

Human-Centric Investing Podcast

Episode 58 – Social Security: What’s My Spouse (or Former Spouse) Entitled to?

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Intro This is the Human-centric Investing Podcast with John Diehl, where we look at the world of investing through the eyes of our clients. Over to you, John.

John Diehl: Hello, financial professionals. This is John Diehl, senior vice president of the Applied Insights team at Hartford Funds. Welcome to episode 58 of the Human-Centric Investing podcast. Joining me today is Mike Lynch. Mike is managing director on the applied insights team here at Hartford Funds. And gosh, Mike and I have worked together for over 20 years. And Mike, when it comes to topics, planning topics such as Social Security, qualified distribution, Mike to me is always the guy that I’ve gone to just to help me clarify and understand some of the more complex concepts that we oftentimes deal with. And so in today’s podcast, we really want to take a look at maybe a subsection of Social Security, planning, and I thought nobody better than Mike Lynch to join us for this conversation.

I will also point out that Mike does a lot of work for us in the Social Security area in terms of education. But one thing I want to point out is none of us work for the Social Security Administration. We always point clients to the Social Security Administration, because there are so many individual factors that go into these decisions and considerations. But in terms of general education, which is what we’re intending this podcast to be about today, there’s nobody better than Michael Lynch. So Mike, thanks for joining us on the podcast today.

Mike Lynch: Well, thanks John. I appreciate it.

John Diehl: So, Mike, I thought what I really wanted to concentrate on, it’s an area that we probably get more questions about this topic than any other one we consider Social Security overall. And the area is really about spousal benefits. I mean, when we’re presenting to audiences, oftentimes one of the first questions we’ll get, usually it starts with something like, “How will my spouse be affected if...?” And so, Mike, I think talking through a couple of examples today might help the financial professionals who are listening, kind of understand this a little bit better. So Mike, maybe to start off, I think, I’d probably ask you what are some of the more interesting questions you’ve ever gotten about spousal benefits?

Mike Lynch: Yeah, that’s a great point, John. Sometimes you get the questions before you even begin. You’re setting up your stuff and, in the old days we had a laptop and a projector, and somebody would tap me on the shoulder. The funny part is, usually the scenario is the spouse who never makes out too well. The spouse is either disabled or spouse has passed away in every scenario. But I think, what we usually get is just that, I think it’s because of the confusion about what if a spouse hasn’t worked as long, or maybe just not entitled to as much. What are they actually entitled to? And I think that whole illusion about spousal benefits, I think that warrants a lot of those questions. So I think it’s a great opportunity for advisors to go back and just make sure that their clients know. Because based on our research and based on the meetings we’ve done, the majority of folks really don’t understand what they’re entitled to.

And I think it’s a great opportunity, as you’ve mentioned, to educate them and really lay out what their options are, what’s available to them. But usually it’s, “Am I really entitled to this?” Putting them at ease to let them know that technically barring anything we didn’t talk about, they are entitled to that spousal benefit, which, many situations is a decent amount of money. So it’s something they certainly want to be aware of and take advantage of.

John Diehl: So Mike, we’ll start out at a very foundational level and maybe one of the first things I think about is that if the client is married, they should always be thinking about both their own benefit and then a separately-calculated kind of spousal benefit, right? Like there’s my own benefit, but then I’ve got to compare that against this thing called a spousal benefit. Is that the right way to think about it?

