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What the 2016 Social Security Changes Mean for You

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On Monday, Nov. 2, 2015, President Barack Obama signed the Bipartisan Budget Act of 2015. This new law contained several provisions, but one specifically impacts Social Security claiming strategies. While the new laws may somewhat alter the Social Security filing approaches many retirees had planned, it's important not to throw out the baby with the bathwater.

Social Security as a longevity hedge still remains a cornerstone of many retirees' financial futures. While it's important to understand the new law provisions and how they apply to various situations, it's also critical to put these changes in perspective. First, we will consider the overall impact of the changes compared to someone's original strategy, and second, we will study the changes from a solvency standpoint for the entire Social Security system. Finally, we will address some of the solutions potentially on the table to truly restore solvency to the Social Security system. We'll also shed some light on when and how major system changes have historically been implemented.

Understanding the New Law

There are two major changes to Social Security benefits under the new law. The first: The ability to file a "restricted application" is now limited to filers who will be at least age 62 by the end of 2015. That means that going forward, no one born after 1953 can file a restricted application. A restricted application is the ability to first claim spousal benefits for a period of time (typically from full retirement age until age 70) and delay your own retirement benefit until age 70 to earn delayed retirement credits of 8% per year.

This provision was paramount in the popular "Claim Now, Claim More Later" strategies that have been highlighted over the last several years. They only applied to individuals who had their own retirement benefit, but who were also entitled to a spousal benefit off of a current or ex-spouse. To recap: In order to file a restricted application, you must be at least full retirement age. That is age 66 for anyone born between 1943 and 1954 and gradually increases to age 67 for anyone born after 1954. So folks who are 62 by the end of 2015 can still use this planning strategy in future years. But for folks born after 1953, this option no longer exists.

The second major change impacts many people who planned to utilize a "file and suspend" strategy. This tactic allows the worker, once they've attained full retirement age, to file for benefits but not actually receive anything. This filing allowed two things to happen simultaneously: 1) The worker's own benefit would continue to earn delayed retirement credits of 8% per year up to age 70, and 2) Because the worker's benefit record was activated, any beneficiaries eligible to claim a benefit off of the worker's record could begin collecting those dollars. The "file and suspend" strategy meant that spouses and minor children could "turn on" the Social Security benefit spigot even though the worker was not yet collecting benefits.

However, the new law changes all that. Family members (other than a divorced spouse) are no longer able to receive a benefit based on the earnings of a worker with a suspended benefit. This part of the law takes effect April 30, 2016. While initial drafts of the bill implied that this would also affect those who were already implementing this strategy, that's not the case. The final bill clearly indicates that those who are already taking advantage of this strategy prior to the deadline will not be impacted. If you've already chosen to file and suspend, your spouse's benefits can continue to be deposited into his/her checking account and you can continue to delay your own benefit and allow it to grow.

Who's Impacted and Who Isn't?

The table below summarizes who is (and isn't) impacted by the new law. Each option is dependent on your age as well as your marital status.

Marital Status	< Age 62 (by 12/31/15)	Age 62 – 66 (by 4/30/16)	≥ Age 66 (by 4/30/16)
Married	Impacted	Variable Impacts	Not Impacted (if you file before 4/30/16)
Divorced (and not married)	Impacted	Not Impacted	Not Impacted
Have Minor Children (age 18 or younger and age 19 while still in high school)	Impacted	Impacted	Not Impacted (if you file before 4/30/16)
Single	Impacted	Impacted	Not Impacted (if you file before 4/30/16)
Widowed	Not Impacted	Not Impacted	Not Impacted
Already Collecting	Not Impacted	Not Impacted	Not Impacted

Click on the status in the table (above) relevant to you to read more about specific strategies and view relevant case studies.

The impacts detailed in the table above are separated into three categories:

1. **Not Impacted:** Your filing strategy is not impacted by the new law changes.
   Note: If you have not filed for benefits yet and fall under this category, you may have to implement your strategy before April 30, 2016, to retain full benefits.

2. **Impacted:** You are no longer eligible to take advantage of the following strategies:
   a.) File & Suspend: Allows other beneficiaries to collect while you delay your own benefit and earn delayed retirement credits.
   b.) File a Restricted Application: Allows you to collect a lower spousal benefit while you defer your own higher benefit and earn delayed retirement credits.

