U.S. New & World Report

Say Goodbye to the Social Security 'File-and-Suspend' Strategy

A budget bill is putting the brakes on a lucrative strategy to maximize Social Security benefits.

By Maryalene LaPonsie

Dec. 4, 2015

Couples who want to use the "file-and-suspend" strategy to maximize their Social Security benefits will have to rethink their plan.

Thanks to a recent budget bill, the door is closing on two rules that allowed spouses to coordinate benefits, so they could increase the overall amount of money they receive from Social Security. In addition, people older than age 66 who filed for benefits, and then suspended them in order to get a higher payout rate later, will no longer have the option to receive a retroactive lump sum payment if they change their mind and lift the suspension.

According to experts, the changes are geared toward saving money and closing perceived loopholes in the Social Security program. "As much as I hate to admit it, I don't think Social Security ever meant for these rules to [be used] that way," says Mike Piershale, president of Piershale Financial Group in Crystal Lake, Illinois.

How the government intended them to be used may be up for debate, but in practice, the file-and-suspend strategy allowed couples the opportunity to maximize their combined benefits. Once one spouse reached full retirement age (currently 66), that person could file for Social Security and then immediately suspend the benefits. Then, their husband or wife could claim a spousal benefit while their deferred Social Security grew 8 percent per year until age 70.

"This is essentially a 'have your cake and eat it too' strategy," says Andrew Moss, senior vice president of investments at Merrill Lynch in Bloomfield Hills, Michigan.

Now, the government is taking that cake and removing the frosting of coordinated benefits.

3 Disappearing Social Security Options

While the loss of the file-and-suspend strategy is getting the most attention right now, retirees are actually losing three separate Social Security options. Here's a look at each piece of the puzzle.

File-and-Suspend

The file-and-suspend strategy, as outlined above, will no longer work after May 1, 2016. At that time, a person must file for Social Security and actually receive benefits in order for a husband or wife to get a spousal benefit.

However, for those who are at least 66 or who will turn 66 by April 30, 2016, there is still an opportunity to get in under the old file-and-suspend system. Moss says he's in the process of identifying clients who are in that "sweet spot" of reaching their full retirement age before May 1 to ensure they don't miss out on the opportunity.

Those who do squeak in under the deadline will be grandfathered in under the old file-and-suspend rules.

Restricted Applications

The second rule being eliminated relates to restricted applications. Currently, those who are between their full retirement age and age 70 can file a restricted application to claim spousal benefits, but defer their own benefits until age 70. Once they hit 70, they can change from receiving spousal benefits to their own, greater benefits. It's something Piershale calls the "gravy between age 66 and 70."

Except, like the frosting on the cake, the gravy is being taken away.

In the future, when a spouse files anytime after age 62, he or she will fall under the "deemed filing" rule, which already applies to people who are not at their full retirement age. "If you're under your full retirement age [and file], Social Security says you are deemed to have taken your own benefit," says Ian Kutner, a certified financial planner with San Diego Wealth Management, explaining the origin of the name.

With the elimination of restricted applications and the introduction of deemed filing for all ages, a spouse can only receive the larger of either their spousal benefit or their own benefit. They can't change their choice either, which means no deferring benefits until age 70 and then switching options for a larger monthly check.

However, those who will turn 62 by the end of the year will be grandfathered in under the old rules for restricted applications.

Retroactive Lump Sum Payments

The final change applies to suspended benefits. Currently, those with suspended benefits can elect at any time to request payments retroactive back to their filing date.

For example, if a man filed for Social Security at age 66 and then suspended his payments, his benefits would grow at a rate of 8 percent per year. However, if the man came down with a life-threatening illness at age 68, he could retroactively unsuspend his benefits. He would lose the 16 percent bump in pay he should have received from deferring payments, but Social Security will send a lump sum payment for the past two years. Future monthly payments would be made at the same rate the man would have received had he started benefits at age 66.

"This has been a very valuable strategy for someone who had a change in health or financial status," Moss says.

It allowed people to hedge their bets by establishing a filing date for Social Security. They could defer their monthly benefit amount and let it grow but also rest assured they could receive that money retroactively if needed.

Under the new rules, Social Security beneficiaries can no longer retroactively unsuspend benefits. In the example above, if the man needed to start receiving benefits at age 68, he could still unsuspend his filing. He would not receive a lump sum payout for the previous two years, but he would begin to receive his monthly payments at a higher rate, thanks to the deferral.

What You Should Do Now

For those who won't be able to coordinate spousal benefits under the new rules, financial planners say it's back to basics.

"Social Security was always meant to be a supplement, not the main source of retirement income," Kutner say, "but people don't want to believe that for some reason." As a financial planner for 40 years, Kutner says people too often procrastinate or think others should take care of them. Instead, workers should be putting money aside in IRAs and 401(k)s to assure they have a comfortable retirement.

Beyond putting money away in retirement accounts, people should also delay taking Social Security benefits as long as possible to maximize their monthly amount. While not everyone wants to work until age 70, or even 66, Moss says there may be ways to bridge the gap between the end of employment and the start of Social Security. Inheritances from parents or the sale of family property, accelerated 401(k) payments or annuity benefits are all possibilities.

"Do whatever you can to delay taking Social Security under your full retirement age," Moss says, "as long as you think you'll make it to age 83." According to Moss, 83 is the age a person must reach in order to make delaying benefits more profitable than filing early. For those who think they may have a shorter life expectancy, filing at age 62 could be a better choice.

While these are significant changes, Piershale is quick to note they won't affect how Social Security benefits are calculated. "The biggest thing we're telling people is the core benefits are not changing," he says. "There is no change in any of the math used to calculate benefits."

In other words, while the frosting and gravy are going away, the cake is here to stay.