Social Security Reset: When Does It Make Sense?

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Executive Summary

- The majority of Social Security retirement beneficiaries claim early and reduced benefits. This is not an irrevocable decision. At a later age, claimants can repay past benefits and reapply for a greater benefit amount commensurate with that greater age.
- This paper identifies and analyzes client cases in which lifetime household wealth may be increased by resetting Social Security benefits.
- Retirees who are risk averse and/or considering an immediate real annuity may find that they will receive a much greater benefit amount if they instead reset their Social Security benefit.
- Reductions or increases to retirement benefits are actuarially equivalent for the person with average life expectancy, an unmarried retiree should be indifferent to when he or she makes a claim. However, optimal claiming ages for married couples may be determined by recognizing: (a) the increase to a retirement benefit from delayed retirement credits continues after the worker's death in the form of a widow(er)'s benefit; (b) there is no actuarial reduction to a widow(er)'s benefit if the surviving spouse is significantly younger; (c) on average, women live three years longer than men.
- Among married couples in which the older or less healthy spouse has the greater benefit amount, resetting the benefits of that older spouse may increase lifetime household wealth because the increased benefit will continue in the form of a survivor benefit.
- After repaying benefits, time must elapse before the retiree breaks even on the transaction. If an unmarried retiree dies during this period, his or her heirs will bear the risk of a reduced bequest. Among married couples, if a spouse dies during this period, the financial outcome is largely dependent on differences in spousal ages and benefit amounts.

More than 50 percent of initial Social Security retirement beneficiaries claim reduced early benefits.[1] The decision to claim reduced Social Security retirement benefits before full retirement age (FRA) is not irrevocable. At a later age, claimants can repay past benefits (known to the Social Security Administration (SSA) as Withdrawal of Application) and then restart them at a greater level, commensurate with that greater age. This transaction has been available since 1964 but has received little attention until recently.

Prior research into the structure of Social Security retirement benefits has identified optimal claiming ages for married couples with dissimilar ages and differing Primary Insurance Amounts (PIA).[2] The PIA (described below) is the basis for most Social Security benefits. If clients did not claim at those optimal ages, the question now becomes whether these benefits can be restructured to increase their total lifetime value. Using the framework developed from this research into optimal claiming ages, this paper will demonstrate how to identify single retirees or married retired couples who may benefit from resetting.

Social Security Benefits

The three Social Security benefits that may be involved in most restructuring transactions are: retirement, spousal, and widow(er). A review of these benefits follows.

The basis for most Social Security retirement benefits is the Primary Insurance Amount (PIA) and is derived from one's

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Table 1: Benefit, as a Percentage of Primary Insurance Amount (PIA), Payable at Ages 62–67 and Age 70									
Year of Birth	Full Retirement Age (FRA)	Credit for Each Year of Delayed Retirement After FRA (Percent)	Benefit, as a Percentage of PIA, Beginning at Age--						
			62	63	64	65	66	67	70
1924	65	3	80	86 2/3	93 1/3	100	103	106	115
1925–1926	65	3 1/2	80	86 2/3	93 1/3	100	103 1/2	107	117 1/2
1927–1928	65	4	80	86 2/3	93 1/3	100	104	108	120
1929–1930	65	4 1/2	80	86 2/3	93 1/3	100	104 1/2	109	122 1/2
1931–1932	65	5	80	86 2/3	93 1/3	100	105	110	125
1933–1934	65	5 1/2	80	86 2/3	93 1/3	100	105 1/2	111	127 1/2
1935–1936	65	6	80	86 2/3	93 1/3	100	106	112	130
1937	65	6 1/2	80	86 2/3	93 1/3	100	106 1/2	113	132 1/2
1938	65, 2 mo.	6 1/2	79 1/6	85 5/9	92 2/9	98 8/9	105 5/12	111 11/12	131 5/12
1939	65, 4 mo.	7	78 1/3	84 4/9	91 1/9	97 7/9	104 2/3	111 2/3	132 2/3
1940	65, 6 mo.	7	77 1/2	83 1/3	90	96 2/3	103 1/2	110 1/2	131 1/2
1941	65, 8 mo.	7 1/2	76 2/3	82 2/9	88 8/9	95 5/9	102 1/2	110	132 1/2
1942	65, 10 mo.	7 1/2	75 5/6	81 1/9	87 7/9	94 4/9	101 1/4	108 3/4	131 1/4
1943–1954	66	8	75	80	86 2/3	93 1/3	100	108	132
1955	66, 2 mo.	8	74 1/6	79 1/6	85 5/9	92 2/9	98 8/9	106 2/3	130 2/3
1956	66, 4 mo.	8	73 1/3	78 1/3	84 4/9	91 1/9	97 7/9	105 1/3	129 1/3
1957	66, 6 mo.	8	72 1/2	77 1/2	83 1/3	90	96 2/3	104	128
1958	66, 8 mo.	8	71 2/3	76 2/3	82 2/9	88 8/9	95 5/9	102 2/3	126 2/3
1959	66, 10 mo.	8	70 5/6	75 5/6	81 1/9	87 7/9	94 4/9	101 1/3	125 1/3
1960 and later	67	8	70	75	80	86 2/3	93 1/3	100	124