3. **Variable Impacts:** The impacts to your strategy differ depending on your and your spouse's ages and primary insurance amounts (the amounts you are eligible to receive at your full retirement ages).

   Special Notes:
   - This variability is complex and dependent on your circumstances, so it's important to contact your Wealth Advisor to discuss your unique collection strategy.
   - If you are 66 or older by April 30, 2016, there's a good chance that you may need to take action before this deadline in order to implement a favorable strategy.

This table shows us that the new law does not impact everyone's Social Security claiming strategies, and that when it does make a difference, it does so in varying degrees. Also note that your Social Security claiming strategy is not affected in any way if you are already collecting benefits or if you are a widower coordinating the collection of your benefit with a survivor benefit. In addition, keep in mind that even if the new law does apply to you, it may not materially change your optimal benefit-claiming strategy.

Strategy is Still Paramount

Regardless of recent law changes, Social Security planning is still a critical component of any retiree's financial plan. Social Security remains a rare asset. It lasts as long as you do, and it keeps up with inflation. One of the biggest risks a retiree faces is "longevity risk": The chance of running out of money before running out of life.

For many retirees, as long as you don't have a seriously impaired life expectancy, it continues to make sense to delay benefits as long as possible and maximize the monthly check you'll receive for life (or potentially your spouse's life if they are likely to collect a survivor benefit off of your record once you pass away). For a 65-year-old married couple, the longevity odds are in your favor. See table below:

Age	Approximate probability that BOTH of you will live to age at left	Approximate probability that ONE of you will live to age at left
75	70%	>95%
80	50%	90%
85	30%	80%
90	10%	60%
95	5%	30%
100	<5%	10%

Source: MoneyGuide Pro (all calculations based on Annuity 2000 Mortality Table)

As you can see, there's about a 30% chance that both individuals in a couple will live to age 85 and a 60% chance that at least one will make it to age 90! The "break-even age," which is the age to which an individual must live to make delaying benefits a better financial deal than collecting benefits as soon as possible, is typically the early 80s. Depending on an individual's or couple's specific circumstances paired with the probabilities above, there's a significant chance you would receive a higher cumulative value over your lifetime if you implement a Social Security strategy that incorporates some element of delaying benefits. It's important to know that this advantage still holds true even if you are impacted by the recent law changes.

These potential additional dollars in your pocket are quite meaningful when you consider the importance of hedging against longevity risk. Yes, there's only a 10% chance that both members of a married couple will live to age 90. However, I would argue that the risk of dying earlier and not having as much to pass on to beneficiaries is a much smaller risk than making it to your late 80s or beyond and not having money to pay the bills. A somewhat similar comparison: The risk of your home burning to the ground is definitely not more than 50%, but you still insure the risk by buying home insurance. While the odds of making it past the Social Security break-even age are not more than 50%, there's still a significant chance you could live beyond that point. Your Social Security benefit is a crucial tool to help mitigate that risk, and securing a higher benefit now can add to your financial security during your later years.

What the Changes Really Mean For Most People

For many individuals, the new law will decrease the total Social Security benefits they'll collect over their lifetimes. However, there is still good reason to choose an effective Social Security strategy. The tables below depict two scenarios involving married couples—the group most impacted by the recent law change—and compares collection strategies under both the old and new Social Security laws. The scenarios below exemplify 1) Changes to strategy, and 2) The impact on cumulative benefits as a result of the new law.

1. Changes to Strategy

Scenario 1

	Spouse 1	Spouse 2
Age	66 (Born Nov. 15, 1949)	65 (Born Oct. 30, 1950)
Primary Insurance Amount (PIA)*	$2,500	$700
Full Retirement Age (FRA)*	66	66
Strategy Under the Old Law	File and suspend benefits when Spouse 2 reaches 66; resume collecting own benefits at age 70 ($3,300/month).	File to collect spousal benefits at age 66 ($1,200/month).
Strategy Under the New Law	File and suspend benefits before April 30, 2016, as he or she is at least age 66 by this deadline; resume collection of own benefits by age 70.	Begin collecting a slightly reduced spousal benefit at age 65.5, before the law changes on April 30, 2016, in order to collect off of a suspended benefit.

