SOCIAL SECURITY CHANGES

What's done is done. So what was done?

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As you may have heard, the Bipartisan Budget Act of 2015 made dramatic changes to several well-known Social Security claiming strategies. The two main changes were to the restricted application for spousal benefits and "file and suspend".

What changed?

With regards to the Restricted Application, the changes are quite significant. In the past, a worker who reached his full retirement age would be able to file for benefits and then suspend receiving them, which would allow his benefits to "roll up" by 8 percent each year. At the same time, if his spouse had already filed for her retirement benefit, he would also be able to collect spousal benefits based on her earnings record. This filing strategy, known as the Restricted Application for spousal benefits, was introduced in 2000 by the Senior Citizens Freedom to Work Act. The restricted application will now be phased out over a four-year period.

Grandfathered in

The new rules for restricted applications will not immediately apply to all Americans. Workers born before January 1, 1954 will be "grandfathered in" and will still have the option to file a restricted application. In other words, this is great news for individuals who turn age 62 before January 1, 2016 as they will still be able to use this filing strategy as part of their retirement planning.

But what happens if you were born on January 1, 1954 or later? Many of you might remember that something called "deemed filing" would take place if a worker filed for Social Security benefits before their full retirement age. Deemed filing meant that when someone filed for benefits before their FRA, they were filing for *all* the benefits to which they were entitled. The Social Security Administration would then require the individual to take the highest benefit they were entitled to receive. The new bill extends deemed filing so that it now applies to workers of all ages, instead of just those under their FRA. The extension of deemed filing eliminates the option for using a restricted application for anyone born on or after January 1, 1954 since the premise of restricted application is that you are choosing to take a lower amount.

File and suspend still works! But How?

Despite what you may have read in all the media's Doomsday alerts, the final bill does allow for a worker to file for benefits and suspend receiving them. This means that if a worker chooses to suspend receiving their Social Security benefit at or after they reach their FRA, they can still gain delayed retirement credits of 8 percent per year. However, "file and suspend" can no longer be used as an advanced filing strategy because the bill prevents dependents from receiving benefits based on a primary worker's earning record if the primary worker has suspended their benefits.

Under both the old and new rules, a dependent (child or spouse) can only collect benefits based on the primary worker's earning record, if the primary worker has already filed to receive their benefit. However, according to the old rules, a dependent could continue receiving benefits based on the primary worker's record even if the primary worker later chose to suspend receiving their own benefits. In other words, for a dependent to be able to collect benefits based on the primary worker's record, the primary worker just had to have already *filed* for benefits – they didn't have to be actively receiving them. The new rules mean that a dependent can only collect benefits on the primary worker's earning record if the primary worker is also receiving their benefit. If the primary worker suspends his benefits, his dependents cannot collect Social Security based on his earning record. The government seemed to think this was a form of "double dipping" since you were not collecting benefits but dependents were collecting benefits from you.

Additionally, it used to be that if a worker decided to suspend receiving benefits and then reactivated them three years later, the Social Security Administration would send him a lump sum payment for every year his payment had been suspended – plus the 8 percent his benefit had rolled up each year. This has been done away with under the new bill – the payback option is no longer available.

When will the new file and suspend rules go into effect?

For the most part, the new file and suspend rules go into effect as soon as the bill is enacted. However, retirees who are already using file and suspend as an advanced filing strategy may continue to do so until they either reach age 70 or unsuspend their benefits. Additionally, if a worker requests a suspension of their benefits within the next 180 days, then they will be "grandfathered in" under the old rules and will retain the ability to use file and suspend as an advanced filing strategy.

Divorced spousal benefits

Divorced spousal benefits have been changed much like the restricted application. In the past, a divorcee could file a restricted application and collect benefits based on their ex-spouse's record, while their own benefit rolled up by 8 percent per year. The new changes mean that deemed filing occurs for all ages, which eliminates this option for everyone who is not "grandfathered in" to the old rules. People born on or after January 1, 1954 cannot file for a lower benefit amount and then later switch to a higher one. Under the new rules, divorced spousal benefits are still available but only if a person's retirement benefit is lower than their divorced spousal benefit.

Are surviving spouses safe?

I was happy to see that survivor benefits were not changed by the new rules – Social Security survivor benefits remain separate from an individual's own retirement benefits. This means a person can still collect their survivor benefit and let their own retirement benefit roll up, and then later switch to their own higher benefit later. This will continue to provide a nice safety net for many widowed seniors.

What does this mean to you?

With these few changes, many seniors are confused and concerned about their Social Security benefit and their retirement future. This is your opportunity to increase your seminars and inform more seniors about the new changes. You should also follow up with your clients who have either just filed for Social Security or are just about to file, so you can discuss how these changes may impact their plan. You may never have another opportunity to be the calming, reliable voice that helps to soothe people's fears about Social Security. Now is the time to act and help as many people as you can to take action in the next six months. Those agents that work with Gradient will be given the tools needed to assist their clients. Changes will also immediately be implemented to the Social Security Maximizer software so you can provide accurate reports based on the new rules. Additionally, there will be new slides and marketing pieces to help you provide the most accurate information to the public. This is a unique opportunity to distinguish yourself from the competition and be a true resource for your prospects and clients. Gradient will help you be ready.