Understanding Social Security Changes

The Bipartisan Budget Act of 2015, passed November 2, 2015, contains two major changes affecting Social Security. The rules on filing a Restricted Application for spousal benefits, and the ability to File and Suspend, have changed substantially.

Changes to the Restricted Application

Prior to New Law

An individual who was eligible for both a spousal benefit on the work record of a spouse and a retirement benefit based on his or her own work could choose to elect only a spousal benefit at Full Retirement Age.

This allowed his or her own benefit to accumulate 8%–per–year Delayed Retirement Credits and then switch to his or her own larger benefit at any point up to age 70.

Post New Law

A lower–earning spouse is eligible for spousal benefits only after the primary wage earner, under whose record he or she is filing has filed for benefits. Spousal benefits do not earn Delayed Retirement Credits, so delaying a spouse's benefit past Full Retirement Age represents lost checks, with no compensatory increase in the benefit amount.

Changes to the Voluntary Suspension

Prior to New Law

The new law phases out this option. For people born Jan. 1, 1954, or earlier, the option to file a Restricted Application for only spousal benefits will remain available.

For people born Jan. 2, 1954, or later, an application for retirement benefits or for spousal benefits will automatically trigger entitlement to the other benefit. If a participant is not eligible for spousal benefits (because his or her spouse had not yet elected) but later becomes eligible for a spousal benefit, entitlement is automatic and occurs on the first day of eligibility. Since the option to file a Restricted Application for only spousal benefits is only available under prior law at Full Retirement Age and the rules take effect only for people who are currently under age 62, this option is still effectively phased in over a four–year period.

Post New Law

The new law causes a Voluntary Suspension to stop all benefits payable under the earnings record of the person whose benefit was suspended.

The new law eliminates the ability to request a retroactive lump sum for all benefits between the date of the request and the date of suspension, so the only reason to request a Voluntary Suspension under the new rules will be to accumulate Delayed Retirement Credits.

Only people who suspended benefits in the past or within the first 180 days after enactment will fall under the old rules, and will continue to fall under the old rules until they reach age 70 or un–suspend benefits. People who request a suspension after 180 days of enactment will fall under the new rules.

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Some benefits excluded

Notably all of these changes concern the interaction between retirement and spousal benefits, and do not include widow benefits. So, widows will continue to have the opportunity to restrict an application to only widow or only retirement benefits and later switch to the other benefit.

Challenges ahead

The challenge with these new rules is that they effectively create three sets of rules based on a client's birthday. One set applies for the first 180 days after enactment of the law, another set applies for the next four years, and yet another set applies after four years once the last of the group who still has access to the Restricted Application has passed age 66. In a married couple, each member of the couple could fall under a different set of rules.

Summary:

Under age 62: Those who will be under the age of 62 as of December 31, 2015 will not be able to use the Restricted Application or File and Suspend as Social Security maximization strategies. If you fall into this category, you should be prepared for Social Security to likely comprise a smaller portion of your income in retirement.

Age 63 or older: Those who will reach age 62 prior to 2016 will have the Restricted Application available to them.

Age 66 and older: Those 66 or older, or who turn 66 before April 30, 2016, can leverage the full power of the Restricted Application and File and Suspend. However, if you do not take advantage of File and Suspend by **April 30, 2016**, you will permanently lose the opportunity to do so.

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Act now and contact me to discuss how these changes affect you.

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