

## **Making Sense of Social Security: Overview and Impact of Recent Legislation Changes**

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With over 2,700 rules governing Social Security, it is easy to feel overwhelmed and confused by the benefits available. An abundance of misinformation has been printed adding to the confusion. The outline below highlights key rules, recent changes and claiming strategies.

### **Important Things to Know**

- Your benefit amount is based on your lifetime earnings and work history, adjusted annually for cost-of-living increases. Anyone born in 1929 or later needs a minimum of 10 years of work (40 credits) to be eligible for retirement benefits.
- Benefits are based on your Full Retirement Age (FRA), which is between 65 and 67 depending on the year you were born. This is the age at which you become entitled to full or unreduced retirement benefits.
- Benefits may be claimed as early as age 62, but they are reduced for each year prior to your FRA. This reduction can drastically reduce your total benefits up to 30%, so claiming benefits prior to your FRA should be carefully considered.
- Benefits should be claimed by age 70, which is considered the “maximum” retirement age. Delaying your benefits can drastically increase your total benefit up to 32%, with an increase of up to 8% for every year after your FRA up until age 70. This is called the Delayed Retirement Credit (DRC).
- Spouses are entitled to a spousal benefit equal to 50% of their partner’s full benefit amount. This benefit often gets forgotten and goes unclaimed. There is no benefit to delaying the collection of spousal benefits past your FRA as it will not continue to grow as your own benefits do. In order to collect a spousal benefit, both spouses must have reached FRA.
- Divorced spouses who were previously married for at least ten years are eligible for a spousal benefit as long as they remain unmarried.
- You are able to retroactively recover up to six months of benefits that went unclaimed.
- Up to 85% of Social Security benefits may be taxable based on your combined income (adjusted gross income plus nontaxable interest plus half of your social security benefits). Taxability begins at a combined income of \$25,000 for an individual and \$32,000 for a married couple.
- We urge you to visit the Social Security website at [www.socialsecurity.gov](http://www.socialsecurity.gov) to create an account. This will allow you to access your benefit information at any time.

In November, President Obama signed the Bipartisan Budget Act of 2015 that makes significant changes to Social Security. Certain strategies that have been used previously in order to maximize benefits are now being eliminated as they are viewed as “unintended loopholes.” Two strategies impacted are outlined below in further detail.

## File and Suspend

*How It Works:* The primary earner files for benefits in order to trigger benefits for their spouse. The primary earner then immediately suspends their own benefit allowing them to accrue DRCs while the spouse continues to collect spousal benefits. Once the primary earner reaches age 70, they elect to begin taking benefits while the spouse can choose to continue taking spousal benefits or switch to their own.

*Restrictions:* The primary earner and spouse must both have reached FRA. After the new legislation changes, this strategy is no longer available. However, those born on or before April 30<sup>th</sup>, 1950 are grandfathered in, but must file by April 29<sup>th</sup>, 2016.

## Restricted Application

*How it Works:* An individual files for spousal benefits only based upon the spouse's record. This allows their own benefits to accrue DRCs up until age 70.

*Restrictions:* The individual must be at least FRA and the spouse must be at least age 62 and have established a filing date (and potentially suspended their benefits as indicated in the above strategy). After the new legislation changes, once you apply for benefits, it is deemed that you are filing for both individual and spousal benefits and you will simply receive whichever is higher. However, those born on or before January 1<sup>st</sup>, 1954 are grandfathered in.

It is important to consider your options around Social Security claiming strategies within the context of your overall financial plan. Please speak with your Client Advisor about which strategy will help you maximize your benefits and not leave anything on the table.

## References

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