- Mike Lynch: Yeah. I think that's exactly what you want to think about. What we try and stress is, what are you entitled to at the end of the day? And generally it's either your own benefit, a spousal benefit, or if there's a death, a death benefit. But the first two, if I worked and I'm entitled to say \$500 a month, well, that's my benefit. If my spouse worked and they were entitled to say \$2,000 a month, well, I might be able to look at the spousal benefit, because the spousal benefit generally is up to half of the other spouse's. So if it's my wife, Kim and I, and Kim's entitled to \$2,000 a month, and I'm entitled to \$500. Well, I can look at the spousal benefit, which is that half, or that \$1,000 a month. So again, it's a nice increase and certainly something they want to consider depending on their situation, but certainly something they want to consider looking into and making sure that they get what they are entitled to.
- John Diehl: So Mike, if a couples married, are both spouses automatically entitled to each other's benefits? Or as you mentioned, the spousal benefit being half of the spouse's benefited?
- Mike Lynch: Yeah. Not necessarily entitled to both. I mean, it depends on the situation, depends on the timing. But generally speaking. Say the reverse of that example, I was entitled to \$2,000 a month. My wife Kim was entitled to \$500 a month. It's not as if I could take \$250 of hers and she could take \$1,000 of mine. Generally you'll get whichever is greatest, your benefit, whatever you're truly entitled to, or a spousal benefit, which again, is up to half of the spouse's. I can't collect my \$2,000 plus half of hers. And then she collects her \$500, and then half of mine, \$1,000. It gets way too complicated. It's almost too good to be true, right? So it's only one amount and it's whichever is greatest. So again, Kim was entitled to \$500 a month for her own benefit. I was entitled to \$2,000, we'd qualify and she certainly has the opportunity of getting up to half of mine, which would be that \$1,000.
- John Diehl: And Mike, say I'm out spouse shopping and Social Security benefits is a big consideration. Is there any length of time that we'd have to be married before I'm eligible to receive a spousal benefit based on my spouse's benefit?
- Mike Lynch: About a year, is generally the minimum, but more than likely it's 10 years. So you have to be married for greater than 10 years, not remarried in certain situations, but if the situation where you've got the 10 years in, then you're entitled to that spousal benefit. And then there's some certain age requirements as well. It's not as if a spouse could collect in their 50s or something. We still have to wait until we get closer to retirement age, but that 10 years is kind of a rule of thumb and ssa.gov is a great resource. So if anybody's got any thoughts, or questions, or concerns, and they just want to make sure what they're entitled to, ssa.gov I think is a terrific resource to go to, to really explain and see if there's any special exceptions or any special issues that you need to be aware of. It's detailed right in ssa.gov.
- John Diehl: So Mike, as we think about this spousal benefit, and I know there may be extraneous circumstances, but as a rule of thumb, what exactly is each person entitled to? And my second question along there is, when can they actually file for that spousal benefit?
- Mike Lynch: Sure. So the spousal benefits, as early as age 62. And then again, it's generally speaking, whichever is greater, your own benefit or the spousal benefit. So, again if it was my wife, Kim and I, and Kim at 62 is not currently working and says, I want to file for a benefit for Social Security and I want to see what I'm entitled to. If I don't file, it's as if I don't exist. So for her to try and take a spousal benefit, they'll kind of match it up and say, well, where's the other person, how come they haven't filed yet? So there's nothing to really claim yet. So what they would do is they would give her just her benefit.
- John Diehl: Okay.
- Mike Lynch: And then say a or two later I decide to retire and I want to file, now it's as if I've appeared on the books. So now I exist. And they'd take a look at what is Mike entitled to? Say, Mike was entitled to \$2,000 a month. Well, then they could take a look at Kim's and say, okay, she's receiving \$500 a month as her own benefit, but the spousal benefit is up to half or \$1,000. So we could certainly increase that to \$1,000 a month. We would contact the Social Security to make sure that paperwork's in order and that process is complete, but that's generally speaking what you'd be entitled to and how they'd work it.
- John Diehl: So, Mike, would that be an automatic or is that something that you'd have to contact Social Security about? When the spouse did file, the spouse with the higher benefit, would they automatically up Kim's benefit? Or do you think you both would have to contact Social Security to make sure that happened?

