

RETIREMENT PLANNING

What Every Woman Needs to Know About Social Security

Given women's longer lives and lower earnings, it's more important than ever to understand how the complex rules of Social Security benefits apply to you.



(Image credit: Getty Images)

Most Americans have a pretty low opinion of government programs, according to the Pew Research Center, with one notable exception: Social Security. A YouGov poll shows 89% of people who are currently receiving Social Security benefits have a favorable view of the program.

That's not surprising. People like getting paid every month, particularly when they're no longer earning a paycheck. And Social Security deserves a lot of credit for keeping older people out of poverty. Thanks to Social Security, over 15 million people are living above the poverty line in retirement, according to the Center on Budget and Policy Priorities.

But Social Security was never meant to be all your retirement income. It's supposed to work in concert with your other assets, like a 401(k) or 403(b) plan, an individual retirement account (IRA) or other taxable savings. For the average person, the Social Security Administration (SSA) notes that Social Security replaces just 40% of their pre-retirement income, and even less for people in higher income brackets. Still, it's an important source of retirement income, so it needs to be managed well.

That's especially important for women, given their longer lives and lower earnings. Unfortunately, Social Security is a complicated program with a lot of rules that many people don't know about. Knowing how to maximize this benefit can really improve your retirement quality of life.

How does Social Security work?

Despite the popularity of Social Security, the program can be complicated. It has so many twists that it's hard for the average person to get their arms around it.

In a nutshell, Social Security replaces a portion of your pre-retirement income. The amount of your benefit depends on your lifetime earnings. To qualify for Social Security, you must have at least 40 "credits," which you earn by working at least 10 years. Your benefit is based on your 35 highest-earning years.

That's where things get complicated. Despite the many gains women have made in education and the workplace, the burden of childrearing and elder care still primarily falls on them. As a result, they are more likely to have gaps in their work history. According to the Brookings Institution, motherhood reduces women's Social Security benefits by 16% for the first child and then an additional 2% for each subsequent child. Women's average Social Security benefits are 80% that of men, the SSA says.

Social Security should fit into your overall financial plan

You are first eligible to tap Social Security when you turn 62. But is that a good idea? In many cases, it's not. You will be penalized for each month that you take the benefit before your full retirement age, which for people born in 1960 and later is 67 years old. For example, if you're eligible for a monthly benefit of \$1,000 at full retirement age, at 62 you would receive only \$700.

On the other hand, if you choose to wait beyond full retirement age, you can receive an 8% bonus each year. So again, if you are due to receive \$1,000 in benefits at full retirement age, by delaying until 70, you would be eligible for \$1,240 (plus any cost-of-living adjustments, or COLAs, that Social Security recipients receive in those years). There are not a lot of investments out there with guaranteed 8% annual returns.

While in many cases I advise my clients to wait as long as they can to start tapping their Social Security, it's important to look at how the program fits in with your overall financial plan. For people with stable jobs, I advise they continue working as long as they can so they can continue adding to their retirement savings and delay taking Social Security.

Even if you decide to retire before your full retirement age, it might make sense for you to use the assets in your 401(k) or 403(b) plans, IRAs and brokerage accounts while letting your Social Security benefit build up. Again, that 8% growth each year is hard to beat elsewhere.

But if you don't have a lot of other assets, or you have been forced from the workforce due to an illness or a job loss, you may need to tap Social Security to make ends meet.

Coordinate Social Security with your spouse

While Social Security is an individual benefit, you can maximize how much money you get by working together with your spouse.

For example, if one spouse significantly outearned the other during their careers, I often recommend that couples start the lower-earning spouse's benefit at 62 but wait until 70 to tap the higher-earning spouse's Social Security.

In heterosexual couples, women tend to be the lower-earning spouse (but not always), and they tend to be younger than their husbands. There's a high likelihood that they'll outlive their spouses. By maximizing the higher Social Security check, it's likely that women will "step up" to that higher benefit when their spouse dies.

You can also claim survivor benefits if you became a widow before reaching full retirement age. At age 60, you could claim a survivor benefit if your late spouse worked long enough to qualify for Social Security (remember the 40 credits it takes to be eligible). If you wait until your full retirement age, you can receive the full amount your late spouse would have received.

Gray divorce scrambles Social Security

The rate of divorce for all couples has held steady at about 50%, but it's skyrocketed for people over 55. The Census Department reports that the rate of divorce is highest for people between the ages of 55 and 64. Among people who got divorced in the last year, over 34% were from this older group.

What does this mean for women? For starters, it means a lot fewer assets to work with. Even if you split assets equally with your former spouse, it costs more for two people to live on their own than for two people to live together, so your living expenses will eat up more of your assets more quickly than if you were still married. That means Social Security will probably play a bigger role in your retirement.

Divorced women have some options. If you were married for at least 10 years and haven't remarried since, you can either take Social Security on your own record or receive half of your ex's, depending on which is bigger.

I've had divorced clients refuse to marry their current partners because they don't want to lose out on the spousal benefit. It's also worth noting that drawing off of your ex's benefit will not lower the amount they receive, so there's no negative to them whichever way you choose.

Put it all together

Social Security is an important component of your retirement income, but it can't be all of it. The higher your pre-retirement income, the less it will replace. I advise clients to think of Social Security as the pot of money they'll use for health care expenses in retirement. Between Medicare copays, supplemental coverage and long-term care, you can expect a lot of health-related expenses in retirement.

But that's not to say you shouldn't maximize Social Security as much as you can. The best way to do that is by working with a financial adviser who understands this stuff and can run different scenarios well before you hit 62. That way, when letters start arriving from the SSA, you'll have a game plan.

NYSUT NOTE: Having a Social Security claiming strategy in place is vital for a solid retirement plan. And working with a trusted advisor can help determine the best strategy for you. NYSUT Members have access to the NYSUT Member Benefits Corporation-endorsed Financial Counseling Program, which offers a team of Certified Financial Planners® that provide members with financial counseling services. These advisors can provide you with unbiased advice that is customized for your specific situation. Start safeguarding your retirement now by [visiting the website](#) and enrolling today.

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