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New Changes that affect Social Security Claiming Strategies

There is a lot of confusion surrounding the Social Security policy changes that resulted from the Bipartisan Budget Act of 2015 passed by Congress that went into effect November 2, 2015. The two strategies that are affected include the "File-And-Suspend" strategy, as well as filing a "Restricted Application" for spousal benefits.

What's Changing?

File-And-Suspend: The original version of the File-And-Suspend claiming strategy allowed someone, upon reaching full retirement age, to file for Social Security retirement benefits and then immediately suspend them. The suspension of benefits meant that delayed retirement credits could be earned that would increase their social security benefit by 8% for each year delayed until age 70 (*a maximum of 32% increase in benefit*). In addition, the fact that benefits had been filed for meant a spouse became eligible for spousal benefits (*spousal benefits cannot be claimed until the primary worker also files for their own benefits*).

Under the new rules, when a taxpayer's benefit is suspended, they will not only suspend their own benefits, but they will also suspend any benefits payable to other individuals based on their earning record. Therefore, beginning May 1, 2016, if you suspend your benefit, your spouse and/or dependent children will no longer be able to collect a benefit based on your earning record during the time that you are not collecting a benefit.

Restricted Application: The original version of the Restricted Application strategy allowed you to choose a spousal benefit instead of your own benefit at Full Retirement Age, allowing your own benefit to grow by 8% per year until age 70. At age 70, you would then switch over to your own retirement benefit which had grown by a possible 32%. This strategy allowed you to receive Social Security income through your spousal benefit while allowing your own untouched benefit to grow. Under the new rules, you will be required to receive the greater of your spousal benefit or your own benefit based on your earning record at the time you file.

Who's Affected?

Those who are already receiving benefits are not impacted at all. For everyone else, your age determines the potential effects:

- If you or your spouse are 66 or will turn that age within 180 days of the new law's enactment on November 2, or you're a widow or widower (including if you were divorced before your former spouse died), you should still be able to use these strategies. You'll want to file for and suspend your benefits before May 2016, though, so you're grandfathered under the old provision.
- If you're already 62 or are turning 62 this year, you'll still be able to file a restricted application to receive only spousal benefits at your full retirement age, provided your spouse is either receiving or has filed for and suspended benefits within 180 days of the law's enactment.
- If you were divorced and age 62 by the end of 2015, you will be able to use the restricted application at your full retirement age, again provided your former spouse is also receiving or has filed for and suspended benefits within the 180-day grace period.
- If you're younger than age 62 after January 2, 2016, you won't be able to use these strategies.

Married couples are not the only ones that will be impacted by the new law once all of the changes are fully incorporated. Single individuals will no longer be able to use the file-and-suspend strategy to preserve their ability to collect a large lump sum retroactively in the event that they decide not to employ this strategy. While the grandfathering rules covering the Social Security's recent changes do not require immediate action, those who are grandfathered in will need to make sure they take the appropriate steps to preserve their future benefit options.

Tax laws and Social Security policies are not the only things that change regularly. Your financial goals and personal situation also go through changes that can affect your retirement plan. Therefore, it is a good idea to review your plan regularly to optimize your financial resources.

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Sandy Carlson has over eighteen years of wealth management experience including income taxation, retirement planning, executive compensation planning, insurance, banking, trust administration and estate planning. She is a Certified Divorce Financial Analyst™ (CDFA) and also holds the QKA designation by the American Society of Pension Professionals & Actuaries. She is President-Elect of the Financial Planning Association, a Tax Instructor in the CFP Program at Queens University, and is a member of the Charlotte Estate Planning Council. Sandy values getting to know her clients and providing creative, integrated solutions for accumulating, preserving and transferring wealth.