

SOCIAL SECURITY PROGRAM UPDATE

The Bipartisan Budget Act of 2015 signed into law on November 2, 2015 included changes that impact Social Security retirement and spouse benefits. Use this guide to answer commonly asked questions surrounding these updates and learn how these changes may impact your retirement benefits.

What are the changes?

Two Social Security claiming strategies were impacted by the budget decision: File and Suspend and Restricted Application.

Are the changes final?

No, the changes are not yet final. Congressional appropriations of the budget need to be completed and the Social Security Administration (SSA) needs to write the procedures to implement the changes. Until both are done, we won't know for certain the full extent of the changes.

What is File and Suspend?

As a maximization strategy, File and Suspend allows the higher earner to file for benefits, but suspend taking them. In doing so, eligible spouses and dependents are able to collect benefits off of the higher earner's record, while the higher earner's benefits earn the 8% annual increase. The higher earner then collects the increased individual benefit at age 70.

What is a Restricted Application?

A Restricted Application enables an individual to collect the "spouse-only" portion of Social Security benefits that they are eligible to receive at full retirement age (FRA) or older. This allows your individual benefit to continue to grow, earning the 8% annual increase. At age 70, you could then switch from the "spouse-only" benefit to the increased individual benefit.

When are the changes effective?

The Restricted Application is being phased out immediately for anyone born after 1953. Individuals born January 2, 1954 or later will have to claim an individual benefit prior to collecting a spousal benefit, regardless of age. For individuals born in 1953 or earlier, the Restricted Application remains a viable option. Changes to the File and Suspend strategy are effective April 30, 2016 (180 days after enactment). The option to suspend will still be possible after this date, but with additional implications:

- 1) During suspension, any spousal or dependent child benefit will also be turned off. The filer must begin collecting benefits again in order for others to be eligible to collect off of their record.
- 2) The option to request retroactive payments of those suspended benefits will not be available.

3) The filer won't be able to claim any other benefit while their benefit is suspended.

Can I suspend my benefit after April 30, 2016?

Yes. The option to suspend benefits is still available. A common use case for this would be an individual who chooses to collect retirement benefits early and at or after FRA decides that they would rather earn the raise instead of continuing to receive the monthly check. However, the ability for others to receive spousal or dependent benefits during the suspension period will no longer be possible if the request for suspension is submitted April 30, 2016 or later. Congress may have intended for this to begin May 1, but due to leap year in 2016, 180 days ends on April 30, 2016. Requests made at least 180 days after November 2, 2015 will cause a start date of April 30, 2016 (the 180th day).

Example: Jordan, born in 1951, has a Primary Insurance Amount (PIA) of \$1,000 and decided to collect her individual benefit at 62. She is receiving \$750 a month (25% reduction to her PIA). She will reach FRA in 2017. At that point, he could request a voluntary suspension of her benefit and would earn delayed retirement credits equal to 8% per year. If she kept her benefit suspended for four years until she turned 70, at that point her \$750 check would have grown by 32% to \$990 per month (plus any Cost of Living Adjustments). However, because she requested the suspension April 30, 2016 or later, anyone else claiming a benefit based on Jordan's earnings record will not receive that benefit during the time her benefit is suspended.

FAQs Following 2015 Federal Budget Changes

So, why should I even consider File and Suspend?

Given the changes, there is no reason to submit a request to file and immediately Suspend April 30, 2016 or later. Any benefit from doing so is being eliminated. Additionally, because NO retroactive payments will be allowed for someone who requests suspension April 30, 2016 or later, you would be better off doing nothing until you are ready to collect. That way you retain the ability to request up to six months of retroactive payments when you do decide to file and collect your individual benefit.

Who is impacted by the changes?

The changes mainly impact collection strategies for married couples, but also have potential implications for divorced individuals. Single individuals are only impacted if they planned to File and Suspend for purposes of securing the retroactive payment option. Widowed individuals are unaffected by these changes.

What if I am already using one of these strategies?

Anyone who has already filed a Restricted Application or suspended their individual benefit will likely be unaffected by these changes. The current language in the law would make it difficult for the Social Security Administration to craft procedures that would impact anyone already employing one of these

strategies. What if I am not already using one of these strategies but want to do so? A person born on May 1, 1950 will reach FRA effective April 2016. Individuals who are already above FRA but have not suspended individual benefits, or who are turning age 66 May 2, 2016 or later, File and Suspend appears to still be viable before April 30, 2016. Pending the Congressional appropriations process and the SSA's interpretation of the legislation, there is a potential window for individuals born between May 2, 1950 through September 1, 1950 to File and Suspend without the negative consequences. This is because the SSA has historically allowed individuals to file for retirement benefits four months in advance of the benefit start month and a request to suspend benefits can be made at the time of application. While this option will depend on the final procedures that the SSA implements, it may be worth considering given that there is a one year period in which individuals can submit a Request for the Withdrawal of Application and reverse the decision to file.

Example: Jordan, born in June of 1950, is the higher earner of a married couple and has a PIA of \$2,200. Alex, born in September of 1952, has a PIA of \$0. Jordan could submit a request to file and simultaneously suspend her benefit in February of 2016 (four months prior to eligibility). If SSA implements procedures that determine her suspension is not impacted by the new law, Alex could claim a reduced spousal benefit starting in June of 2016 or wait until September of 2018 to claim an unreduced spousal benefit of \$1,100 per month.

Does this impact divorced individuals?

The law uses the language "any other individual" to describe who will have payments cease during a suspension. Because of this, if an ex-spouse requests a voluntary suspension of benefits April 30, 2016 or later, divorced individuals collecting spousal benefits would likely see any spousal benefit they were receiving from that ex-spouse stop until the ex-spouse began collecting. Additionally, if the divorced person was born January 2, 1954 or later, they would be unable to file a Restricted Application.

Example: Jordan, was married to Alex for 16 years and is currently unmarried. Both Jordan and Alex were born in October of 1950. Jordan began collecting a divorced spousal benefit based on Alex's earnings history at age 62. As the law is currently written, it appears that if Alex decided to file and suspend in October of 2016, Jordan would stop receiving the divorced spousal benefit at that point. If Jordan waited until 70 to collect, Alex would be without the divorced spousal benefit for four years. If Jordan receives benefits or does not file for benefits, Alex would continue to receive the divorced spousal benefit.

Are survivor benefits impacted?

No, survivor benefits do not change as a result of this legislation.

Do I have to request retroactive payments before April 30, 2016?

No. It appears that you will retain the ability to request retroactive payments, as long as you have requested voluntary suspension before April 30, 2016.