



Individual Investor

## **Cruz: Social Security: Check out 'File and Suspend' Option**

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Barring a change in the rules, my wife, Georgina, and I are set with our plan for when to claim - or wait on - Social Security benefits.

Using a little known "file and suspend" strategy, I expect us to receive higher combined benefits over the long run, while protecting Georgina if I die first. We also expect to save on taxes.

Discussed in a working paper for the Pension Research Council at the University of Pennsylvania's Wharton School, this strategy calls for the lower-earner spouse - Georgina in our case - to file for benefits first under her work record.

Depending on their circumstances, some spouses may wish to do so as early as possible, which is age 62. Georgina will wait until her full retirement age of 66 in 2010 primarily because her earnings from freelance work would reduce her benefits until then.

As the higher-earner spouse, I will then "file and suspend" when I reach my full retirement age of 66 in 2011.

That means I will file for my full retirement benefits but immediately ask that they be voluntarily suspended (which can be done in the remarks section of the application, either on paper or online, said Dorothy Clark, a Social Security spokesperson). I will then wait to collect until I am 70. If we need money before then, we can tap our IRAs and other retirement plans.

Why do this?

- Once I file for benefits, even if I immediately suspend them, Georgina will become eligible for the spousal benefit.
- This benefit - 50 percent of what I would have received at full retirement age - will be higher than the benefit under her work record. (Note: If the lower-earning spouse files for benefits before full retirement age, the spousal benefit is reduced.)
- My benefit at age 70 will be considerably higher than at 66. For every year I

wait up to age 70, I get a credit of 8 percent a year on top of annual cost-of-living adjustments.

- If I die before Georgina, instead of the spousal benefit, she would receive a survivor benefit equal to whatever I was getting (or, generally, was entitled to get if I die before age 70).

- By taking withdrawals from IRAs if needed, we reduce mandatory distributions after age 70 and a half, potentially keeping more Social Security benefits tax-free.

Intrigued? The paper for the Pension Research Council argues that the full value of delaying Social Security, particularly for the higher-earner spouse, has not been properly measured because the tax advantages and spousal, survivor and cost-of-living-adjustment benefits have not been adequately considered.

"In the future, Social Security benefits will become increasingly valuable due to their tax-favored status, inflation protection, survivor protection, and longevity protection," said the paper, "Rethinking Social Security Claiming in a 401(k) World," by James Mahaney and Peter Carlson of Prudential Securities. (Even under the worst-case tax scenario, depending on other income, 15 percent of Social Security benefits are tax-free. Under the best-case scenario, all is tax-free.)

Mahaney and Carlson had discussed their strategy in an April 2006 paper for Prudential Financial, which I mentioned in a previous column. Their ideas have drawn more attention since their latest paper was presented at a Wharton conference.

"This strategy gives you the best of both worlds," that is, allows the lower-earner spouse to collect spousal benefits while the higher earner waits to receive higher benefits later, said Taylor M. Gang, an investment adviser with Evensky and Katz in Coral Gables Fla. And yet "the average person is totally unaware of it - and many professionals are not aware."

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