

Social Security Policy Changes in 2016

The Bipartisan Budget Act of 2015



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On Monday, November 2, 2015, one day before a default on U.S. financial obligations, President Obama signed into law The Bipartisan Budget Act (BBA) of 2015.

The primary goal of this two-year agreement is to eliminate recurrent threats of shutdown and 11th hour resolutions by increasing the national debt ceiling and easing federal spending restrictions.

Within this extensive piece of legislation are some major changes to Social Security that may negate planning strategies for retired couples. To understand the impact of these changes, you must first understand the concepts of deemed filing, restricted application, and voluntary suspension.

Deemed Filing and Restricted Application

Prior to the BBA of 2015, when a worker filed for Social Security benefits before his Full Retirement Age (between 65 and 67), he was effectively filing for whichever benefit was larger - the benefit based on his own earnings record, or the spousal benefit based on his spouse's earnings record. In this instance, the Social Security Administration *deemed that the worker filed for the largest benefit amount due*. Also, because the worker filed before his full retirement age, his Social Security check was permanently reduced.

However, if the worker filed for benefits on or after his full retirement age, he could *restrict his application to only receive his spousal benefit*. This would allow his own benefit to grow approximately 8% each year up until age 70. At age 70, the worker could switch from the spousal benefit to his own benefit which may have increased as much as 32%.

The new Act extends the concept of "deemed filing" past full retirement age. This in turn eliminates the ability for the worker to file a "restricted application" for spousal benefits only.

Voluntary Suspension

The Senior Citizens Freedom to Work Act of 2000 allowed an individual who was receiving Social Security benefits *the opportunity to voluntarily suspend these benefits on or after full retirement age to be reinstated at some chosen time in the future*. During this suspension, the benefit amount would grow approximately 8% each year until age 70.

Astute financial advisors recognized the planning opportunity this Act created for married couples, or those with other qualifying dependents.

Spousal benefits are only available if the other spouse has filed. The Act in 2000 enabled a spouse to file and open up his working record for the purpose of permitting spousal benefits, and then voluntarily suspend his benefit immediately. This voluntary suspension did not disqualify the other spouse from receiving spousal benefits.

The new Act stipulates that for spousal benefits to be paid from the worker's record, the worker must be actually receiving a benefit. Additionally, if the worker "voluntarily suspends" his benefit, he suspends all auxiliary benefits based on his work history.

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Who does this affect?

A married couple who is currently utilizing a version of the file-and-suspend strategy may continue to do so without experiencing any change or interruption in benefits.

Married couples who have yet to file, but where at least one spouse has reached full retirement age, will have the opportunity to file within the next 6 months to be grandfathered into these strategies.

Individuals turning age 62 before the end of 2015 will have the opportunity to file a "restricted application" for just spousal benefits. However, the new "voluntary suspension" rules will still be enforced.

Individuals turning age 62 after 2015 will have to abide by the reformations set forth in the Bipartisan Budget Act of 2015.

The table below summarizes the impact of the new legislation on workers at various ages and circumstances, and what actions should be taken, if any.

Year of Birth	Social Security Full Retirement Age	Age at the end of 2015	Action to Take
← 1937	65	78 or older	Do nothing. You have been "grandfathered" into rules prior to the BBA of 2015, and your benefits will continue being paid as they are now. This also applies if you have already claimed benefits using a file and suspend strategy.
1938	65 and 2 months	77	
1939	65 and 4 months	76	
1940	65 and 6 months	75	
1941	65 and 8 months	74	
1942	65 and 10 months	73	
1943	66	72	
1944	66	71	
1945	66	70	
1946	66	69	
1947	66	68	
1948	66	67	
1949	66	66	
1950	66	65	You may still file a "restricted application" for just spousal benefits, but will not be able to "voluntarily suspend" benefits without suspending all benefits. Contact your financial planner just before your full retirement age to determine if filing a "restricted application" will maximize total benefits.
1951	66	64	
1952	66	63	
1953	66	62	
1954	66	61	Do nothing. You will have to abide by the reformations set forth in the BBA of 2015, and will not be able to file a "restricted application" for just spousal benefits or "voluntarily suspend" benefits without suspending auxiliary benefits as well.
1955	66 and 2 months	60	
1956	66 and 4 months	59	
1957	66 and 6 months	58	
1958	66 and 8 months	57	
1959	66 and 10 months	56	
1960 →	67	55	

These significant policy changes to Social Security transpired with very little, if any, chatter from the treasury department or the financial industry, and the details and implications are still being uncovered. For example, it is still unclear how divorced spousal benefits will be affected.

The bottom line is that Social Security was, is, and will probably always be complicated. It will also continue to represent a meaningful piece of income for many retirees.

We will continue to monitor any developments and interpretations regarding this law. If you have any questions, please do not hesitate to contact your financial planner or a member of your Tri-Star team to discuss your options and your best strategy going forward.