	64	20	\$520,080
Logan	Spousal benefit: \$875/month	62	20	\$210,000
	Survivor benefit: \$2,167/month	82	8	\$208,032
Logan's Total				\$418,032
<b>Total for both, as a married couple</b>				<b>\$938,112</b>

## IMPACT OF MARRIAGE

### Scenario 2b

Total Social Security benefits if start at 64-62 as single person and as a married couple

	Total benefits for both, start benefits at 64-62 each as a single person	Total benefits for both, start benefits at 64-62 as a married couple	Added benefits due to spousal and survivor benefits available to married couples
Henry & Logan	\$797,280	\$938,112	\$140,832

## Optimizing claiming adds another \$202,176 to the couple's Social Security benefits

Lastly, Henry and Logan can do even better if they optimize when they start taking their Social Security benefits. Taking benefits early results in lower benefits compared to waiting. Every year that you wait to claim earned benefits up to age 70 adds an additional 6 – 8 percent to your monthly benefits. If Henry and Logan optimize their claiming ages, they will take home a total of \$1,140,288. This compares to \$938,112 if they claimed benefits at ages 64 and 62 as a married couple. By optimizing their claiming strategy they receive \$202,176 more than if they claimed at ages 64 and 62. The optimal claiming strategy for Henry and Logan calculated by Financial Engines' Social Security Planner is as follows:

- At age 68, Henry files for earned benefits and suspends them.<sup>4</sup> This allows Logan to receive spousal benefits while Henry's earned benefits continue to grow.
- At age 66, Logan files for spousal benefits (\$1,250/month); but does a restricted application to exclude earned benefits.
- At age 70, Henry starts collecting earned benefits (\$3,300/month).
- At age 70, Logan switches to earned benefits (1,452/month).
- With this strategy, Logan's survivor benefit amount becomes \$3,300/month.

By optimizing their Social Security claiming strategy, Henry and Logan both receive more in benefits over their retirement years (see table on next page).

## IMPACT OF OPTIMIZING

### Scenario 3a

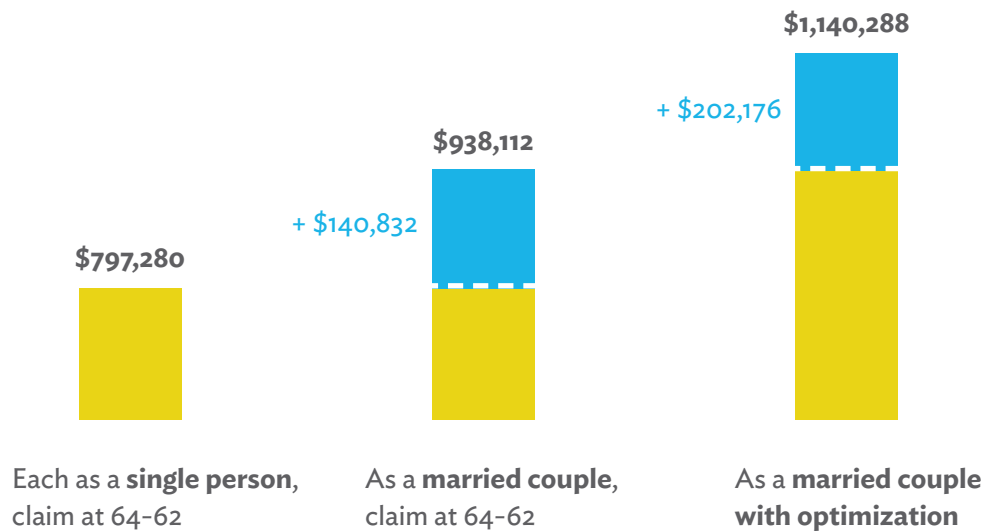
Monthly and total Social Security benefits if optimize when to start benefits as a married couple

	<b>Benefit Type, Amount</b>	<b>Age Starts Benefits</b>	<b># of Years Collects Benefits</b>	<b>Total Lifetime Benefits for each person</b>
Henry	Files and suspends	68	n/a	
	Earned benefit, \$3,300/month	70	14	\$554,400
	Henry's Total			\$554,400
Logan	Spousal benefit, \$1,250/month	66	4	\$60,000
	Earned benefit, \$1,452/month	70	12	\$209,088
	Survivor benefit, \$3,300 month	82	8	\$316,800
	Logan's Total			\$585,888
<b>Total for both, as a married couple with optimization, claim at 70 and 66, file and suspend</b>				<b>\$1,140,288</b>

## IMPACT OF OPTIMIZING

### Scenario 3a

Total Social Security benefits for Henry and Logan



The positive impact on the couple could be even bigger if the differences in earnings history were greater—for example, if one spouse was not eligible for any Social Security benefits on their own, but then received spousal and survivor benefits based on the earnings history of a high-income spouse.