*PIA: Amount retiree can collect at Full Retirement Age (FRA)
*FRA is based on year of birth
**Benefit amounts listed above do not account for cost-of-living (COLA) adjustments

In the above scenario, it is important that the spouses take action before April 30, 2016. This allows the couple to implement a nearly identical strategy to their original plan. In this particular scenario, Spouse 2 is so close to his/her full retirement age that filing before the law changes will only result in a slight trim in benefits, so this strategy remains optimal. However, these recommendations are very case-specific. If you or your spouse will be age 66 by April 30 and you have not yet filed for Social Security benefits, you should speak with your Wealth Advisor to see if you need to take action before this important deadline. Please note that the "Strategy Under the New Law" above is contingent upon further guidance being issued by the Social Security Administration with regards to the implications of the new law on "File and Suspend". We have taken a more conservative viewpoint, which would not allow anyone to collect auxiliary benefits after 4/30/16 if the earner is not collecting, EVEN if they filed and suspended prior to 4/30/16.

Scenario 2

	Spouse 1	Spouse 2
Age	62 (Born March 1, 1953)	65 (Born May 17, 1950)
Primary Insurance Amount (PIA)*	$2,500	$1,900
Full Retirement Age (FRA)*	66	66
Strategy Under the Old Law	File a restricted application from age 66 to 70 ($950/month) and claim own benefit at age 70 ($3,300/month).	File and suspend benefits at age 69, and resume collection of own benefit at age 70 ($2,508/month).
Strategy Under the New Law	File a restricted application at age 67 to collect spousal benefits ages 67-70 ($950/month), then collect own benefit at age 70 ($3,300/month).	Collect benefit at age 70 ($2,508/month).

*PIA = the amount that a retiree can collect at Full Retirement Age
*FRA is based on year of birth
**Benefit amounts listed above do not account for COLA

Under the new law, Spouse 1 in the above scenario can no longer collect spousal benefits until Spouse 2 has begun receiving his or her own benefit. This delays spousal benefit by one year, but a similar strategy can still be implemented to optimize the couple's overall draw.

2. The New Law's Impact on Cumulative Benefits

Both scenarios are impacted by the new law differently, and the solutions to changing their plans vary accordingly. The bottom line: How much in benefits will each couple receive under the new law, as compared to the old law?

	Old Law: Cumulative Benefits at Younger Spouse's Age 85	New Law: Cumulative Benefits at Younger Spouse's Age 85	Difference Due to Change in Law ($)	Difference Due to Change in Law (%)	No Strategy: Taking Benefits ASAP (total at age 85)	Benefit of Still Having a Strategy ($)	Benefit of Still Having a Strategy (%)
Scenario 1	$1,352,313	$1,337,088	-$15,225	-1.13%	$1,227,677	+$109,411	+8.2%
Scenario 2	$1,884,473	$1,871,741	-$12,732	-0.68%	$1,469,962	+$401,779	+21.5%

*Cumulative benefits above include an annual COLA of 2.8%, as utilized in Social Security Trustees Annual Report projections.
Scenario 1 – The younger spouse starts benefits at age 66 under the old law, age 65.5 under the new law and for the older spouse at age 70 at under both the old and new law. With no strategy benefits start at age 65 for the younger spouse and age 66 for the older spouse.
Scenario 2 – The younger spouse starts benefits at age 66 under the old law, age 67 under the new law, and for the older spouse at age 70 under both the old and new law. With no strategy benefits start at age 62 for the younger spouse and age 65 for the older spouse.

As you can see from the table above, the new law decreases the couple's total cumulative benefit in Scenario 1 by 1.13%, or $15,225 dollars over their entire lifetimes. Meanwhile, the benefit of using a proactive strategy under the new law (rather than just taking benefits as soon as possible) increases the couple's yield by 8.2% for a total of $109,411 more received. Likewise, due to law changes, the couple's cumulative benefit in Scenario 2 is decreased by only 0.68%, or $12,732 dollars. The couple's benefit grows by 21.5%, or $401,779, by using an alternative strategy under the new law.

What this tells us: The recent law only decreases most people's Social Security benefits by a relatively small percentage. More important, choosing a proper filing strategy can still make a significant financial difference.

