What You Need to Know About Changes to Social Security

November 2015

How These Changes Could Affect Your Future Filing Strategy

Establishing a well-crafted plan that addresses the role Social Security retirement benefits will play in your financial future has never been more important, especially in light of recent changes to how these benefits are administered.

On Nov. 2, 2015, President Obama signed into law the Bipartisan Budget Act of 2015. The bill, which had obtained overwhelming support in Congress from both political parties, was originally intended to raise the federal spending and debt limits through 2017. Several seemingly unrelated measures were also incorporated into it. Specifically, the bill (now law) ends two popular and well-used Social Security retirement benefit claiming strategies, "File-and-Suspend" and "Restricted Application." Below are answers to a few commonly asked questions regarding these recent changes to Social Security, in addition to an explanation of the new rules and how they could impact your long-term, comprehensive financial plan.

What is this law intended to do?

The Bipartisan Budget Act of 2015 ends two benefit-claiming strategies made possible by the Senior Citizens Freedom to Work Act of 2000. The Senior Citizens Freedom to Work Act was designed to permit seniors who had already begun receiving income from Social Security to suspend their retirement benefits and return to work. These seniors would then earn additional Social Security credits, increasing their now-delayed benefits when they were re-claimed down the road.

This situation created an opportunity for dual-income households to combine the "voluntary suspension" rules, which eventually evolved into the "File-and-Suspend" and "Restricted Application" claiming strategies, with Social Security's spousal benefit provision to maximize their retirement benefits. How? Well, the spousal benefit provision, which hasn't been eliminated, allows claimants to receive the greater of two amounts: up to 50 percent of their spouse's benefit or their own accrued benefit. The new law now prevents a family member from collecting benefits on their spouse's earnings record while the filer's benefits are suspended. Anyone who has already filed and suspended benefits before the bill was passed will not be impacted.

Does this law reduce Social Security retirement benefits?

Technically, the new law *preserves* the level of benefits promised by the Social Security Administration based on age at filing. There is an immediate reduction, however, to the variety of filing strategies that Americans can employ, particularly for married and divorced claimants. This reduction of allowable claiming strategies may significantly lessen the lifetime retirement benefits that some retirees had planned on obtaining from Social Security.

HBE Wealth Management LLC

An Independent Member of THE BAM ALLIANCE®

For many retired Americans with fewer options to replace lost income, receiving a smaller amount from Social Security than they originally had expected could, in turn, jeopardize their overall financial health. Unfortunately, this is a stage of life in which there are very few helpful alternative options available for increasing income. After all, how many people will be capable and willing to come out of retirement and resume working in their 70s?

Who should be worried?

Anyone who has already filed for Social Security using the "File-and-Suspend" and the "Restricted Application" claiming strategies will not be affected. However, every American who reaches 62 in 2016 or later will be allowed fewer choices in how they receive Social Security retirement income. The maximum amount that a person or couple could obtain from Social Security will now be lower than in the past. The most commonly known benefit claiming strategies eliminated by the law are the "File-and-Suspend" and the "Restricted Application" options. The opportunity cost to couples who could have utilized either or both of these two strategies could easily grow to $60,000 or more over a lifetime. The personal assets or savings required to make up the difference could produce some major headwinds to retirement readiness for some people.

Individuals already age 66 or older, and those who turn 66 by approximately May 1, 2016, who have not yet filed for Social Security still have six months available in which to capitalize on the "File-and-Suspend" or the "Restricted Application" options. By May 1, 2016, individuals and couples are required to have their filing strategies documented by the Social Security Administration.

Restricted applications for spousal benefits will be eliminated for everyone who turns 62 after Dec. 31, 2015.

Survivor benefits are not impacted by the new law. Surviving spouses will still be able to choose whether, and when, to begin receiving survivor benefits versus their own retirement benefit.

Additional modifications to claiming strategies may result from the law, but only the more common situations have been covered here.

Is there still any financial benefit to delaying Social Security?

Yes! Social Security can be obtained as early as age 62. However, that's with a steep penalty of up to 30 percent less than what could be available at full retirement age. Full (normal) retirement age is either 66 or 67, depending on a person's year of birth. It's also the threshold for receiving 100 percent of the promised Social Security retirement benefit. Filing at 70 provides an 8 percent *annual* increase from the full retirement age amount, which is a guarantee not available anywhere else in the world of retirement planning. A person born in 1960 or later, for example, may be due $1,000 a month at full retirement age. That person would receive a benefit of $1,240 a month by waiting until age 70, but would collect just $700 a month by filing at 62. Capturing $540 more per month starting at 70 versus at 62 would provide an additional $62,400 to the filer by the time they reached 90.

Everyone’s financial circumstances, goals and priorities are different. The lack of a crystal ball to accurately and reliably forecast longevity or quality of life (or virtually anything else) means there’s no single filing strategy that is best for everyone. Because we can’t predict how long someone will live, we view Social Security essentially as longevity insurance. Filing for Social Security later gives claimants a much greater longevity insurance benefit.

What action should be taken?

Your first step should be to schedule time with your advisor(s) to review how, or if, the new law impacts your retirement projections or legacy goals. For clients with six months or less in which to file for the enhanced strategies, time may be of the essence. Clients age 61 and under should meet with their advisor(s) as well so that they can review what filing strategies are still available.

Social Security was a complex issue even before the new law was passed. Many filing strategies existed, and the public was provided very little education regarding how to optimize their own benefits-claiming approach. Our procedure for guiding clients through the Social Security decision-making process is being updated immediately to reflect all changes to the law.

Even though some of the most attractive filing strategies for couples or divorcees are being eliminated, Social Security still is able to provide a major impact on a family’s future financial projections. We look forward to supporting you with this important advanced planning decision.
