ALTERNATIVES

Disappearing Options to Claim Social Security—For Some

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In the Know: Professionals at Franklin Templeton Investments offer a quick but insightful update on a pressing investment topic.

Congress came together in time to pass a two-year budget deal and avoid a government shutdown, but it came with an interesting provision for future retirees: changes to certain Social Security filing strategies involving spouses. The legislation, which will go into effect in six months, will eliminate the "file and suspend" and "file and restrict" provisions that have allowed the spouse of an individual to collect benefits even when the other spouse is not collecting them. For highlights of and more perspective on these important changes and other aspects of Social Security benefits, we turn to Gail Buckner, CFP, our national financial planning spokesperson.

What is changing for Social Security with this new legislation? How might it impact individuals and spouses?

The Bipartisan Budget Act of 2015 (Budget Act) eliminates two claiming strategies that enable a married couple to increase the total amount they could receive from Social Security. These strategies are known as "file and suspend" and "file and restrict." These strategies became available due to the wording of a measure passed in 2000 during the Clinton administration called "The Senior Citizens' Freedom to Work Act." Even with this new legislation, however, there is a small window of opportunity for some folks to still use them.

How do spousal benefits usually work—and what strategies have been used to increase benefits?

Generally, in order to be entitled to a benefit based upon the earnings record of your spouse, your spouse must be receiving Social Security. The file-and-suspend strategy provided a way around that by permitting an individual to file for benefits on his or her own work record, but suspending receipt of such benefits until a later date. Generally, the higher-earning spouse would employ the file-and-suspend strategy to maximize the total benefits received as a married couple. Here's a hypothetical example of how it has worked.

Let's say that Jack qualifies for a Social Security benefit of $2,000 per month in 2015. He is 66 years old—full retirement age (FRA). His wife Jill, age 63, will be entitled to a benefit of $900 per month at her FRA of 66.

Jack does not want to start receiving Social Security yet because he is working part time and he and Jill don't need the income. So, Jack files for benefits and immediately tells Social Security to suspend them. For every month he delays, his benefit amount increases, which results in an increase in his benefit amount by 8% every 12 months.

If Jack does not file for Social Security, Jill is only entitled to a benefit based upon her *own* record. This amount will be reduced to $730 per month because she is starting prior to her FRA.

Anyone who is at FRA or older can request that his or her benefit be "suspended." Essentially, you are telling Social Security not to send you a monthly check.

Because her spouse has filed for benefits—even though he is not receiving them—Jill is now entitled to a spousal benefit. In this example, it amounts to an additional $34, or $764/month.

More importantly, because Jack is not receiving his monthly benefit, he is accruing Delayed Retirement Credits. In four years, he tells Social Security that he wants his benefit to start when he is 70. Instead of $2,000/month, he will receive $2,640/month.[1]

Sounds crazy that the government would offer this delayed retirement credit! Is it?

Not really. Although Jack is getting a larger monthly benefit at age 70, he doesn't start receiving it until four years *later* than his FRA. If he lives to average life expectancy, he will have received roughly the same total amount as if he had started at age 66. And keep in mind that Jack is taking a risk. If he dies during the time his benefit is "suspended," he—and Jill—lose the money he could have been receiving.

When does this strategy disappear?

Approximately six months from the date that the Budget Act was signed into law (in the first week of November) it will take effect. After that point in time, couples will no longer be able to initiate use of this strategy. The scenario I described earlier will no longer be an option.

What's the advantage of file and restrict?

This is another way for one spouse to delay receiving the benefit based on his or her own work history so he or she can earn Delayed Retirement Credits. However, instead of receiving *no* benefit for four years, at FRA the individual would file for only their 50% spousal amount. When reaching age 70, he or she would switch to his or her own benefit, which will be up to 32% larger if your FRA is age 66 or higher.

Is there any way someone can still use this approach?

Yes. File and restrict will continue to be an option for anyone who is at least age 62 by the end of 2015.

Are any claiming strategies for single persons getting phased out?

Yes. Generally, in order for a divorced spouse to use file and restrict, they must be 62 by the end of 2015. There are no changes to widow, widower or surviving divorced spouse claiming strategies.

What if you are already using one of these claiming strategies? Will the government cancel it?

No. The changes are not retroactive.

Does this mean there are no more options for claiming Social Security benefits? Should I just begin as soon as I am eligible?

No. There are still many things to consider before taking Social Security benefits. A number of options are still available and decisions as to when and how to take them still carry tremendous weight and can have a real impact on your retirement income. Talk to an advisor about your own situation and how best to incorporate Social Security into your retirement income plan.

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1. Dollar amounts do not assume cost-of-living increases. Examples are for illustrative purposes only.

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