**JSB Capital Management, LLC**

**Pro-active Wealth Management**

If you are planning on taking Social Security any time in your life, the following information is IMPORTANT:

Hidden in the fine print of the bipartisan Congressional budget deal recently signed by President Obama were major unpublicized changes to Social Security. Two significant strategies for claiming benefits were eliminated that could have a significant impact on your retirement income (if you are near retirement age). Both of these changes affect spousal benefits for married couples that were originally implemented in the Senior Citizens’ Freedom to Work Act of 2000. This legislation also allowed seniors to work after full retirement age without having Social Security benefits reduced.

**File-and-suspend**

Gone now is a strategy called **file-and-suspend**. Previously, for a couple, one spouse, typically the higher earner, could (at their full retirement age) file for their Social Security benefit and then immediately suspend their benefit allowing it to grow at 8% annually until they chose to reactivate it, or until age 70. The benefit of this strategy allowed the other spouse (also at full retirement age as determined by your birthdate) to file for spousal benefits on the primary beneficiary’s record.

Note: Spousal benefits are equal to half of the benefit the file-and-suspend spouse would have received at full retirement age. The one receiving spousal benefits could then let their own Social Security benefit remain unclaimed until age 70 and then switch to their benefit at that time if it was greater than the spousal benefit.

With the changes, file-and-suspend will only be allowed for people who filed for reduced Social Security benefits before full retirement age and then want to quit receiving them for some reason (possibly getting a new job or another income source), so their benefit can earn the 8% annual delayed credit. Now, if the primary beneficiary suspends benefits, anyone receiving benefits based on that record (spouse or minor dependents) will also quit receiving benefits. Spouses will not be able to collect a spousal benefit until the primary beneficiary files and receives their benefit. So, if the primary beneficiary waits until age 70 to take their Social Security, the spouse will have to wait until then to get a spousal benefit.

**Restricted Application**

Connected to file-and-suspend is the second strategy that is now gone – using a **restricted application**. This strategy allowed a spouse to file only for spousal benefits while their own benefit continued to grow. The primary beneficiary would have had to use the file-and-suspend strategy in order for their spouse to file a restricted application for spousal benefits.

So, in short, the only way to collect a spousal benefit under the new rules is if both spouses file for and receive social security benefits. The new rules may discourage waiting until age 70 to claim because what a couple gives up in the combined value of spousal benefits plus the primary benefits may make the 8% delayed benefit not worth waiting for. Of course, the decision of when to file will be different for each couple and will depend on many factors such as other sources of income and health.

In the past, changes to Social Security have been phased in over long periods of time. But, these changes **take** **effect April 30, 2016**. If you turn 66 before then, you can still take advantage of the file-and-suspend strategy. If not, you are out of luck. If your future retirement plans included some form of these strategies, you will need to rethink the inputs to your plan such as how long you will work or consider reducing anticipated living expenses. If you are still several years from retirement, this action by the government underscores the importance of saving enough for your retirement that you will not be affected by capricious acts of political expediency.

While the pundits claimed these strategies only helped the rich, they were actually most helpful for people not in the top brackets, particularly stay-at-home spouses without a large income history. Seniors are being hit from several angles these days as the government increasingly views them as a high cost/low contribution segment of the population. These Social Security changes, manipulated inflation figures that result in no cost of living increase for Social Security recipients, zero interest rate policies that further limit income for retirement savers, and increasing healthcare expenses are all eating into the quality of life our seniors can enjoy.

**Important:** If you would like some help figuring out your best Social Security claiming strategy, please contact our office and we will go through the scenarios that are specific to your situation.