How life insurance can help replace a spouse's Social Security benefits.

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The benefits of life insurance are obvious to almost everyone with young children, with children in college, or with outstanding debts, such as a mortgage or education loans. Life insurance provides peace of mind and protection from financial difficulty if a wage earner's income is suddenly lost.

Few people consider that life insurance can also play a role in replacing the income of a spouse's Social Security benefits after the death of the spouse.

We see this all the time. Most people don't even begin to think about Social Security benefits until they're 50 or older. When they do ask, "What can I expect from Social Security?" they're often confounded by the information they get. Who wouldn't be? Social Security has more than 2,700 rules.

Knowing how survivors' Social Security benefits are calculated may help you and your spouse begin to plan for what will happen when one of you dies. Financial professionals can help. They often have access to sophisticated software for estimating your Social Security benefits, income from other sources, and retirement income needs.

First, some basic facts about Social Security.

Individuals who qualify for Social Security retirement benefits can file for a reduced benefit starting at age 62. If they wait and file at "full retirement age" (between 66 and 67, depending on their birth year), they are eligible for what's called their "primary insurance amount" (PIA).

After their full retirement age, they earn "delayed retirement credits" that amount to a "raise" of about 8% per year between full retirement age and 70.

The easiest way to see what this means for you and your spouse is to register for an account on ssa.gov. You'll be able to see your work record and projections of your benefits at 62, your full retirement age, and 70.

What happens when someone dies, and the survivor needs the benefits?

The funeral home will notify the Social Security Administration (SSA) of the death and provide the deceased person's Social Security number. Social Security will stop paying benefits for the month after someone dies. If the agency isn't notified and it pays benefits after the death, those benefits must be repaid.

The surviving spouse of someone who was collecting Social Security must call or visit a Social Security office to arrange survivors' benefits. This cannot be done online. (Those who are already receiving benefits as a spouse, though, will have their benefits automatically converted to a survivor's benefit after Social Security receives the report of the death.)

A widowed spouse who has reached full retirement age is entitled to 100% of what a deceased spouse was collecting in benefits at the time of death. The benefit will be less than 100% if the widowed spouse is between 60 and full retirement age.

Of course, it's more common today that both spouses have worked and qualified for Social Security benefits. An eligible widowed spouse under age 70 could take a survivor's benefit and switch to his or her own benefit later if it would mean a higher monthly check.

Many are surprised to learn that there is no double-dipping in Social Security. Widowed people are not entitled to the deceased spouse's and their own benefits. They will get whichever is higher.

Digging a little deeper into survivors' benefits.

Calculations of survivors' benefits turn on several factors, including:

- **The age at which the deceased spouse started collecting Social Security: This affects a surviving spouse's benefit.**
- **Social Security credits accumulated by each spouse: If both spouses worked and earned enough retirement credits, each is eligible for benefits while married—but for only one benefit after one of them dies.**
- **After a spouse's death, the widowed spouse's age and employment history or situation: Working widowed spouses may have their survivors' benefits reduced if their earnings are over limits set by the SSA. On the other hand, their earnings will accrue credits toward their own eventual retirement benefit.**

Each couple's case is different and depends on how many years they worked, when they began to collect Social Security, their income while they were working, and eligibility records.

Let's look at an example: A couple, age 50-plus, takes stock.

Age 50 is a milestone when most people pause to review their financial goals, retirement savings, and the need to provide for loved ones. A near-universal question is: "What can we expect from Social Security?"

Take the hypothetical case of a couple, Chris and Amy, both born in 1970, who ask their financial professional what they'd earn in Social Security income if they both filed for benefits at age 67, their full retirement age. A two-income couple, Chris and Amy learn that their potential Social Security income based on their plans to file at 67 is just under $103,000.*

Chris and Amy realize they're likely to live longer than their parents and pay far higher costs for essentials: housing, healthcare, food, and utilities. They estimate their needs in retirement are for an annual income of $140,000 in today's dollars.

They take advantage of their workplace retirement programs, so they plan to have savings, into which they can tap, in addition to Social Security. They feel confident and prepared.

Then, the conversation turns to the effect on their Social Security benefits when one of them dies. They consider what would happen if Chris died at age 85. Suddenly, their confidence wanes.

A financial professional helps them determine that Amy, the surviving spouse, would have a Social Security income of about $62,500 annually — $40,500, or about 40%, less — in the first year she's a widow.

That's well short of what they estimated Social Security would be providing to them in total. It leaves Amy, at the vulnerable age of 86, possibly without the funds she may need for healthcare and long-term care costs.

This exercise surprises many couples. They were diligent about the need to prepare for unexpected early death by having life insurance while their children were young. They realize the need to provide financial security for a surviving spouse may extend into old age.

* The calculations assume an annual 1.5% cost-of-living adjustment (COLA) from Social Security. They don't include the substantial increase in benefits the couple could receive by delaying collecting Social Security until age 70.

Talk to your financial professional about Social Security.

Social Security is part of the foundation for most couples' retirement plans. Yet, surprisingly, many couples don't mutually plan and agree on their filing strategies.

If your children are on their own and your debts are paid, you may not even think to ask your financial professional whether and how life insurance could be part of your retirement planning. You may even think about letting a policy lapse.

So, talk to a financial professional about calculating your potential Social Security benefits and assessing your retirement savings. You may be surprised to find out that preparing for a spouse's income security is a need that doesn't decline with age.

About the authors.

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