Source: http://www.ssa.gov/OACT/ProgData/ar_drc.html

earnings history.[3] Estimated PIA is shown on a worker's annual Social Security Statement as the benefit he or she would receive at full retirement age. Generally, a higher earnings history results in a higher PIA. The PIA is paid as a retirement benefit if claimed at full retirement age (FRA); full retirement age is dependant upon birth year and increases from 65 for those born before 1938 to 67 for those born after 1959.

A benefit less than or greater than the PIA is paid if claimed at less than or greater than FRA. The benefit is reduced by 6.67 percent per year for each of the first three years prior to FRA, and reduced another 5 percent for each additional year.[4] If claimed after FRA, the benefit is increased in the form of delayed retirement credits that accrue at a rate of 7 to 8 percent per year, depending on year of birth, for each year the claim is delayed beyond FRA. See Table 1. These increases or decreases are considered actuarially fair.[5] In other words, a late claim will result in a greater benefit amount, but theoretically, that amount will be paid out over fewer years.

Spousal benefits may also be involved in the restructuring transaction. If claimed at FRA, a spouse is entitled to her own PIA or one-half of the PIA of the other spouse, whichever is greater.[6] Spousal benefit calculations are more complex in cases in which a spouse has a PIA less than one-half that of the other spouse. In these cases, the spousal benefit will be equal to one-half that greater PIA, which is referred to as the base spousal benefit, minus the retirement benefit of that spouse with the lower PIA. To illustrate this point, consider a husband with an annualized PIA of $20,000 and his wife with an annualized PIA of $8,000. The base spousal benefit will be $10,000 (50 percent of $20,000) and her spousal benefit will be $2,000 ($10,000 spousal base less her own retirement benefit of $8,000).

If claimed before FRA, the spousal benefit is reduced by 8.33 percent per year for the first three years (note that this is a greater reduction than that applied to a retirement benefit) and 5 percent for each additional year. The spousal benefit will be paid until the widow(er)'s benefit begins, when applicable. It should be noted that if individuals claim spousal benefits before their FRA, they are deemed by the SSA to also be filing for their own retirement benefit based on their own work record.

The third benefit that can be involved in the reset process, the widow(er)'s benefit, is generally the continuation of the deceased worker's *benefit amount* if claimed by the widow(er) at FRA, not the deceased worker's PIA. In other words, the reduction or increase to his or her PIA for an early or late claim will continue in the form of a widow(er)'s benefit. However, the widow(er)'s benefit will never be based on less than 82.5 percent of the deceased worker's PIA.

In cases in which the older spouse is the first to die, it is important to note that the age difference between deceased spouse and younger surviving spouse is ignored when computing the widow(er)'s benefit. Assuming the widow(er)'s benefit is claimed at FRA, the survivor will receive 100 percent of the deceased worker's benefit amount (minimum of 82.5 percent of deceased worker's PIA) whether he or she is the same age as the deceased worker or substantially younger. But the decision to claim a widow(er)'s benefit before FRA will result in a reduction. The reduction is dependant on year of birth but will not exceed 28.5 percent of the full benefit amount that would have been received at FRA. To clarify, this reduction is dependent on the age at which the survivor claims the widow(er)'s benefit; it is not dependent on the age difference between spouses.

