How the Recent Budget Deal Affects Your Social Security Benefits

Bipartisan Budget Act of 2015 Eliminates Social Security Claiming Strategies

President Obama recently signed the Bipartisan Budget Act of 2015. This legislation included several changes to popular Social Security claiming strategies. Portions of the Act do not take effect until May 1, 2016, but there are several nuances that may apply to your unique situation.

What Changed?

The ability for married couples to utilize a combination of the File and Suspend strategy and Restricted Application strategy to maximize household benefits is being eliminated. These two strategies provided a combination of claiming options for married couples that often resulted in an increase in total household Social Security benefits. Depending on your circumstance, you may still be able to take advantage of certain strategies.

- **Already claiming benefits** — There will be no change to your monthly benefit. If you utilized the File and Suspend or Restricted Application strategies in the past, you will continue to receive this benefit. This includes the ability to claim spousal benefits for a period of time and then switch to your own benefit at age 70.
- **You and your spouse are over age 66 as of May 1, 2016** — For individuals who will turn 66 before May 1, 2016, the File and Suspend and Restricted Application strategies are still available. However, you must apply for these strategies before April 30, 2016.
- **You are over age 66 and your spouse is over age 62** — Again, an individual who is over age 66 can File and Suspend their benefit as long as they do so before April 30, 2016. A spouse who turned 62 by December 31, 2015 can still file a Restricted Application for spousal benefits at full retirement age and can then switch to his/her own benefit at age 70.
- **You and your spouse are over age 62 but under age 66** — Individuals in this category will not have the ability to File and Suspend their benefits when they reach full retirement age. However, they do meet the age 62 requirement. Therefore, one spouse can file for his/her own benefit at full retirement age and the other spouse still has an opportunity to file a Restricted Application for spousal benefits. The spouse's own benefit will continue to grow by 8% per year and the larger benefit can be claimed at age 70.

For couples who are both under age 62, the File and Suspend and Restricted Application strategies will no longer be available claiming strategies. However, it is still import to engage in Social Security planning, as there are still several factors to consider when claiming benefits.

The only available benefits are a client's own retirement benefit or a spousal benefit (half of the spouses full retirement benefit). Survivor benefits are also available for a widow.

Anyone can delay benefits to age 70 and get the 8% annual increase. In many cases, it still makes financial sense for high-income earners to delay claiming until age 70 because this increased benefit is then preserved for both spouses lifetime. If the high earner passes away first, the surviving spouse can continue to claim this higher benefit. However, a spouse cannot claim a spousal benefit until the high earner claims his/her own benefit. This could result in no Social Security benefits being paid to the household until the high earner reaches age 70.

File and Suspend – Still Available as Originally Intended

The original intent for File and Suspend was for workers who retired and claimed their own retirement benefit at full retirement age and then subsequently went back to work. This is still permitted. Under this scenario, the individual would receive an 8% annual credit for the years the benefit is suspended, up until age 70. Unsuspending: Under previous legislation, an individual who had suspended benefits after full retirement age could unsuspend and receive a lump sum of benefits they would have received had they claimed the full retirement benefit.

For example, a client utilized the File and Suspend strategy and planned to delay benefits until age 70. At age 68 the client had a health event that reduced his/her life expectancy. Under previous legislation, the client could unsuspend benefits and receive a lump sum of benefits that would have been received between age 66 and 68. The option to receive this lump sum payment will no longer be available.

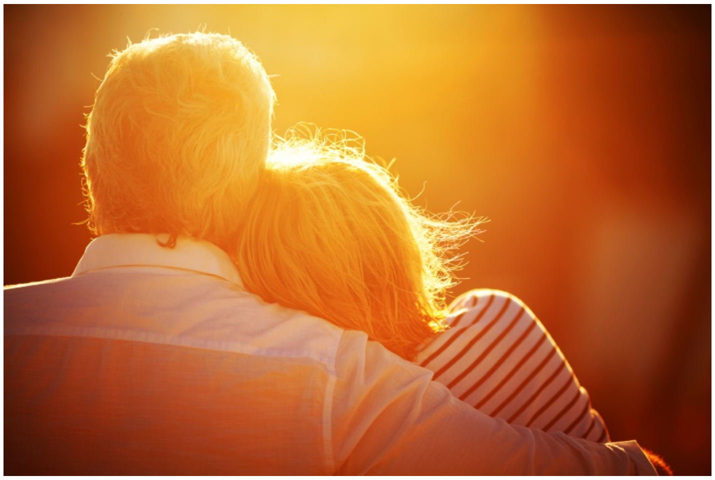
Unsuspending

Under previous legislation, an individual who had suspended benefits after full retirement age could unsuspend and receive a lump sum of benefits they would have received had they claimed the full retirement benefit.

For example, a client utilized the File and Suspend strategy and planned to delay benefits until age 70. At age 68 the client had a health event that reduced his/her life expectancy. Under previous legislation, the client could unsuspend benefits and receive a lump sum of benefits that would have been received between age 66 and 68. The option to receive this lump sum payment will no longer be available.

Survivor and Divorce Benefits

A surviving spouse is still entitled to survivor benefits as early as age 60. Claiming survivor benefits does not impact the individuals own benefit, which continues to grow until age 70.



Divorced spouse benefits have been impacted in the same manner as spousal benefits. Divorced spouse benefits can be claimed once both parties are at least age 62. However, claiming prior to your own full retirement age will result in a reduced benefit. In addition, when claiming benefits before full retirement age, you must take the largest benefit for which you are entitled.

If your own benefit at age 62 is larger than the divorced spouse benefit, you cannot claim the divorced spouse benefit. A divorced individual can file a Restricted Application if he/she reaches age 62 by December 31, 2015. These individuals also still have the opportunity to switch to their own benefit at age 70. Younger divorcees will no longer have this option.

A divorced individual can file a Restricted Application if he/she reaches age 62 by December 31, 2015. These individuals also still have the opportunity to switch to their own benefit at age 70. Younger divorcees will no longer have this option.

Still a Reduction for Claiming Benefits Early

Reductions for claiming benefits prior to full retirement age still apply. If you choose to start receiving Social Security before your normal retirement age, your benefit is reduced by five-ninths of 1% for each month before that age, up to 36 months. If you start more than 36 months before your normal retirement age, the benefit is further reduced by five-twelfths of 1% per month.

For example, if your normal retirement age is 66 and you take benefits at age 62, there is a total reduction of 25%. The reduction calculation is as follows: five-ninths of 36% plus five-twelfths of 12%. This 25% benefit reduction will permanently be applied to your monthly benefit.

Spousal benefits are also reduced if taken prior to full retirement age. The reduction formula is slightly more aggressive, with the maximum reduction reaching 35%.

The Importance of Planning

The new legislation and the nuances involved make it essential for clients to incorporate Social Security planning. Your team at AKT can provide you with analysis and recommendations for maximizing your benefits.

This is an informational fact sheet and is not intended to be a specific recommendation. If you are interested in exploring these strategies to see if they are applicable to your specific situation, please contact us. The information contained in this fact sheet is accurate to the best of our knowledge.