- Mike Lynch: You know, I'd like to think it'd be automatic, but I think you'd want to contact the Social Security Administration just because, like everything else, right, it's a government agency, they're short-staffed, certainly challenges. And you don't want to be that one hiccup or that one glitch in the system where for some reason they never picked up on the two of us and what we're entitled to. So I think it's almost buyer be aware to some extent. You want to make sure you're educated; you want to make sure you contact the Social Security office, stay in front of those types of things. And to me, that's a change. So when that happens, I would want to contact them and say, "Am I entitled to that spousal benefit?" And make sure that that is something that's applicable and then start to get that greater benefit.
- John Diehl: I know a lot of financial professionals obviously are aware that, if we take our individual benefits prior to our normal retirement age, there's a penalty, right, for doing that. And likewise, if we delay those benefits till after our normal retirement age, there's a compounding effect where our benefit actually increases. Does the same apply to a spousal benefit? Like in your example, if Kim were 62 and you were 68, so you were normal retirement age, but Kim wasn't, would her spousal benefit be reduced the same way, as if she were filing for an individual benefit?
- Mike Lynch: Probably not the same amount technically, but yeah, she would be penalized to some extent, because it's basically how close she is to full retirement age. And if she was 62, she's pretty far off. So I think the key wording there is when you look at spousal benefits, it always says up to 50% and that's generally...
- John Diehl: Okay.
- Mike Lynch: ...we get the line of people after seminar that have done the math with their 50% and we've got to clarify and just make sure that they understand that the greatest you'll get is up to 50%. So if both of us were the same age, or both of us were past full retirement age, we're probably more open to getting that 50% amount. If one was 68 and one 62, that amount for the 62 year old is not going to be 50%, but it may be still greater than what they're receiving on their own. So that's where they want to take a look at it.
- John Diehl: Okay. And I guess, if the spouse with the higher benefit is past normal retirement age and that benefit has grown by the time they take it, then that would also increase the spousal benefits since it's 50% of that. Is that the correct way to think about it?
- Mike Lynch: Unfortunately it doesn't.
- John Diehl: Oh, it does not.
- Mike Lynch: Unfortunately it doesn't. That increase goes from full retirement age to the age of 70 today. We don't know if that'll change down the road, but up until age 70 and that's your own benefit increase. So if I chose not to take my benefit at 67 and it went up 8% by 68, then I certainly have the opportunity of taking it. But for the spousal benefit, it's capped at full retirement age amount.
- John Diehl: Okay.
- Mike Lynch: So if I chose to wait till 69 and my benefit was, \$2,200 or whatever, they would go back and take a look and say, well, what was Mike entitled to at full retirement age? And then base that calculation, or up to half of that, based on the full retirement age. It'd be nice if they increased it up until age 70. Unfortunately it doesn't work that way.
- John Diehl: Important to know, I think...
- Mike Lynch: Oh yeah. Definitely.
- John Diehl: ...for financial professionals who are listening. So Mike, I think of some of the funnier questions I've gotten on Social Security benefits, not a funny topic divorce, but some of the questions that come out of it sometimes make me chuckle. So what if a couple gets divorced? What is that divorced spouse entitled to?
- Mike Lynch: It's funny, we actually did an event and I saw a woman doing some math, and she came up afterwards.

She's like, if my math is correct, I think I may want to lean towards the divorce side. I thought that was the weirdest and most interesting conversation.

John Diehl: Oh no.

Mike Lynch: I kind of held this poor guy's life in my hands, so to speak. Whether her math was correct or not. But I think if it's a divorce, it's early as age 62 that you can file. You'll get up to whatever that amount is, again, up to half. And there's certain parameters, so they have to be married greater than 10 years, not remarried. So again, the same thing, you need to go to ssa.gov to just double check and make sure. And with that said too, barring any issues with the divorce that we're unaware of, right.

If there's some exception made, I doubt there would be, but if there's some exception made saying that they give up something, then that would override any of these. But if it's a standard divorce, and Kim and I got divorced, Kim could file as early as age 62 for the spousal benefit. See what that amount is. If it's greater than hers, she would certainly be able to take that. The nice part too is, if there's a contentious situation and say Kim calls me and says, "Hey, I need you to do something so that I can file for the spousal benefit." Those things are taken away nowadays. So I may not even know. I don't have to do anything. I don't have to agree to anything. It's as if I probably am unaware of the fact that she was even collecting and filing for the spousal benefit.