Optimal Claiming Ages

Because reductions or increases to retirement benefits are actuarially equivalent for the person with average life expectancy, an unmarried retiree should be indifferent to when he or she makes a claim. There are, however, optimal claiming ages for married couples, if one considers these benefit rules:

- The increase to a retirement benefit from delayed retirement credits continues after the worker's death in the form of a widow(er)'s benefit
- There is no actuarial reduction to a widow(er)'s benefit if the surviving spouse is significantly younger
- On average, women live three years longer than men

The structure of retirement benefits appears to be generous if the lower-earning spouse is also younger and/or healthier.[7] In these cases, the older spouse with the greater earnings record can maximize lifetime household benefits by delaying his or her claim, because the greater benefit amount will "live on" in the form of a survivor benefit. Of course, this differs markedly from the payment structure of an immediate fixed annuity with 100 percent survivor benefit. In that structure, the greater the age differences between spouses, the smaller the annual payments.

Conversely, there's little incentive for a younger, lower-earning spouse to delay his or her claim. Again, the reduction for an early claim is actuarially fair. In most cases, however, this retirement benefit will be supplemented (effectively replaced) by the greater widow(er)'s benefit before the death of the younger spouse (assuming both have average life expectancy). In other words, the younger spouse will not be relying solely on his or her own retirement benefit and/or spousal benefit until death.

Considering a Reset Transaction

Does it make sense to reset Social Security benefits? For most retirees, the decision to reset is mainly a matter of risk tolerance and age. Those averse to market risk may desire to trade riskier retirement assets for a risk-free inflation indexed income stream. Additionally, as identified by Meyer and Reichenstein (2010), those concerned about outliving their portfolios may find that they could minimize this longevity risk by resetting their retirement benefits. Because the reset transaction involves a possibly lengthy break-even period, retirees also need to make a realistic assessment of their expected longevity.

For married beneficiaries, there are additional considerations. Married couples in which the younger and/or healthier spouse has the lower PIA may see an increase to lifetime household benefits if the older spouse resets his or her retirement benefit. As stated above, this is because the reset benefit amount continues as a survivor benefit after the death of the older spouse. The greater the age difference between the older spouse with the higher PIA and the younger spouse with the lower PIA, the greater the potential increase to lifetime household benefits.

If a reset is considered appropriate, the transaction itself is fairly straightforward: the retiree files form SSA-521 Request for Withdrawal of Application and simultaneously files a new application.[8] All past benefits paid on the withdrawn application, including spousal, children's, and Medicare deductions, must be repaid before the new application can be processed. Interest is not charged on the repaid amount and disenrollment from Medicare is not required.[9] The SSA will issue an SSA-1099 showing a negative net benefit amount. The taxes paid on past benefits can be deducted (not subject to the 2 percent floor for miscellaneous deductions) if over $3,000, or taxes paid on past benefits can be recaptured as a credit.[10] The retiree will have to recalculate but not amend past tax returns to determine the amount of tax attributed to past benefits. Notably, there is no limit to the number of times benefits can be reset.[11]

Two Case Studies

To provide a better understanding of the potential increases or decreases to lifetime household wealth from a reset transaction, two reset scenarios will be reviewed using the following assumptions:

- 85 percent of benefits are taxed at 25 percent
- A credit is taken for past taxes on benefits
- A real discount rate of 2 percent is used based on 30-year TIPS as of July 2009[12]
- Future inflation is 3 percent
- Age of death is determined by the SSA 2005 period life table
- SSA full retirement ages are rounded to the nearest year

Case 1: Consider an unmarried female born in 1939 who made an early claim at age 62 to receive 78.3 percent of her $20,000 annualized PIA. At age 70, when her life expectancy is 86 years, she resets to 132 percent of her PIA. She must repay past benefits totaling $110,845 but will receive a tax credit of $23,555 (assuming sufficient tax liability to absorb the credit) for a net payback of $87,290. Over the next year, she will see an annual after-tax benefit increase of $8,568, implying a 9.8 percent return on the net repaid amount. She will enjoy an after-tax net increase to the present value (PV) of her lifetime benefits of $29,044, which is an increase of 17 percent over the PV of her original lifetime benefit (also assuming life expectancy of 86); it will take her eight years before she breaks even on the transaction. In comparison, if this claimant were male, he would see an after-tax net increase to the PV of his lifetime benefits of $9,943 or 7.1 percent; this difference is attributed to his three years' shorter life expectancy. If the female retiree did not, however, choose to restructure, $87,290 (the net amount repaid to Social Security) would purchase an immediate fixed, CPI indexed annuity from Vanguard that would provide her with a real, annual after-tax income of $5,071 ($5,674 in the case of a male).[13] See Table 2 for a summary.

