SOCIAL SECURITY CHANGES:
What's done is done. So what was done?

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Your Social Security benefit is retirement income you can count on – but what happens if you can't count on it as much as you thought? If you've heard of the Bipartisan Budget Act of 2015, this may be a question you find yourself asking but not knowing how to answer. As the largest change to Social Security since 2000, the Bipartisan Budget Act of 2015 eliminated an estimated $9.5 billion of benefits to retirees[1] and may limit some of the flexibility you previously had to structure your benefits.

No matter if you've already filed for Social Security, are just about to, or haven't thought about it yet, it's important for you to understand the changes and how they may impact the security of your retirement plan.

What Changed?

In 2000, Congress passed the Senior Citizens' Freedom to Work Act, which made it easier for retirees who had already filed for Social Security to return to work by allowing them to suspend receiving benefits. By doing so, the bill unintentionally created several loopholes in Social Security claiming strategies. Known as the Restricted Application and "file and suspend", these advanced filing strategies were capable of providing retirees with up to $67,000 in additional lifetime benefits[2]. For most Americans, the Bipartisan Budget Act of 2015 closed these loopholes by eliminating "file and suspend" and the Restricted Application.

Restricted Application

Under the old rules, once you reached your full retirement age (FRA), you could use a restricted application to file for only your spousal or divorced spousal benefits, while your own retirement benefit would "roll up" by 8 percent each year. Later on, you could file for your retirement benefit and switch to receiving the higher amount.

Using a restricted application is sometimes referred to as a "claim now, claim more later" strategy because the income you receive from your spousal benefit can help you delay filing for your own retirement benefit. Then, when you do decide to file, you will receive a higher monthly amount. In other words, you can reap the benefits of waiting to file but without having to sacrifice receiving a benefit.

With the passing of the Bipartisan Budget Act of 2015, this strategy is no longer available. Under the new rules, filing for benefits means you are filing for all the benefits to which you are entitled – not just the benefit type you choose – and you will receive whichever benefit has the higher amount.

However, the new rules will not immediately go into effect for all retirees. If you turn 62 before January 1, 2016, you will be "grandfathered in" to the old rules and will still have the option to file a restricted application. For anyone born on or after January 1, 1954, however, the restricted application is no longer a potential strategy.

File and Suspend

As a basic filing method, file and suspend is still available as a potential option for retirees. In other words, you can still file for benefits and then, once you reach your FRA, choose to suspend receiving it. Until you choose to resume receiving your benefit (you have until age 70 to do so), it will roll up by 8 percent per year.

That said, file and suspend can no longer be used as an advanced filing strategy. Under both the old and new rules, one of your dependents (your child or spouse) can only collect benefits based on your earning record if you have already filed to receive your own benefit. However, under the old rules, in order for a dependent to be able to collect benefits

[1] http://crr.bc.edu/wp-content/uploads/2009/04/IB_9-9.pdf
[2] http://www.fool.com/retirement/general/2015/11/07/whos-ready-to-kiss-these-2-lucrative-social-securi.aspx

based on your record, you only had to have filed for benefits, you didn't have to be actively receiving them. File and suspend basically meant that while your own retirement benefit amount rolled up every year, your spouse could still collect their benefit from it.

The new rules eliminated this strategy by mandating that a dependent can only collect from your earning record if you are also receiving benefits. If you suspend your benefits, your dependents cannot collect Social Security based on your earning record.

Additionally, it used to be that if you decided to suspend receiving benefits and then reactivated them three years later, the Social Security Administration would send you a lump sum payment for each month your payment had been suspended. 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 went into effect as soon as the bill was enacted. However, if you file and suspend your benefits by May 1, 2016, you will be "grandfathered in" under the old rules and will still be able to use file and suspend as an advanced filing strategy.

For retirees who are already using file and suspend as an advanced filing strategy, they may continue to do so until they either reach age 70 or unsuspend their benefits.

Are Surviving Spouses Safe?

Survivor benefits were not changed by the new rules and will continue to be separate from an individual's own retirement benefits. This means a person can collect their survivor benefit, let their retirement benefit rolls up, and then later file for their retirement benefits. This will continue to provide a nice safety net for many widowed seniors.

Other Changes

These aren't the only changes that may impact retirees in 2016. There will also be no cost-of-living adjustment (COLA) to Social Security because the Consumer Price Index did not increase. Consequently, the primary insurance amount (PIA) for maximum wage earners will actually decrease in 2016 – it will decrease from $2,663 per month to $2,639 per month.[3]

Additionally, Medicare premiums will increase in 2016. However, the Medicare "hold harmless" provision prevents your Social Security benefit from decreasing because of increases in Medicare. In other words, Part B premiums cannot increase more than the previous year's COLA if you are collecting Social Security. For anyone who is not "held harmless", their Medicare premiums will increase from $104.90 to $121.80.[4]

What Does This Mean to You?

Ultimately, the Bipartisan Budget Act of 2015 changed the rules of Social Security and removed the ability for retirees to take advantage of two advanced filing strategies. Despite these changes, one thing still stayed the same: many retirees file for Social Security without ever getting a professional analysis of their personal situation.

When to file for Social Security is one of the most important retirement decisions you can make, and you typically only get to make it once. You want to get it right. From taxation to timing, there are countless factors to consider when you're trying to make the Social Security decision that's best for you. Not only can a professional help ensure that you get the maximum benefit that is available to you, but they can also help you keep as much of your benefit as possible. Although the news of these changes may initially seem overwhelming, this is an opportunity for you to take control of your retirement and work with a professional to find the Social Security strategy that is best suited to your situation.

[3] http://www.socialsecurity.gov/news/press/factsheets/colafacts2016.html
[4] http://www.faq.ssa.gov/ics/support/KBAnswer.asp?questionID=3780&docID=2807