So divorce is a little different than other situations, but the good news is, if it does happen, it's a smooth process, I think. And again, provided they have all their paperwork in order, they contact Social Security office. It's not like both parties have to agree or both parties have to do something. It's just, Kim would have to take some action. And again, I may not even be aware or agree. I wouldn't really be part of the situation.

John Diehl: Mike, I think, it's important because one of those situations I had was, a woman came up to me after a Social Security event and said, I think I'd actually be able to benefit a lot more by taking my ex-spouse's benefit, but he would kill me if he knew. And I think there's some reservation out there that people think that...

Mike Lynch: Sure.

John Diehl: ...or they don't want contact, maybe it was a messy divorce. But the fact is that there's no notification that goes out. But Mike, what if there was more than one ex-spouse? I know that you said, that we had to be married 10 years. But let's say there's more than one ex-spouse, how does that work?

Mike Lynch: Yeah, that's kind of the old standing joke. Remember Johnny Carson. Carson was I think, divorced four times and I don't think any of his ex-wives remarried. So technically, all those people were filing on Johnny Carson's spousal benefits.

John Diehl: Wow.

Mike Lynch: So if there are multiple divorces again, you may not even know—you probably know the situation—but for the individual's paperwork or for the individual situation, those other situations really don't come into play. It really looks at you and looks at your ex-spouse, what your situation was, whether you qualify or not. And then based on that, what the amount is given. So you know, it's probably a rare thing with Johnny Carson. But again, the good news...and I think you're exactly right. I don't think a lot of folks really know that is available to them. So it's a great opportunity to go back and take a look at your book of business. Any folks that you do know that are divorced, make sure that they're aware of that options available.

John Diehl: So Mike, what if a spouse passes away? What happens with the surviving spouse?

Mike Lynch: Sure. So that would be as early as 60.

John Diehl: Okay.

Mike Lynch: So divorce and spousal benefits generally start as early as age 62, but death is one of those exceptions where it actually starts at age 60. So if I pass away, Kim turns 60, she could contact the Social Security

office and say, "I want to inquire about the death benefit or whatever that full amount is." And generally that would be whatever full amount is (that) I would be entitled to at the time of my death. And then she would get that. Now, if that were lower than her own benefit, as early as 62, she could technically stop taking a death benefit and start taking her own benefit.

John Diehl: Okay.

Mike Lynch: But let's just assume it's not, let's assume mine's greater. She would get that as early as age 60, and she could get that through the rest of her life. So if there is a death, the only challenge sometimes is if, someone passed away at say 58 or 59. The spouse's still got to wait till age 60 to get that death benefit. But again, they have the opportunity of getting that.

John Diehl: Right. So, just to be clear, you said that that benefit would be 100% of what the deceased spouse was receiving. This isn't a 50% adjustment situation, right?

Mike Lynch: Right. So it's 100%. Yeah, yeah.

John Diehl: Okay.

Mike Lynch: So it's the greatest amount.

John Diehl: And is it something Social Security automatically adjust for? Or do you always recommend getting in contact with them at the death of a spouse?

Mike Lynch: Yeah, I would always recommend. I actually ran into a situation where a woman—you know we we're doing the event—and she said, "I think I'm still getting the lower amount." And I think it was a hiccup, unfortunately, where it was either they were never notified or some paperwork was never alerted to them or maybe they just forgot. But it was a little concerning. Because she said she lost her spouse a number of years ago. And again, you meet people for 30 seconds, so you don't know all the ins and outs of the situation. But my fear is that one was one of those ones that kind of got lost in the shuffle somewhere. So I think it's, especially if the amount that they're entitled to is much greater than their own benefit, they want to stay on top of that. And they want to make sure that they contact Social Security, get all the paperwork in as quick as they possibly can, and get the process going. Because again, it could be thousands of dollars potentially a month that they may need.