Perspective: Reform is Still Needed

According to the Social Security Administration's chief actuary, closing the "file and suspend" and "restricted application" options is projected to reduce the long-range (75-year) Social Security actuarial deficit by the equivalent of 0.02% of taxable payroll. Taxable payroll is defined as earned income up to the wage cap, which for 2016 is $118,500.

To put this into context, according to the 2015 Social Security Trustees' Report, the total current funding shortfall for the entire Social Security system is equivalent to 2.68% of payroll. The new law actually provides a relatively minimal change to the system. Much greater changes are needed to avoid an approximate 20% across-the-board reduction in benefits in 2035, when the trust fund is expected to be depleted.

Some changes that could be implemented to restore solvency to the Social Security system include:

- Increase full retirement age for future beneficiaries
- Reduce benefits for younger generations
- Decrease the annual cost-of-living adjustment
- Increase payroll taxes
- Increase taxability of benefits

Read more about these potential reforms in our article "Potential Reforms for the Social Security Program."

It's important to note that most of the proposals listed above would affect beneficiaries younger than age 55. Also, it's important to be realistic about a timeline for major changes to the system. The changes taking place this year are relatively small and therefore can be implemented more quickly than larger changes that are likely to come.

To put this timeframe in historical perspective, in 1983 Congress passed a law to gradually increase the retirement age from 65 to 67. This change was set to begin in 2000—which is 17 years after the law change was passed. It stipulated a gradual increase in full retirement age for those born in 1938 or later, to occur over a 22-year period. We are still seeing this change being implemented today, nearly 33 years after the law was signed, as full retirement age gradually increases for those born between 1954 and 1960. This gradual increase will continue until 2022, when those born in 1960 turn 62 and become eligible for Social Security benefits. That group will be the first to have a full retirement age of 67.

Birth Year	Age in 1983 (law change)	Years until Full Retirement Age	Full Retirement Age Delayed by...
1938	45	20	2 months
1949	34	32	1 year
1960	23	44	2 years

As you can see from the chart above, a 23-year-old in 1983 had a full 44 years to prepare for the change in his/her full retirement age from 65 to 67! In a similar fashion, significant changes to the Social Security law going forward would likely be phased in over long periods of time so future generations could plan ahead for adjustments. This means that larger changes to the Social Security system would not be likely to impact current retirees. Anyone nearing retirement age right now should not let fear of future reforms thwart their Social Security planning strategies.

Summary

The Bipartisan Budget Act of 2015 makes notable changes to Social Security law—primarily affecting a retiree's ability to file a restricted application or to file and suspend benefits while having beneficiaries collect off of their record. These changes take effect beginning April 30, 2016. Not everyone is impacted by the new law. Whether or not your benefits change depends on your age, benefit level, and marital status. Moreover, the effects of this law on claiming strategies are complex and differ based on each retiree's unique circumstances.

If you are impacted by the new law, keep in mind that it doesn't negate the power of Social Security as a longevity hedge. Moreover, having an efficient strategy for how you'll collect your Social Security benefits is still paramount to your financial security.

Looking forward, it's clear that major reforms are still needed to restore solvency to the Social Security system. However, if past reforms are any indication, changes would likely be phased in gradually and won't derail current retirees' planning.

Finally, as we always tell clients: Social Security claiming strategies should be highly customized, based on your particular situation. Contact your Wealth Advisor to discuss how the new law impacts you and whether you need to take action before April 30, 2016, to earn your highest benefit.

Important Disclosure Information

Please remember to contact RegentAtlantic if there are any changes in your personal or financial situation or investment objectives for the purpose of reviewing our previous recommendations and services, or if you wish to impose, add, or modify any reasonable restrictions to our investment management services. A copy of our current written disclosure statement discussing our advisory services and fees is available for your review upon request. This article is not a substitute for personalized advice from RegentAtlantic. This article is current only as of the date on which it was sent. The statements and opinions expressed are, however, subject to change without notice based on market and other conditions and may differ from opinions expressed in other businesses and activities of RegentAtlantic. Descriptions of RegentAtlantic's process and strategies are based on general practice and we may make exceptions in specific cases.

This information is based on our current understanding of Social Security legislation that is subject to change at any time. Please consult with a financial advisor of your choosing prior to implementing any of the strategies discussed in this article

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