President Proposes to Close Social Security Loophole

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“Claim now, claim more later” benefits those with know-how and flexibility.

The President’s FY2015 Budget included language to “eliminate aggressive Social Security-claiming strategies, which allow upper-income beneficiaries to manipulate the timing of collection of Social Security benefits in order to maximize delayed retirement credits.” This is a great idea. **Work that we did** more than five years ago showed that this option could cost Social Security as much as $9.5 billion annually, and benefits go to those with the know-how to game the system.

Here’s how the strategy works. Under Social Security, married individuals are entitled to a *retired worker benefit* based on their own earnings and/or to a *spousal benefit* equal to one half of their spouse’s benefit claimed at the Full Retirement Age (currently 66). Until 2000, the Social Security Administration assumed that an individual claiming benefits was applying for all benefits to which he or she was entitled, compared the worker and spousal benefits, and automatically awarded the highest. The Senior Citizen’s Freedom to Work Act of 2000 changed the procedure. Under the new law, upon reaching the Full Retirement Age, individuals can *choose* which benefit to receive. As a result, married individuals can claim a spousal benefit at 66 and switch to their own retired worker benefit at a later date. This approach allows a worker to begin claiming one type of benefit while still building up delayed retirement credits, which will result in a higher worker benefit later.

Originally, we thought that this "claim now, claim more later" approach would benefit the wife in two-earner couples with roughly equal earnings – perhaps because I took advantage of the strategy. In this case, both husband and wife (who are four years apart in age) had originally planned to delay claiming until age 70 in order to receive the highest possible benefit. But, under this strategy, once the husband claims his benefits at age 70, the wife – now 66 – can file for *just* a spousal benefit. The wife then continues working and contributing to Social Security. At age 70, she files for her own retired worker benefit, which has now reached its maximum amount due to the delayed retirement credits, and stops receiving the spousal benefit. In this situation, the wife gains four years of spouses' benefits that she would not have enjoyed under the old law.

But it turns out that those most likely to take advantage of "claim now, claim more later" are the husbands in two-earner couples. The reason stems from the fact that married women will generally maximize the couple's lifetime benefits by claiming early. The wife claims her benefit at 62 and once her husband reaches age 66, he claims a spouse's benefit based on his wife's earnings. At age 70, he would claim the maximum amount due to the delayed retirement credits, and stop receiving the spousal benefit. Of course, if the woman is the higher earner, the story works in reverse.

Who gains from "claim now, claim more later?" Some obvious criteria include: 1) the individuals must be married; 2) at least one member of the couple must be healthy enough to delay claiming until 66; and 3) both spouses must have an earnings history. The higher and the more equal the earnings records, the more to gain. The potential benefits from “claim now, claim more later” are relatively evenly distributed across the earnings spectrum, though households in the top two quintiles of the wealth distribution receive nearly 50 percent of the total benefits.

“Claim now, claim more later” was originally introduced in legislation designed to increase work incentives. It is unclear, however, how this provision actually enhances work effort. Eliminating this option is an easy call. When to claim Social Security shouldn’t be a question of gamesmanship for those with the resources to figure out clever claiming strategies.