SENECA FINANCIAL ADVISORS LLC

Social Security Changes

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As part of the Bipartisan Budget Act of 2015, the Social Security Administration recently announced new rules that change the current File and Suspend Claiming Strategy, beginning April 29, 2016, and phase out the File and Restrict Claiming Strategy for future retirees.

<u>FILE AND SUSPEND</u>

Who May Want to Consider Filing before April 29, 2016?

- ✓ Married Couples
- ✓ Spouse Filing is Full Retirement Age (66)
- ✓ Spouse Filing & Suspending has a higher earning history
- ✓ Spouse Filing has a lower earning history

Note:

Once you file for Social Security Benefits, you are automatically enrolled in Medicare Part A. As a result, tax deductions for Health Saving Accounts (HSA) contributions are eliminated. If you have an HSA account and would like to continue to contribute to it, and receive the substantial tax benefits, you may not want to file for Social Security benefits.

Current "File and Suspend" Strategy THROUGH April 29, 2016

Currently the File and Suspend Rule allows the higher earning spouse the option of filing and immediately suspending benefits. The lower earning spouse files and collects a 50% spousal benefit, while the higher earning spouse delays benefits. The file and suspend spouse will continue to earn an 8% retirement credit each year until age 70 (benefits may also be increased by cost of living adjustments). The rule also allows the file and suspend individual to request a retroactive lump sum payout of suspended benefits, if a change in circumstances warrants such action.

Example:

John's benefit is $1,000 a month and Jane's benefit is $300 a month. Both John and Jane have reached full retirement age. John will file and suspend, triggering a $500 spousal benefit to Jane now, while his $1,000 benefit grows by 8% (plus cost of living) each year he postpones taking distributions, until age 70.

No "File and Suspend" Strategy AFTER April 29, 2016

The future rules continue to allow a person to delay retirement benefits and increase the benefit by 8% per year up to age 70. However, their spouse will no longer be permitted to claim a spousal benefit until the person's benefits commence. The new law also eliminated the ability of the spouse who is delaying benefits to receive a retroactive lump sum payout of the suspended benefits.

Example:

John wants to continue to maximize his retirement benefit so he files and suspends in May 2016. In June 2016 (the following month) the suspend takes effect. John experiences a life-altering event in December 2018 and wants to reinstate his benefits back to June 2016. *Prior to the April 29, 2016 rule change*, he would have been eligible for a lump sum payment back to June 2016. *But after the April 29, 2016 rule change*, the earliest he can resume his benefits is January 2019, the month after his request. He will no longer be eligible for a retroactive lump sum payment.

FILE AND RESTRICT

The new law also phased out the "File and Restrict" Strategy. However individuals who turned 62 on or before December 31, 2015, have been grandfathered under the prior rule.

Current "File and Restrict" Strategy

An individual may file to receive a spousal benefit while allowing their benefit to earn delayed credits. This strategy allows the individual to collect some benefits now and larger benefits later.

Example:

At full retirement age Jane's monthly benefit is $1,000 and her husband John's monthly benefit is $600. John has reached full retirement age and files to receive his benefit. Jane wants to wait until age 70 to maximize her own retirement benefit. So Jane files a restricted application to collect 50% of John's benefit now ($300) and then will receive approximately $1,320 (plus cost of living) at age 70 when she collects her own benefit.

Limits on "File and Restrict" Strategy

Going forward, Social Security will only pay the greater of the individual's own benefit or 50% of their spousal benefit. The ability to earn delayed credits while receiving a benefit will no longer be available to individuals who turned 62 after December 31, 2015.

Example:

Using the above File and Restrict example, and assuming Jane had not turned 62 as of December 31, 2015, she will be able to take her own $1,000 monthly benefit at full retirement age or 50% of John's benefit and she would forfeit the opportunity to earn delayed retirement credits. Alternatively, Jane may delay filing for benefits and let her benefit grow at 8% (plus cost of living) per year until age 70.

As we all know, Social Security benefits are one of many items to review when considering retirement. We have helped many clients make informed choices that are consistent with their individual facts. Many Social Security benefits will remain but thoughtful planning and maximizing other benefits should not be overlooked.

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