Why does her break-even occur eight years before her expected death if the reduction or increase to retirement benefits is actuarially fair? Because she's recouping the repaid amount with inflated dollars, and her age-adjusted life expectancy is now greater than it was when she was 62. At age 62, her average life expectancy was 84; at age 70, her average life expectancy is 86. The reduction or increase to retirement benefits is considered actuarially fair only when viewed from the vantage point of the 62-year-old. The potential after-tax net increase to the PV of her lifetime benefits grows with increased longevity. According to the SSA 2005 period life table, there is a 31 percent chance that a 70-year-old woman will live to age 90. By resetting her benefits at age 70, she would enjoy a 26 percent after-tax net increase to the PV of her lifetime benefits. See Figure 1.

Case 2: For the second case study, consider a married couple in which the husband is age 70 and made an early claim to receive 78.3 percent of his $20,000 annualized PIA at age 62. His wife is age 66 and also made an early claim to receive 75 percent of her $5,000 annualized PIA at age 62.[14] (The husband and wife have average life expectancies of 83 and 85, respectively). If they choose to reset their Social Security, they must repay past benefits totaling $123,857, but will receive a tax credit of $26,320, for a net payback of $97,537. Over the next year, they will receive an annual after-tax benefit increase of $9,749, implying a 10 percent return on the net repaid amount. The household will enjoy an after-tax net increase of $47,336 (or 18 percent) to the PV of their lifetime benefits. It will take the couple seven years to break even on the transaction. See Table 3 for a summary.

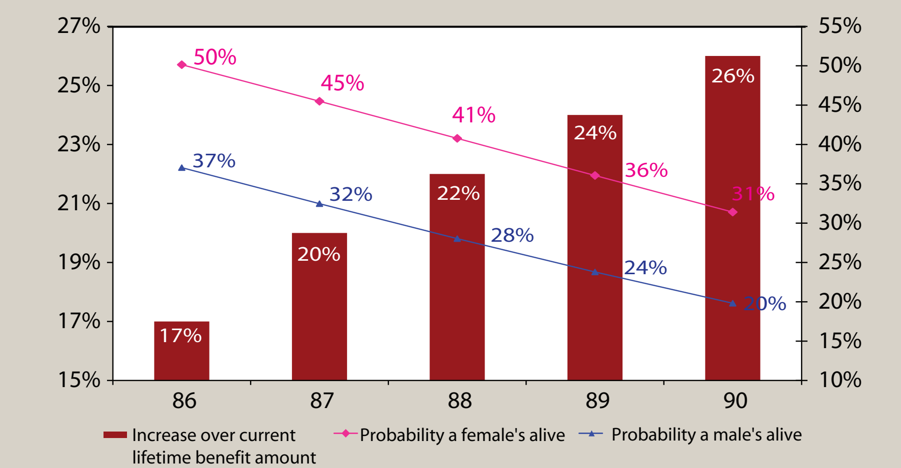
In contrast, $97,537 (the net amount repaid to Social Security) would purchase an immediate fixed, CPI indexed annuity from Vanguard that would provide annual after-tax real income of $4,492 with a 100 percent survivor benefit. Again, if they reset, their increased Social Security benefit would be $9,749 annually.[15]

Of course, a retiree who regrets claiming an early reduced retirement benefit does not have to wait until age 70 to reset. Suppose in

Table 2: Reset Benefits for 70-year-old Female Who Made a Claim at Age 62

New lifetime PV (post tax)	$283,778	
Old lifetime PV (post tax)	($167,444)	
Gross increase (post tax)		$116,334
Repaid	$110,845	
Tax credit	($23,555)	
Net repay		$87,290
NPV increase in lifetime benefits (post tax)		$29,044
% increase in lifetime benefits (post tax)		17%
First year increase (post tax)		$8,568
First year's increase as % repay		9.8%
Years to break even		8

Figure 1: Expected Lifetime Gains from Resetting with Longevity



Source (for life expectancy): SSA 2005 Period Life Table

the above scenario the husband is now 68 years old and is contemplating a reset. He can simply wait until age 70 to reset, or he can withdraw his application now, repay his past benefits, and then wait until age 70 to reapply. The advantage of waiting until age 70 is that he gets interest-free use of the money for two years. The disadvantage, however, is significant: were he to die today, before withdrawing his application, his wife's widow's benefit would be the continuation of the reduced benefit amount he claimed at age 62 (minimum of 82.5 percent of his PIA). Had he died after withdrawing his application, she would be entitled to the benefit amount to which he would have been entitled on the date of his death, which, at age 68, is 117.5 percent of his PIA.

