Changes to Social Security Claiming Strategies
(effective 2016)

The Bipartisan Budget Act of 2015 passed by Congress and signed into law by President Obama, included the elimination of two Social Security benefit claiming strategies — commonly known as "File and Suspend" and "Restricted Claims". The legislation also eliminates the option of a "lump sum" payout option of suspended benefits instead of delayed retirement credits.

First, here's what hasn't changed: Beneficiaries who claimed before the law was enacted are not impacted by the new rules. Anyone currently receiving Social Security benefits using these strategies will not be affected.

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With that in mind, what could the changes mean for you?

FILE AND SUSPEND:

What was "File and Suspend"?

This strategy allowed one spouse (the higher earner) to file for a retirement benefit at full retirement age and suspend (delay) receiving the benefit. By filing for the benefit, the lower-earning spouse could then claim a spousal benefit. A dependent child eligible for benefits could also receive benefits once the file and suspend strategy was employed. By suspending the benefit after filing, the higher earner would earn delayed retirement credits, which is an additional 8% increase for each year benefits were delayed until age 70. This could ultimately increase the higher earner's benefits by up to 32% at age 70. In addition, under the current rules, the higher earner in this scenario would also have the option of requesting a lump sum payout of suspended benefits instead of receiving delayed retirement credits when he or she starts receiving benefits.

What is the New Rule?

For anyone who turned 66 on May 1, 2016 or later: A person can voluntarily suspend benefit payments at full retirement age (currently 66) in order to earn higher benefits for delaying. But during the voluntary suspension, other benefits payable on your record, such as benefits to your spouse, are also suspended. And, if you have suspended your benefits, you cannot continue receiving other benefits (such as spousal benefits) on another person's record. Additionally, the "lump sum" payment option for retirement credits accrued during the voluntary suspension of benefits will no longer be available.

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There are some exceptions: If you are a divorced spouse, you can continue receiving a divorced spousal benefit even if your ex-spouse voluntarily suspends his or her retirement benefits.

RESTRICTED APPLICATION FOR SPOUSE'S BENEFITS

What was a "Restricted Application" for Spouse's Benefits?

This strategy applied to workers who reached full retirement age, and whose spouse was already receiving worker benefits. This allowed workers to file only for their spousal benefit while delaying their own retirement benefits to age 70 in order to accrue delayed retirement credits and maximize benefits. This strategy was usually applied if the worker delaying retirement benefits would have a higher benefit based on their own work record. In other words, they could receive their spousal benefit while waiting for their own benefit to grow. If the higher earner died first, then the lower earner would also get maximum survivors benefits.

What is the New Rule?

For anyone who turned 62 on January 2, 2016 or later: An individual who applies for their benefit at full retirement age can no longer restrict their application to spousal benefits only. When someone applies for a benefit at any age now, the Social Security Administration will automatically give the beneficiary the highest benefit for which they are eligible. This may be the spousal benefit or it may be the benefit based on an individual's own work record. You can still choose to delay claiming your own benefit to earn delayed credits, but you cannot receive a spousal benefit in the meantime. A person born before January 2, 1954 may still collect on an ex-spouse's record first while allowing their own benefits to grow and then take their own benefits at age 70.

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LUMP SUM PAYMENT OF SUSPENDED BENEFITS

What was a "Lump Sum Payment" of Suspended Benefits?

At full retirement age, an individual who planned to delay filing could choose to file and suspend to earn delayed retirement credits and receive a larger retirement benefit later. If circumstances changed, it was possible to retroactively claim all benefits in a "lump sum" going back to the date of the original suspension.

What is the New Rule?

No lump sum payment for retroactive payments will be made for anyone who turned 66 in May 2016 or later.

OTHER IMPORTANT THINGS TO KNOW

Survivor's (widow's) benefits, including divorced survivors benefits claiming options

There are no changes to survivor benefit rules. Widows or widowers can still claim a survivor's benefit as early as age 60 before they claim their own worker benefit. The new legislation does not change the choice

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of the surviving spouse about when to claim the widow's benefit and her/his own individual retirement benefit.

When one member of a married couple dies, the survivor (widow or widower) is eligible for a benefit equal to 100% of the deceased spouse's benefit. The same rules apply to a divorcee whose former spouse has died, so long as the couple's marriage lasted at least 10 consecutive years, and the surviving divorcee remained unmarried until age 60.

The ability to earn delayed retirement credits (DRCs)

Delaying when you claim your benefit is still a way to increase your benefit amount. Each year past your full retirement age that you delay claiming your benefit, you earn an 8% increase. If benefits are claimed at age 70 rather than at full retirement age (which is currently age 66 for near-retirees), this could mean a 32% increase in the monthly benefit amount. For couples, delaying the higher earners retirement benefit until age 70 also provides a larger survivor benefit should the higher earner die first.

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Voluntary suspension of benefits for individuals

Individuals who have been receiving benefits for 12 months or more can suspend benefits at any time. This allows those who filed before full retirement age to suspend benefits to earn delayed retirement credits and restart benefits at a higher monthly rate.

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