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Will the Recent Changes to Social Security Affect Your Plans?

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Social Security benefits are a meaningful source of income for most retirees. Choosing the right strategy for claiming benefits is one of the most important decisions to make while constructing a retirement income plan.

Last month, Congress passed a budget bill that eliminates some strategies people have used to increase their lifetime income from Social Security. It would appear these changes are meant to address the solvency of the system and the projected shortfalls in benefits for future retirees.

The new regulations will particularly impact married couples because it prevents them from using two advanced Social Security claiming strategies: file-and-suspend and applying for a restricted claim for spousal benefits. Let's briefly review both of these strategies and determine if the new regulations will impact you.

File-And-Suspend

Let's examine this strategy using an example of a married couple, assuming the husband was the higher wage earner. Here's how it used to work: Upon reaching his full retirement age of 66, the husband files for Social Security benefits, but immediately suspends them. Doing this enables the wife to file for spousal benefits and collect up to 50 percent of her husband's benefit. Another advantage was that the husband, by suspending, could delay receiving his own benefits and allow those benefits to grow by 8 percent per year (up to age 70) when he starts collecting.

So how will this work now? When the husband suspends benefits for himself, he also suspends benefits payable to anyone else who would qualify to receive benefits based on his earnings records. This includes spouses, young children and disabled children. The bottom line is that if you delay claiming your own benefits, you will also have to delay spousal benefits.

There's one key exception: Retirees who will be age 66 or older before **May 1, 2016** may still have time to file and suspend to trigger benefits for their spouse or dependents. They are grandfathered in before the legislation is enacted.

Restricted Application for Spousal Benefits

This second strategy used to work in a couple of different ways. First, we'll assume the wife has already started benefits based on her earnings record. When the husband reaches age 66, he files for a restricted application for spousal benefits (50 percent of wife's benefits) while allowing his own benefits to grow at 8 percent per year until age 70, which is when he switches to that benefit.

Another way it could work is that the husband files and suspends at age 66. This allows the wife (at 66) to file for a restricted application for spousal benefits only and delay her own benefits. When she reaches 70, she switches to her own benefit, assuming it's higher than the spousal benefit. Both of the scenarios I've described are also known as strategies to "claim now, claim more later."

In light of the Congressional changes, how will this work now? Restricted applications will be eliminated for most future retirees. Regardless of age, any spouse is treated as if he/she is filing for both individual and spousal benefits and will simply receive the higher amount. You can no longer apply for one benefit and switch to a different (higher) benefit later. The same rules apply to divorced spouses.

Again there's one key exception: Retirees who will be age 62 or older by **Dec. 31, 2015** may still be able to file a restricted application for spousal benefits. This is true even if they wait several years from now (e.g. age 66) to do it.

Concluding Thoughts

Workers and spouses who are currently using one of the above strategies are grandfathered in under the deal and will likely not be affected. Those younger than 62 (at year-end 2015) may need to reconsider their claiming strategy.

As the Social Security claiming rules are quite complex, Exencial Wealth Advisors can proactively handle the analysis of various claiming strategies for you and recommend solutions that integrate well into your overall retirement income plans. If you have any questions about how the recent law changes will impact you or if you would like to review your own claiming strategy, please don't hesitate to reach out to your advisor.

EFFECTIVE DATES AND CLAIMING DEADLINES FOR VARIOUS FILE-AND-SUSPEND AND RESTRICTED APPLICATION SCENARIOS

	CURRENTLY MARRIED		UNMARRIED DIVORCED SPOUSE (PREVIOUSLY MARRIED >10 YEARS)		PARENTS WITH DEPENDENT/DISABLED	SURVIVING SPOUSE	INDIVIDUAL
	File & Suspend	Restricted Application	File & Suspend	Restricted Application	File & Suspend	File & Suspend Or Restricted Application	File & Suspend
AGE 65 1/2 OR OLDER BY OCTOBER 29, 2015 (BORN APRIL 30, 1950 OR EARLIER)	Still available at FRA* must file by April 29, 2016	Still available at FRA* if otherwise eligible for spousal benefits	Not applicable	Still available at FRA* as long as former spouse also > age 62	Still available at FRA* must file by April 29, 2016	New rules not applicable. Can still independently choose timing of when to start survivor and individual retirement benefits	Must be FRA* and complete file-and-suspend by April 29, 2016 for future reinstatement
AGE 62-OR-OLDER IN 2015 (BORN 1953 OR EARLIER, OR ON JANUARY 1, 1954)	Not eligible				Not eligible, but can still Start-Stop-Start		No future lump sum reinstatement
UNDER AGE 62 IN 2015 (BORN JANUARY 2, 1954 OR LATER)		Not eligible		Not eligible			

*FRA = Full retirement age = 66 for those born 1954 or earlier

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Sources:

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3. Social Security tips: When to use a 'restricted application': http://www.today.com/money/social-security-tips-when-use-restricted-application-t32166