Possible Gains from Resetting

Continuing from the previous example, Table 4 shows possible gains (losses) from resetting as the wife's age and PIA diverge from the husband's. As stated, he is 70 years old and has a $20,000 annualized PIA.

The first number at the intersection of "Her PIA" and "Her Age" shows net PV after-tax percentage gain in future benefits if the repaid money is drawn from a taxable account with no embedded capital gains. The second number shows net percentage gain or loss if the repay money is drawn from a tax-deferred account, in which all money withdrawn is taxed as ordinary income at 25 percent. Some observations:

- Greater gains result from resetting the younger she is and the lower her PIA is.
- Of the two variables, greater gains come from her younger age than from her lower PIA.
- For each row highlighted yellow, the net increase (numerator) dollar amount is identical across the PIA columns and comes from an increase to his benefit. However, the denominator (original PV of lifetime benefits) gets smaller as her PIA drops, resulting in a larger percentage gain.
- Note that at zero age difference, the percentage gain from resetting decreases as her annualized PIA relative to his drops from $10,000 to $5,000. This is because at her $5,000 PIA, past spousal benefits must also be repaid (there are no spousal benefits paid if her PIA is at least 50 percent of his): while the gross gain is greater in the $5,000 column vs. the $10,000 column, the gross payback is much greater in the former, resulting in a smaller net increase.[16] This situation reverses when she is more than two years younger than her husband, as there are fewer years of spousal benefits that have to be repaid.

Distribution of Increased Benefits

In our current case illustration, Table 5 shows to whom the increased benefit amounts accrue. For example, at the intersection of her $20,000 through $10,000 annualized PIA and her age of 62, 19 percent of the PV post-tax increase to lifetime benefits accrues to her husband and 81 percent accrues to her. Note that at the intersection of $5,000 PIA and 70 years of age she gets less than 50 percent of the net gain. This is because of the eight years of repaid spousal benefits being greater than the reset gain accruing to her.

Resetting Social Security Benefits vs. Purchasing an Immediate Annuity

Those beneficiaries considering an immediate fixed annuity should first consider resetting their Social Security retirement benefit, as there are several advantages of the latter over the former. First, in most cases, the post-tax increase to the Social Security retirement benefit will greatly exceed the post-tax immediate fixed annuity benefit, assuming that the same net Social Security repayment amount is instead used to purchase an immediate fixed annuity. This is true even when one accounts for the non-taxable return of basis associated with the annuity. See Table 6. Second, unlike an insurer, the Social Security Administration does not take into account age or health differences between spouses when calculating benefit amounts. Finally, if an annuity provider becomes insolvent, most state life and health insurance guaranty associations limit the coverage of annuities to $100,000 of their present value.[17]

However, there are advantages to an immediate annuity. One advantage is that the retiree has the flexibility to choose his or her purchase amount. Social Security does not permit that kind of flexibility: when an application for Social Security retirement benefits is withdrawn, all benefits ever paid on that application must be repaid; partial paybacks are not allowed. Also consider that Social Security provides only a widow(er)'s benefit, whereas an immediate annuity does provide the freedom to choose a non-spousal joint annuitant.

Table 3: Reset Benefits for Husband (Age 70) and Wife (Age 66), Both Made a Claim at Age 62

New lifetime PV (post tax)	$405,881	
Old lifetime PV (post tax)	($261,007)	
Gross increase (post tax)		$144,874
Repaid	$123,857	
Tax credit	($26,320)	
Net repay		$97,537
NPV increase in lifetime benefits (post tax)		$47,337
% increase in lifetime benefits (post tax)		18%
First year increase (post tax)		$9,749
First year increase as % repay		10%
Years to break even		7

Table 4: Net Lifetime Percentage Gains (Losses) from Resetting. Husband Is Age 70 with a $20,000 Annualized PIA. Wife's Age and Annualized PIA Varies.

	Her Annualized PIA			
	$20,000	$15,000	$10,000	$5,000
Her Age 70	9% / (3%)	10% / (3%)	12% / (3%)	8% / (11%)
68	11% / (1%)	12% / (1%)	13% / (2%)	13% / (5%)
66	13% / 2%	15% / 2%	17% / 3%	18% / 2%
64	14% / 4%	16% / 4%	18% / 5%	19% / 4%
62	17% / 6%	19% / 7%	21% / 8%	21% / 8%

Highlighted green are cases in which spousal benefits also had to be repaid.

