

Important Changes To Social Security That May Impact Your Retirement Plans

by Edi Alvarez, CFP®

As you may be aware, significant changes to the Social Security program were signed into law November 2nd by President Obama (see news items in November “Nibbles”). As your financial advisor, I believe it is important to keep you abreast of these changes as they are likely to impact your retirement plans. Some clients will be required to take appropriate action over the next 5 months.

To be clear, the two Social Security planning strategies that were eliminated on November 2nd are **still available** to those older or turning 66 by April 29th, 2016 for “file and suspend” and those who are at least age 62 by December of 2015 for “Restricted Application.” These individuals are not affected by the November 2nd changes. However, **anyone else will no longer have these strategies available in retirement.**

At Aikapa, we will give priority to those that need to act immediately to retain ending benefits and then methodically work our way through the retirement plans of our other clients.

DETAILS ON THE ELIMINATED SOCIAL SECURITY PLANNING STRATEGIES

Two widely-used Social Security planning strategies were eliminated by Congress without much discussion, notice, or fanfare, impacting the retirement plans of many Americans. The two strategies were “File and Suspend” and “Restricted Application for spousal benefits”. The two strategies usually operated hand-in-hand, but could be employed separately. There are always tradeoffs to retirement planning strategies, but these two strategies typically added 3 to 5 years of additional coverage in retirement.

“File and Suspend” involved one person filing for Social Security at full retirement age (currently, it is 66 years old) and then suspending this filing. The net effect was that they’d file to collect on their Social Security record and then decline to collect. These two actions allowed other family members to file for benefits based on the that person’s Social Security record while they continued to let their own Social Security benefit grow, often until age 70. Four years at 8% per year would have increased the Social Security benefit substantially. For those that didn’t immediately need the benefit, the option was an obvious “no brainer.” According to the new rules, the option to File and Suspend ends for anyone that is younger than 66 by April 29th, 2016 (in other word, anyone born after April 29, 1950).

“Restricted Application for spousal benefits” allowed one person to file (i.e., the “filer”) based on their spouse’s record, but only after their spouse’s record was activated. The spousal benefit was always ½ of the benefit entitled by the person who paid for the Social Security benefit (at full retirement age). The spousal benefits would be collected based on the spouse’s record allowing the filer to grow their own Social Security benefits. Though often useful, this strategy of collecting based on a spouse’s Social Security benefits while allowing their own to grow will end for anyone younger than 62 as of December 31, 2015 (or those born after 1953). According

to the new rules, if your spouse files and suspends prior to April 29th or is collecting Social Security then you will be able to file a restricted application **IF** you turn 62 by December of this year.

If you were born prior to 1954 and these two strategies are relevant to your retirement plan, don't be surprised to find that we'll be reaching out to you this month. If we don't reach out to you this month, do let us know if you or your loved ones need assistance capturing these ending social security benefits.

For all of us, this is a reminder that all benefits are bound by rules that have planning consequences and require ongoing attention. For many, this change to the Social Security program will mean either an adjustment to spending during retirement, or more likely, require additional annual savings prior to pre-retirement (or other wealth creation strategies).

Always feel free to call or let me know if you have any question with this or other financial matters.

Edi Alvarez, CFP®
BS, BEd, MS

www.aikapa.com

Aikapa Wealth Planning & Management