

InvestmentNews

Coordinating Social Security disability and retirement benefits

Spouses can claim benefits when mate collects disability

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Financial advisers are often well-versed in optimal Social Security claiming strategies for married couples when it comes to deciding when and how each should claim retirement benefits. But adding disability benefits into the mix seems to wreak havoc with their recommended strategies as most software programs do not handle disability benefits.

I have received several questions from advisers recently asking if one spouse can claim spousal benefits on a worker who is collecting Social Security disability benefits. The short answer is yes.

But first let me review how Social Security disability benefits work.

Social Security pays disability benefits to people who can't work because they have a medical condition that's expected to last at least one year or result in death. In general, to get disability benefits, you must meet two different earnings tests: a recent work test, based on your age at the time you became disabled, and a duration of work test to

show that you worked long enough under Social Security.

If approved, your monthly disability benefit is based on your average lifetime earnings. If your application is denied, you can appeal. Your first Social Security disability benefits will be paid for the sixth full month after the date your disability began.

After receiving disability benefits for two years, you will automatically qualify for Medicare coverage, regardless of your age. Once you reach your full retirement age, currently 66 for anyone born from 1943 through 1954, your disability benefits will automatically convert to retirement benefits but the monthly amount will remain the same.

Certain members of your family may qualify for benefits based on your work. They include: your spouse, if he or she is age 62 or older; your spouse at any age, if he or she is caring for a child of yours who is younger than age 16 or disabled; your unmarried child, including an adopted child, or, in some cases, a stepchild or grandchild, if younger than age 18 (or younger than 19 if still in high school); or an adult child who was permanently disabled before age 22.

In some situations, a divorced spouse may qualify for benefits based on your earnings, if he or she was married to you for at least 10 years, is not currently married, and is at least age 62. The money paid to a divorced spouse doesn't reduce

your benefit or any benefits due to your current spouse or children.

“I have a client that was married for 32 years and has been divorced now for eight years,” one adviser wrote. “She is 63 and plans to work until 67. Her former husband is now 62 but due to a stroke he is receiving Social Security Disability. Is she eligible either now or later for a portion of his Social Security benefit?”

“Yes, the divorced spouse can file a restricted claim for spousal benefits on her ex-husband's disability benefit when she turns 66,” I responded. That will allow her to collect half of her ex-spouse's disability benefit amount while her own retirement benefit continues to grow by 8% per year between 66 and 70.

The client is only able to do this because she was born before Jan. 2, 1954. Due to the changes enacted by the Bipartisan Budget Act of 2015, younger people will never be able to choose which benefit to claim, but will be paid the highest benefit — whether on their own earnings record or as a spouse or eligible divorced spouse — based on their age at time of claim.

Separately, another adviser asked if his 64-year-old client, who is currently receiving disability payments of about \$2,000 per month, could switch to spousal benefits when he turns 66 and claim half of his wife's Social Security retirement benefit while his own continues to grow up until age 70.

No, he can't. Although he would be able to suspend his Social Security benefit at age 66 in order to earn delayed retirement credits of 8% per year up until age 70, he would not be able to collect any benefits during the suspension.

Finally, an adviser wrote to me about his clients, a married couple with both spouses are age 63. The husband is collecting Social Security disability benefits of \$2,700 per month. The wife has not yet claimed Social Security but is entitled to retirement benefits on her own earnings record of \$700 at her full retirement age of 66.

“What would happen if the husband dies before his disability benefit automatically converts to retirement benefits at age 66?” the adviser asked. “What will the wife receive as a survivor benefit?”

“Her survivor benefits would be the same whether he dies before or after his full retirement age,” I responded. “As long as she is at least full retirement age when she begins collecting survivor benefits, she will receive 100% of what her husband was collecting; less if she claims before 66.”