John Diehl: Right. Well Mike, last question for you as we close up. If a couple is still married and they're having trouble deciding when to file for benefits, how do you suggest they start to figure that out?

Mike Lynch: There are a lot of books, there's a lot of recordings, a lot of seminars. And I think the, "when, when, when" is what sells the invitation to Social Security, rights? When should I file? When should I file? Well, we try and do is replace the word, when with the word, what. And really try and sit down with a couple and say, "What income are you really in need of? What income are you looking for from Social Security?" And then based on that back in the when. So if you sit down with a husband and wife and they say, "Well you know, gosh, if we have five- or six-hundred bucks a month or more, we'd be happy right now." Well, maybe just one spouse files and that accomplishes their goal. Or they say, "Well, we would like to have a couple thousand dollars a month."

We can take a look and say, okay, which one of the two is entitled to that? Or how do we get to that number? So I think one of the key ways is really thinking about that what—what income are you really looking for from Social Security? And if we haven't done that, that's really a first thing and thinking about other sources of income as well. And really, what are we looking for from a total monthly or an annual type of income level? And then based on that, thinking about other sources of income and filling Social Security in just like any other source and say, okay, what are we looking to get from Social Security? Now again, sometimes it might be bad news and we may have to wait a little bit because our, "what" is that much bigger. Or maybe good news, where the client, they can file at any point in time and they'd be happy.

So I think what we're finding is a lot of people run to Social Security at age 62, kind of with their hair on fire saying, "We think the program is going to go away. We want our benefits to start clearing out or

start taking it.” But it may not be the right option for them. It might put them in a higher tax bracket. It might, really not accomplish their goals long term. So I think if you could sit down with clients and really think about what income do we need and then come up with a strategy, like, one of the reasons file-and-suspend was such a popular idea or a popular concept years ago, is because it was a strategy—a way to start taking Social Security and really accomplish your goals kind of little by little, if you will.

And I think this idea is like dipping your toe in the water, which is, we have maybe the income for the spouse who’s a little bit lower. We have them turn that on first and see if that’s enough. See if that makes sense for them. Does that accomplish their what, their what dollar amount? And then if it doesn’t, the other spouse can always file and take the benefit. But I think, really having the opportunity, having the conversation. And I think you, as you mentioned early in the intro, everybody’s different nowadays. It’d be much easier if we could do a seminar and people that dial in early, you file at 62, people right on time, 65 or 67. And that people that may maybe got on late, you wait till 70. Where now it really is an individual situation. Many times you have spouses that choose different options. So it really is not dictated by a friend, or relative, or neighbor anymore. It’s really their decision and really an individual situation. So that’s where I think the financial advisors and financial professional is so important in the conversation.

John Diehl: Well, Mike, I think that’s really good advice. Essentially what you’re saying is take a proactive approach to Social Security benefits versus being reactive to it and just letting it happen. Well, Mike, thanks for joining us again on another episode of the Human-Centric Investing podcast. Always a pleasure to have you.

Mike Lynch: Thanks, John. I appreciate it.

John Diehl: And for those of you listening, as Mike mentioned earlier, ssa.gov has a wealth of information. They really have done a good job structuring that website, but also if you’re interested in materials that we have available at Hartford Funds, including client facing material, please visit us at hartfordfunds.com/ss. Again, that’s hartfordfunds.com/ss. So again, thanks for listening. Hope you got a couple of good ideas today. The great thing about social security is every client that you’re working with is probably eligible for it in some way or another. And therefore everyone is interested in ways to maximize that benefit to make the most of their retirement benefits. So good luck. And again, hopefully re-listening to the podcast or visiting some of those sites I just mentioned will be helpful for you. And we look forward to hosting you again on the next episode of the Human-Centric Investing podcast. Thanks very much.

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