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Two Big Social Security Rule Changes You Should Know About

Approaching retirement and thinking about how you'll maximize your and your spouse's Social Security benefits? Two commonly used planning strategies will soon disappear.

As part of the federal budget deal passed this fall, Congress eliminated two Social Security planning strategies ("loopholes") often used by married couples to maximize their benefits. The President signed the bill into law on November 2.

The changes won't affect couples who have already enacted these strategies, but will effectively disallow them for future Social Security recipients.

The Two Strategies Being Phased Out:

"File and suspend." This strategy involves the spouse with the larger benefit filing for Social Security at full retirement age (FRA)—66 for those born between 1943 and 1954. The other spouse can then claim spousal benefits (which is 50% their spouse's benefit amount) once that spouse reaches the FRA. The spouse with the larger benefit delays taking his or her own Social Security benefit until reaching age 70. This move increases that spouse's benefit by 32% or 8% for each year not claimed from FRA to age 70.

The file-and-suspend claiming strategy will disappear as an option after April 29, 2016—180 days after the law was enacted. Eligible couples can apply for it until that date.

Restricted applications for spousal benefits. This strategy allows someone to claim a spousal benefit of 50% on their spouse's FRA Social Security benefit who is also collecting, while allowing their own Social Security benefit to accrue delayed retirement credits of 8% per year up to a maximum age of 70.

This option will disappear for people who turn 62 in 2016. However, individuals who turn 62 before the end of 2015 will still have the option of filing a restricted application for spousal benefits when they reach FRA during the next four years.

The sunset of this rule will not affect widows or widowers who file restricted applications for survivor benefits.

What Does It Mean For You?

If you're already age 62 or have reached FRA and have taken advantage of one of these strategies, you should not be affected by the changes. You will be "grandfathered" in.

However, individuals and couples who won't reach age 62 or FRA until after 2015 and who were planning to use one of these spousal benefit maximization strategies will likely no longer be able to come 2016.

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Given the closing of these popular Social Security planning strategies, it's more important than ever that individuals and couples re-evaluate their Social Security benefit statements and consider their plans for generating income in retirement.

Today, more than one-third of Americans claim Social Security benefits at the earliest possible age—62.¹ But it typically makes sense, when possible, to delay taking benefits to at least your FRA, and often even until age 70. If you're still working before your FRA, benefits are reduced by \$1 for every \$2 you earn over \$15,720 in 2015. Once you reach FRA, there is no income penalty but your benefits will rise by 8% for every year you delay claiming them.

Delaying your Social Security benefits by even a few years can pay off dramatically. For example, an individual who is age 60 today with a FRA benefit of \$2,600 would only receive \$2,057 monthly by starting benefits at age 62. However, by waiting until age 66, their benefit would increase by almost 50% more to \$3,051 a month. Delaying benefits until age 70 would produce a \$4,480 monthly benefit, assuming a 2.7% annual cost-of-living adjustment.

The advantage of delaying benefits grows even stronger as you grow older. At age 80, someone who had claimed benefits at age 62, would receive only \$3,322 per month (the original \$2,057 benefit plus cost-of-living adjustments), while someone who waited until age 70 would receive \$5,847.

Considering that people are living longer and both spouses are likely relying on that Social Security income, it only makes sense to seriously consider delaying benefits to increase your monthly benefit amount.

How We Can Help You

Determining when and how to claim and start collecting Social Security is one of the most important retirement decisions you can make, because it will affect your and your family's long-term financial security.

At Foresters, our financial representatives can help you evaluate your Social Security benefits statements and walk you through key decisions. Our representatives have access to sophisticated tools and calculators that can help you determine the right time to file and collect Social Security benefits based on your personal situation and goals.

One important thing to remember: It's not a good idea to automatically file for Social Security benefits once you or your spouse turns 62. If either of you lives well into your 80s and beyond, you may be leaving huge amounts of potential income on the table. Your Foresters financial representative can guide you through your options and help find the right Social Security strategy for you.

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¹ *Government Accountability Office, Retirement Security: Challenges for Those Claiming Social Security Benefits Early and New Health Options, April 2014*