Table 5: Distribution of Increased Lifetime Benefits. Husband Is Age 70 with a $20,000 Annualized PIA. Wife's Age and Annualized PIA Varies.

	Benefits Accruing to Him/Her	
Her Age	Her Annualized PIA	
	$20,000 Through $10,000	$5,000
70	40% / 60%	55% / 45%
68	33% / 67%	36% / 64%
66	25% / 75%	24% / 76%
64	23% / 77%	22% / 78%
62	19% / 81%	19% / 81%

Risks Involved

For the single retiree, the primary risk involved in this transaction is dying after repaying benefits and before the break-even period is complete. If this occurs, the heirs would suffer a reduced bequest unless the repaid amount could be cost-effectively protected with a term life insurance policy.

The risk issue is more complex for a married couple and is dependent on age and PIA differences. Consider the previous reset scenario of the married couple in which both spouses are 70 years old and the wife's PIA is $5,000. This is the least profitable, most expensive reset: least profitable in that at zero age difference there would only be three years of increased widow's benefit, most expensive in that there are eight years of spousal benefits that need to be repaid. Should he die immediately after resetting, the increase to his benefit amount would immediately accrue to her in the form of a widow's benefit. However, the expected increase to her spousal benefit will be replaced by that larger widow's benefit amount. The 8 percent gain expected

Table 6: Post-Tax Increased Social Security Retirement Benefit Compared to the Post-Tax Immediate Fixed Annuity Benefit

	Annuity Purchase/ Social Security Payback Amount	Increase to Original Social Security Benefit	Vanguard CPI Indexed Annuity	Elm CPI Indexed Annuity
Married couple: he's 70, she's 66	$97,537	$9,749	$4,492	$4,463
Male age 70	$87,290	$8,568	$5,674	$5,610
Female age 70	$87,290	$8,568	$5,071	$5,075

This table assumes a 25% marginal tax bracket in which 85% of Social Security benefits are taxed. In the case of the married couple, the annuity provides a 100% survivor benefit. All quotes received March 2010.

Table 7: Summary of Risk Scenarios, Married Couple, Husband Dies Prematurely

	He Lives			
	Current	Reset	Difference	
His	$139,951	$237,184	$97,233	
Hers	$74,659	$86,545	$11,886	
Widow's	$22,094	$39,720	$17,626	
Total	$236,704	$363,449	$126,745	
		Payback	($107,747)	
		Net increase	$18,998	8%
	He Dies at 70			
His	$0	$0	$0	
Hers	$41,861	$41,861	$0	
Widow's	$134,564	$241,917	$107,353	
Total	$176,425	$283,778	$107,353	
		Payback	($107,747)	
		Net decrease	($394)	(0.22%)

(assuming payback funds are withdrawn from a taxable account without embedded capital gains) would be reduced to a 0.2 percent loss. See Table 7 for a summary.

If she were to die immediately following the reset, there would be an 8 percent loss. He would still see an increased benefit amount but that will be offset by the eight years of spousal benefits that must also be repaid. The expected increase to the spousal benefits and widow's benefit are now moot. See Table 8 for a summary.

Conclusion

The candidates who have the potential to gain the most from resetting Social Security retirement benefits may have one or more of the following characteristics: first, sufficient confidence in the ability to survive the break-even period; second, an aversion to market risk and a desire to trade riskier investment assets for an increased Social Security benefit; third, a wish to minimize the risk of outliving their portfolio; and finally, adequate non-tax-deferred assets from which to repay past benefits. Additionally, in reference to married couples, the best candidates are couples in which the spouse with the lower earnings record is also significantly younger and/or healthier than the spouse with the higher earnings record. Individuals or married couples who satisfy some or all of these requirements may be in a good position to reset.

As previously mentioned, anyone considering an immediate fixed annuity should first consider resetting their Social Security retirement benefit, because the payments of the latter will almost always exceed those of the former. However, the flexibility to choose one's purchase amount and name a non-spousal beneficiary are significant advantages of the annuity.

