

Money

Here's How to Avoid Making a Huge Social Security Mistake

Note: While "file and suspend" and "restricted application" benefits have largely gone away at the end of 2016, the "deeming" rules still apply.

By PHILIP MOELLER August 12, 2014

Spousal benefits are a crucial Social Security option for millions of couples. But getting extra, and in some cases “free,” spousal benefits is not possible for couples that run afoul of the agency’s tricky “deeming” rules.

To understand deeming, it helps first to **understand the best-case scenario** for **spousal benefits**. Take a couple where the wife is about to turn 66 and her husband is about to turn 70. For her, age 66 is considered “full retirement age”, when, among other things, she can claim benefits without any early retirement reductions. For him, age 70 is when he can claim the greatest possible benefit, assuming he has so far deferred filing.

In this example, if the husband files for his own retirement benefit at 70, his filing permits his wife to file only for her spousal benefit, which is equal to half of the benefit he was entitled to at his full retirement age — not, that is, half of the larger amount he can claim at age 70.

But if the wife files what’s called a **restricted application for spousal benefits** at 66, she can receive these benefits while deferring her own retirement benefit for up to four years until she turns 70. During this time she earns **delayed retirement credits** so she, too, can claim her highest-possible benefit at that time. During this period, she can receive what essentially are free spousal benefits – free in the sense that collecting them has no adverse effect on her own retirement benefits.

This claiming strategy has been so well-publicized that the Obama Administration has proposed ending it — reportedly because the maneuver is used predominantly by wealthier workers, who are most likely to be able to

afford deferring their benefits to age 70. But let's debate the fairness of this proposal another day.

The problem is that this maneuver doesn't work at all when people file *before reaching full retirement age*. Say that our couple is instead aged 62 and 65. And remember that 62 is generally the earliest that people who are married can file for spousal benefits. So our couple figures that the 62-year-old wife will file for spousal benefits on the earnings record of her 65-year-old husband, while she defers her own retirement benefits. This may be a logical assumption based on the ideal claiming scenario of our first couple. **But it won't be allowed by Social Security.**

Here's where "deeming" comes in. Remember that for the wife to file for spousal benefits, her husband first has to file for his retirement benefits. **And because she is younger than full retirement age, Social Security's rules will "deem" her to be also filing for her own retirement benefit when she files for her spousal benefit.** There is no way around this if she is younger than 66. And the benefit she will actually receive won't be both of these benefits but in effect **only the larger of either her retirement benefit or her spousal benefit.** Further, because she's filing before reaching full retirement age, both benefits will be subject to early claiming reductions.

And remember her hubby, who filed for his own retirement at 65 to enable her to file for spousal benefits? **He will get a reduced early retirement benefit, not the benefit he could get by waiting until full retirement age, let alone the benefit he would get if he deferred retirement until age 70.**



Unfortunately, very few people even know deeming exists, so many of them unknowingly file for both spousal and retirement benefits at the same time without realizing it.

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In 2012, 6.8 million persons – nearly all of them women – were simultaneously receiving two benefits at the same time, according to Social Security records. But the agency says it has no idea how many of these people were affected by deeming and how many of them were aware their filing action had automatically triggered a claim for a second benefit at the same time.

The bottom line here: You can qualify for two Social Security benefits at the same time but you can only collect an amount that is equal to the greater of the two benefits. In practical terms, the second benefit is lost to you because of deeming. If you can defer one benefit instead, it might be possible to have the best of both benefits.

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