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Social Security

White paper

NATIONWIDE RETIREMENT INSTITUTE®

The Nationwide Retirement Institute provides practical thought leadership and comprehensive solutions to financial professionals and their clients. Through education and insights, client-ready tools and consultative support, complex retirement challenges are broken down and simplified to help financial professionals and clients plan for a more secure financial future.

Understanding the Social Security widow benefit

***A simplified version of the widow calculation** says that the surviving spouse receives the higher of his or her own benefit or the benefit of the deceased, which may have been reduced or increased, depending on whether and when the deceased filed for Social Security benefits.*

There are several layers of complexity to the widow(er) benefit that make it difficult to determine whether to claim benefits early, when to wait and when to switch to the survivor's own benefit. There are actuarial reductions for the widow(er) who claims early and a widow(er) limit.

The good news is that Nationwide's Social Security 360 Analyzer® includes a widow calculation, so you can run scenarios for your widowed clients and help them determine when to claim benefits.

Widow options

Deceased filed for Social Security retirement benefits

Filed prior to full retirement age: maximum widow benefit equals the larger of the deceased reduced benefit or 82.5% of deceased primary insurance amount

Filed after full retirement age: maximum widow benefit equals the deceased benefit including delayed retirement credits

Deceased did not file for benefits

Passed away prior to full retirement age: maximum widow benefit equals the primary insurance amount of the deceased

Passed away after full retirement age: maximum widow benefit equals the deceased benefit as if the deceased had elected it on date of death, including delayed retirement credits

There will probably be complications when advising a widowed spouse on when to elect Social Security benefits.

Here are the three main complicating factors for surviving spouses:

- **Two different full retirement ages (FRA):** retirement FRA and their widow(er) FRA. For most people getting ready to elect Social Security, their retirement FRA is 66 years old. Their widow(er) FRA is determined by subtracting two years from their date of birth and using that as their birth year. There is no advantage to delaying widow(er) benefits past the surviving spouse's FRA as there are no delayed retirement credits based on the surviving spouse's claim age.
- **Actuarial reductions:** The surviving spouse can begin receiving widow(er) benefits as early as age 60. However, those benefits will be reduced up to a maximum of 28.5% due to claiming early. To determine the monthly reduction amount, take 28.5% divided by the number of months between age 60 and the widow FRA determined in the previous column.
- **Widow limit:** The widow limit caps the widow(er) benefit at the larger of the benefit the deceased would have received if he or she were still alive or 82.5% of the deceased primary insurance amount. The widow limit only comes into play if the deceased claimed benefits prior to his or her full retirement age.

Here's an example that takes these complications into account. Let's say Linda is your client. Her husband, Paul, passed away when she was 60, and he had a primary insurance amount of $2,000. The widow benefit that Linda could receive is based both on when Paul claimed and when Linda decides to claim that benefit.

Here are a variety of scenarios to illustrate how Linda's widow benefit will be affected.

Manipulating widow benefits

Paul **DID** file for Social Security retirement benefits		Paul **DID NOT** file for Social Security retirement benefits	
Filed at age 62	**Filed at age 70**	**Died prior to FRA**	**Died at age 70**
Receives 75% of PIA = $1,500/month until his death at age 66 **Widow benefit** = $1,500/month *However, there's another provision that would impact Linda's benefit amount.* ***Widow limit** caps the surviving spouse's benefits at the higher of the amount of the deceased spouse's benefit or 82.5% of the deceased spouse's PIA.*	**Widow benefit** = Deceased benefit of $2,640 + COLAs	**Widow benefit** = PIA of deceased *If Paul died at age 66 and never elected, Linda would be able to claim up to the full $2,000.*	**Widow benefit** = Deceased benefit as if the deceased elected on date of death $2,640 + COLAs
Linda claims widow(er) benefits at **age 60**			
Receives 71.5% of the deceased PIA or $1,430/month	**Receives 71.5% of the deceased PIA** or $1,887/month	**Receives the maximum reduction**, $1,430/month	**Receives 71.5% of the deceased benefit** as if Paul had just elected, $1,887/month
Linda claims widow(er) benefits at **age 66**			
Receives $1,650 due to widow limit *In this case, Linda would not want to delay taking her widow's benefit for any more than 28 months (to age 62 and 4 months), because it would not increase any further due to the widow's limit.*	**Receives full survivor benefit** $2,640/month	**Receives the deceased PIA** *If Linda waited until age 66 to claim, she would receive the full $2,000.*	**Receives full survivor benefit** of $2,640/month *If Paul began receiving Social Security at age 70, his benefit would have been $2,640.* *If he died one month later, Linda would receive up to $2,640, provided she claimed her aged widow's benefit at 66, or $1,887 per month if she claimed at age 60.*

FRA: Full Retirement Age PIA: Primary Insurance Amount COLA: Cost-of-living adjustment

If you receive widow(er) benefits, you may also switch to your own retirement benefits as early as age 62, assuming the amount will be more than you receive on your deceased spouse's earnings. In many cases, you can begin receiving one benefit at a reduced rate and then switch to the other benefit at the full rate when you reach full retirement age. And you can take a reduced benefit on one record and later switch to a full benefit on the other record.

For example, a woman could take a reduced widow's benefit at age 60 and then switch to her own retirement benefit when she reaches full retirement age. Or she could continue to get delayed credits on her own record past full retirement age and switch to her own benefit at age 70.

It's critical to understand that the option for the surviving spouse to switch to their own benefits is not allowed unless the surviving spouse restricts the scope of the initial application. The ability to run these calculations with the Social Security 360 Analyzer and find the best possible election strategy is important to your widowed clients. These scenarios could also be enlightening for your married clients to show what electing early can do to survivor benefits.

For more information, visit nationwidefinancial.com/360analyzer.

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