What is Voluntary Suspension?

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–Elaine Floyd, CFP®

What if you claimed Social Security and then realized you would rather stop benefits and get more later? Can you change your mind?

You might go back to work and no longer need the income. Or you might realize that it makes more sense to draw from other sources of income and let the Social Security benefit build delayed credits to age 70.

Under the voluntary suspension rules, you can ask to have your benefit suspended starting at full retirement age (FRA). Let's say Bill's primary insurance amount (PIA) is $2,800. He claimed his benefit at age 62, so his benefit was reduced to $1,960 per month. When he turns 67, he suspends his benefit and receives zero Social Security income from age 67 to 70. When he turns 70 his benefit is automatically resumed at $2,430 ($1,960 x 1.24) plus whatever cost-of-living adjustments (COLAs) had accumulated since age 62. Note that the delayed credits are applied to the benefit amount at the time of suspension, whatever that may be.

The voluntary suspension rules were created as part of the Senior Citizens' Freedom to Work Act of 2000. Prior to this act, the earnings test applied to everyone under 70 who received Social Security and worked. Under the earnings test, $1 in benefits is withheld for every $2 earned over the annual threshold. Realizing that this was discouraging people from working, the law was changed to have the earnings test apply only to people under FRA. At the same time, it was acknowledged that people over FRA who worked, even though their benefit would not be withheld for the earnings test, might want to suspend their benefit so that it could build delayed credits to age 70. Suspending benefits at FRA is seen as a legitimate way to maximize one's Social Security benefit through the accumulation of delayed credits.

Not the same as file-and-suspend

What was not seen as legitimate was the file-and-suspend strategy that arose from this law. This loophole has since been closed. A high-earning spouse who had reached FRA and had planned to delay his benefit to age 70, but who didn't want his spouse to have to wait until then to claim her spousal benefit, could file for his benefit and then immediately suspend it. This allowed the spouse to start the spousal benefit four years earlier and also allow the worker-spouse to build delayed credits. Since this strategy was being used primarily by wealthy people and seemed to be an abuse of the rules, it was disallowed as of April 30, 2016, as part of the Budget Act of 2015. Spousal benefits can no longer be paid on a record that was suspended after April 29, 2016. This effectively put an end to the popular file-and-suspend strategy. (The restricted application strategy is still alive and well for those born before January 2, 1954, providing the person had not previously applied for benefits. This allows the person to receive spousal benefits while their own benefit builds delayed credits.)

Auxiliary benefits

It should be noted that if someone suspended prior to April 30, 2016, spousal benefits may be paid, even if claimed after April 30, 2016. For example, let's say Jack filed and suspended prior to April 30, 2016 but at the time Jill was not yet eligible for a spousal benefit because she was under 62. Once she becomes eligible she can claim her spousal benefit even though Jack's benefit remains in suspension. That's because he suspended before April 30, 2016.

Keep this rule about auxiliary benefits in mind when debating whether or not to suspend your benefits. It may seem like a good strategy for someone who has already filed and then realized that suspending from FRA to age 70 would generate higher lifetime benefits. But if a family member such as a spouse or dependent child is drawing off that person's record, their benefits will also be suspended. An exception is divorced-spouse benefits. If Jack suspends his benefit, current wife Jill will have her spousal benefit suspended as well, but ex-wife Jane may continue to receive her divorced-spouse benefit.

Other information

There is no form to sign or formal process to suspend. SSA says, "you may ask us orally or in writing." Once suspended, benefits will automatically resume at age 70. If you want benefits to start sooner than that, you would again tell SSA "orally or in writing" that you want your benefit to resume.

Disability-turned-retirement benefits can be suspended. A person receiving disability benefits will, at FRA, have their disability benefit converted to a retirement benefit. The amount will not change. The only difference is that the money is coming out of the OAS trust fund instead of the DI fund. Once it converts, it is a regular retirement benefit and can be suspended like any other retirement benefit. The fact that it was converted from a disability benefit does not impair the ability to suspend.

Suspension vs. withdrawal

When a benefit is suspended, the person's record remains open. This puts certain restrictions on what he can do. For example, a person cannot suspend his benefit and then file a restricted application for spousal benefits—a common question from people who learn about spousal benefits only after they have applied for their own retirement benefit and are disappointed to learn that they cannot take advantage of the claim-now-claim-more later strategy.

A person cannot receive benefits on another person's record while their benefit is in suspension. Let's say a widow received poor guidance initially, but after talking to a financial professional realizes that if she had taken her survivor benefit instead of her retirement benefit (i.e., filed a restricted application for her survivor benefit), she could have let her own benefit build delayed credits to age 70. She asks if she can stop (i.e., suspend) the retirement benefit and receive her survivor benefit in the meantime. The answer is no. If she had suspended prior to April 30, 2016, she could have received the survivor benefit while her benefit was in suspension. But if she suspended after that date, the new rules say that she cannot receive her survivor benefit while her retirement benefit is in suspension.

To close the record and go back to the way it was, as if the person had never applied, they need to withdraw their application and repay any benefits they had received. This must be done within the first 12 months of application. Once the 12 months have passed, withdrawal is no longer an option.

Note that if auxiliary benefits are being paid off that record, such as a spousal benefit, the other person must consent to the withdrawal (divorced-spouse benefits excepted). Only one withdrawal can be done in a lifetime; withdrawals prior to adjudication (i.e., before the application has been processed) don't count toward this once-in-a-lifetime limitation.

This restriction on withdrawals to the first 12 months after application became effective December 8, 2010, and was one of the first loopholes to close. Prior to that, enterprising (and well-off) people would apply for Social Security benefits at 62, have the use of the money for eight years, and then withdraw their application at age 70, repay benefits without interest, and keep the investment earnings generated by the invested benefits.

"Suspending" before FRA

It is not possible to initiate a voluntary suspension before FRA. So what happens if someone is laid off, applies for benefits at 62, and six months later gets a job? In this case his benefit will be withheld for the earnings test, which could have the same effect as a suspension. If all benefits are withheld, his benefit will be recomputed at FRA to remove the actuarial reduction for all those months he did not receive a check—equivalent to delaying benefits for those months—and his benefit at FRA will resume in an amount very close to his PIA (minus only the reduction for those months he did receive a check). At that point he can voluntarily suspend his benefit and build delayed credits to age 70.

If you grow used to the monthly Social Security income it may be hard to accept zero benefits for four years while your benefit grows, but analyses clearly show that this is a worthwhile strategy, usually leading to higher lifetime benefits. Talk to a financial professional who can run a personal analysis for you to discover your maximum benefit strategy.

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