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Addressing the Unexpected Changes to Social Security

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By collaborating to enact The Bipartisan Budget Act of 2015, Congress and President Obama sidestepped another potential debt-ceiling crisis and government shutdown – but at a cost to many soon-to-be-retirees. The new budget legislation quietly eliminated two popular Social Security filing strategies – file & suspend and restricted application – which could dramatically affect how married couples plan for their golden years. December's Wealth Management Insights looks at how these Social Security strategies have changed in the new bill.

For more on Social Security planning under the new rules, check out **"Latest Budget Bill Restricts Social Security Planning Strategies,"** the wealth management white paper by Director of Financial Planning Tim Steffen.

What you should know:

1. The file & suspend strategy is especially popular among married couples.

- With file & suspend, you can file for Social Security benefits at full retirement age but request the benefit not immediately be paid. Under current rules, your Social Security beneficiary (often a spouse) can then file for benefits against your earnings record while your own deferred benefits continue to grow.
- In addition, if you opt to file & suspend your application and then later change your mind, under the current rules you would get a retroactive, lump-sum payout dating back to your original application.
- Under the new legislation, no one can collect benefits against your earnings while your own benefit is suspended. In addition, suspended credits will be paid only from the suspension date going forward, with no retroactive payout.

2. The restricted application strategy also allows filers to simultaneously collect and defer.

- By filing a restricted application, you can collect on a spouse's Social Security benefit while deferring your own until as late as age 70, during which time your own benefit increases by 8% per year.
- Under the new legislation, all Social Security applicants file for all available benefits (called

deemed filing), and can no longer apply for spousal benefits without applying for their own.

- The restricted application strategy is only relevant to dual-income couples; single-income households have fewer options when it comes to Social Security benefits.

3. There may still be time to act.

- There is a six-month grace period before the new file & suspend rules take effect. Those reaching full retirement age by April 29, 2016, must complete the process by that date to preserve this option.
- Additionally, anyone who has begun receiving benefits will still be able to suspend them at their full retirement age or later to earn delayed retirement credits.
- Anyone who will be 62 or older by the end of 2015 will still be eligible for the restricted application strategy. If you will be 62 by the end of 2015 and your spouse has filed for benefits, you can still file a restricted application when you reach full retirement age, even if that is years from now.

What you should do now:

The elimination of the file & suspend and restricted application strategies came just days after it was announced there will be no 2016 cost-of-living adjustment to Social Security income. Both of these events illustrate some of the risk involved with relying on Social Security income for your golden years. Your Baird Financial Advisor can help you map out your Social Security planning strategy and identify alternative sources of revenue to help you afford the retirement you want. ■