Social Security plays a critical role in American retirement security and represents about 38% of the income of the elderly.<sup>5</sup> This important source of retirement income and its particular value to married couples could soon be available to same-sex partners for the first time nationwide. It is important that all married couples—regardless of orientation—make the most informed claiming decisions that they can to maximize their total benefits.

As a help to all workers facing this complex decision, Financial Engines created the Social Security Planner to provide guidance on optimal claiming strategies. It is available to everyone at no charge via the internet. Please go to [www.financialengines.com](http://www.financialengines.com) and see how much more in Social Security benefits we can find for you.

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<sup>1</sup> The full benefit amount is the amount that a person is eligible for if they start benefits at their Full Retirement Age. The Full Retirement Age varies between 65 and 67. Logan's Full Retirement Age is 66. See more at Social Security Administration, Retirement Planner, <http://www.ssa.gov/planners/retire/retirechart.html#sb=2>.

<sup>2</sup> Social Security benefits are annually adjusted for inflation. We calculate the net present value of the lifetime benefits by adding up all the annual benefits. We use a 0% discount rate.

<sup>3</sup> Henry's full benefit amount is \$2,500. Logan's full spousal benefit amount is half of this, \$1,250. Since Logan is taking his spousal benefits 4 years early at age 62, his spousal benefits are discounted by 30%. So, \$1,250 times 70% = \$875. Logan's spousal benefit is \$875.

<sup>4</sup> The "file and suspend" claiming strategy means that Henry would file for benefits and immediately suspend (not take) his benefits. Henry's earned benefit would continue to grow by the delay credits until age 70. During that time (while Henry accrues delay credits), Logan can start taking spousal benefits. This approach allows Henry's benefits to grow and the survivor benefits to increase while the couple also receives some spousal benefits. To read extensive background on optimization, please read Financial Engines' Social Security methodology report, Social Security in the New Retirement (Sunnyvale: Financial Engines, 2014). [http://corp.financialengines.com/employers/FE\\_Social\\_Security\\_Methodology\\_0214.pdf](http://corp.financialengines.com/employers/FE_Social_Security_Methodology_0214.pdf).

<sup>5</sup> Social Security Basic Facts. April 2, 2014. Social Security Administration. (<http://www.ssa.gov/news/press/basicfact.html>).

## About Financial Engines

Financial Engines is America's largest independent investment advisor.<sup>1</sup> We help people make the most of their retirement assets by providing professional investment management and advice. Headquartered in Sunnyvale, CA, Financial Engines was co-founded in 1996 by Nobel Prize-winning economist Bill Sharpe. Today, we offer retirement help to more than nine million employees across 600+ companies nationwide (including 144 of the Fortune 500). Our investment methodology, combined with powerful online services, dedicated advisor center and personal attention allow us to help more Americans get on the path to a secure retirement.

The scenario results are for informational purposes only. Decisions regarding Social Security are highly personal and depend on a number of factors, such as current cash needs, health and family longevity, plans to work in retirement, other retirement income sources, anticipated future financial needs, and the amount of a future Social Security benefit. For additional information on the financial impact of Social Security claiming strategies, see the Financial Engines white paper titled "Social Security in the New Retirement: Financial Engines' Social Security Methodology" at [http://corp.financialengines.com/employer/research\\_and\\_resources.html](http://corp.financialengines.com/employer/research_and_resources.html).

<sup>1</sup> For independence methodology and ranking, see InvestmentNews RIA Data Center. (<http://data.investmentnews.com/ria/>).

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1050 Enterprise Way, 3rd Floor  
Sunnyvale, CA 94089

[www.financialengines.com](http://www.financialengines.com)

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