The Social Security retirement benefit system, especially to the layperson, can be a complex maze of non-intuitive interrelationships. It is, then, not difficult to understand why the majority of married retirees fail to notice and take advantage of the increase to lifetime household wealth gained by waiting until their optimal ages before claiming benefits. Single retirees have their own challenges in undertaking the detailed calculations necessary to effectively factor market and longevity risk into the decision of when to claim their retirement benefits. Financial planners working with these particular retirees, married or single, should consider analyzing whether these clients would see a lifetime financial gain by resetting their benefits.

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Endnotes

1. Social Security Administration. 2008. *Annual Statistical Supplement.* Table 6.B5. www.socialsecurity.gov/policy/docs/statcomps/supplement/2008/6b.html#table6.b5.
2. Munnell, Alicia H., and Mauricio Soto. 2007. "When Should Women Claim Social Security Benefits?" *Journal of Financial Planning* 20 (June): 58–65.
   Cook, Kirsten, William Jennings, and William Reichenstein. 2002. "When Should You Start Your Social Security Benefits?" *AAII Journal* (November): 27–34.
3. A simplified version of PIA determination: First, the retiree's past earnings covered by Social Security are indexed to the National Average Wage Index series. According to the SSA, "[s]uch indexation ensures that a worker's future benefits reflect the general rise in the standard of

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Table 8: Summary of Risk Scenarios, Married Couple, Wife Dies Prematurely

	She Lives			
	Current	Reset	Difference	
His	$139,951	$237,184	$97,233	
Hers	$74,659	$86,545	$11,886	
Widow's	$22,094	$39,720	$17,626	
Total	$236,704	$363,449	$126,745	
		Payback	($107,747)	
		Net increase	$18,998	8%
She Dies at 70				
His	$139,951	$237,184	$97,233	
Hers	$0	$0	$0	
Widow's	$0	$0	$0	
Total	$139,951	$237,184	$97,233	
		Payback	($107,747)	
		Net decrease	($10,514)	(-7.5%)

living that occurred during his or her working lifetime." Next, the highest 35 years of these indexed earnings are averaged, resulting in averaged indexed monthly earnings (AIME). Finally, a regressive formula is applied, using breakpoints designed to replace greater amounts of lower earnings. For 2010, the PIA is calculated by adding 90 percent of the first $761 of AIME plus 32 percent of the next $3,825, plus 15 percent of the AIME over $4,586.

4. All benefit reduction formulas can be found in Para. 724.1 of the Social Security Handbook. www.socialsecurity.gov/OP_Home/handbook/handbook.07/handbook-0724.html.
5. Congressional Budget Office. 2001. "Social Security: A Primer." September: 33. www.cbo.gov/ftpdocs/32xx/doc3213/entirereport.pdf.
6. See Social Security Handbook Para. 320.1. www.ssa.gov/OP_Home/handbook/handbook.03/handbook-0320.html.
7. Munnell, Alicia H., and Mauricio Soto. 2007. "When Should Women Claim Social Security Benefits?" *Journal of Financial Planning* 20 (June): 58–65. Cook, Kirsten, William Jennings, and William Reichenstein. 2002. "When Should You Start Your Social Security Benefits?" *AAII Journal* (November): 27–34.
8. Technically, Withdrawal of Application is only required when a retiree is resetting a benefit claimed before FRA. In all other cases the SSA will apply differing procedures which will have the same effect.
9. Social Security Online Retirement Planner. www.socialsecurity.gov/retire2/withdrawal.htm.
10. IRS Pub. 17. 2009. Ch. 11 "Repayments More Than Gross Benefits." www.irs.gov/publications/p17/ch11.html#en_US_publink1000171937.
11. According to SSA's Procedures Operations Manual System, section GN 00206.070, "Manner of Approving or Disapproving a Withdrawal (WD)," prior benefit reset transactions do not preclude future resets. https://secure.ssa.gov/apps10/poms.nsf/lnx/0200206070!opendocument.
12. It is assumed that the retiree either desires to or is willing to exchange riskier retirement portfolio assets for a risk-free inflation-indexed income stream. In this case, TIPS are the only comparable security.
13. Quote received in March 2010.
14. Reductions or increases to Social Security retirement benefits vary according to year of birth.
15. Quote received in March 2010.
16. The SSA allows her "deemed application," which went into effect when she took early retirement at 62, to be reversed. This increases her base spousal benefit from 73 percent to 100 percent.
17. National Organization of Life & Health Guaranty Associations. www.nolhga.com/factsandfigures/main.cfm/location/stateinfo.

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