

April 2016

## Social Security – Does the April 29 Deadline Affect You?

Recent legislation will limit options for married couples eligible to collect Social Security. The restricted application and the popular file and suspend strategies are being phased out. The value of this message is significant, as these strategies have the potential to increase a married couple's lifetime benefit as much as \$200,000 over filing individual benefits.

Here is a quick summary of the two strategies:

**Restricted Application** – allows **both** spouses to collect, while **one** spouse earns a delayed retirement credit of 8% per year to age 70 on their benefit. Only available for people 62 as of 1/1/16.

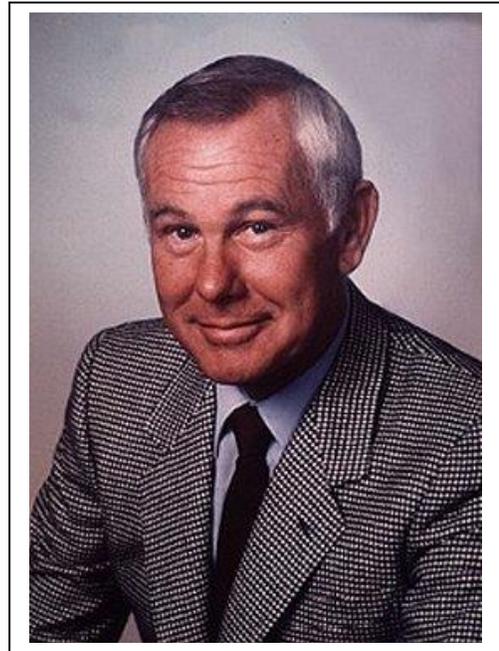
**File and Suspend** – allows **one** spouse to collect, while **both** spouses earn delayed retirement credits of 8% per year to age 70 on their benefits. **This Ends April 29.** To benefit from this strategy, one spouse must be 66 as of 4/30/16.

The spirit of the new legislation suggests that if a spouse has an option of two benefits, you must collect the higher of the two benefits. So the big question that you need to ask is, "*Why would Social Security want people to intentionally collect a higher benefit?*"

The Social Security Administration has 2,828 rules regarding benefits. Married couples have over 208 different options on how and when to collect. It's no wonder why there is so much confusion. This writing is intended to provide general information regarding a single case. Each case is different, and there is no one-size-fits-all answer. I would encourage you to speak with me individually to see if the recent changes to social security applies to you and your family's financial plan.

Before we discuss the dynamics and the benefits of advanced strategies, let's begin with a quick discussion of the individual benefit. This information will serve as a basis to help support an understanding of the restricted application and file and suspend strategies.

Johnny Carson was married four times, and is a good case study to understand Social Security benefits. Johnny collected an individual benefit from Social Security based on his earnings history. His fourth wife Alexis had the option of collecting an individual benefit based on her earnings history, or a spousal benefit of 50% based on Johnny's individual benefit. (Note to reader - the maximum spousal benefit of 50% is capped at age 66. If a spousal benefit is collected between 62 and 66, the amount will be less than 50%.) When Johnny passes away, Alexis then collects a survivor's benefit, meaning she steps-up to Johnny's benefit.



Two of Johnny's ex-wives (Joanne and Jody) were also eligible for a spousal benefit based on Johnny's work history. From a Social Security point of view, ex-spouses are entitled spousal benefits as long as they were married for ten years, divorced for two years, and not currently married. And when Johnny passes away, they are also entitled to collect a survivor benefit.

So, when Johnny was living, he was collecting his full benefit, and Alexis, Joanne, and Jody were each collecting spousal benefits. In other words, four people were collecting benefits off of one person's earnings history. And when Johnny passed away, the three ladies who were eligible to collect spousal benefits during Johnny's lifetime all stepped up to collect a survivor's benefit at his passing.

With that story in mind, let's discuss a hypothetical case study to see how Johnny and Alexis could have benefited from four different strategies:

- Individual Benefits, starting at 66
- Individual Benefits, starting at 70
- Restricted Application (Not available for anyone born after 1/1/56).
- File And Suspend – April 29 Deadline! Applies to married couples with one spouse born on or before April 30, 1950.

**Facts of the case:**

	Johnny	Alexis
Age	66	66
Benefit @ 66	\$2,300 / mo	\$1,200 / mo
Benefit @ 70	\$3,036 / mo	\$1,584 / mo
Life expectancy	83	86

In all cases, a 2.5% annual cost of living adjustment is credited if receiving benefits. This is an assumption for illustrative purposes and is consistent with the long term average of COLAs. The actual COLA is determined every year based on an inflation measure. In 2016, there was no COLA, as the federal government suggested that the year-over-year inflation was 0%.

A word about taxes. Social Security benefits might or might be taxable to you at the federal and local level. To keep things simple, all the values reported below are considered after-tax examples. Your customized social security illustration will consider taxes based on your specific situation.

**Case #1: The Individual Benefit, Starting at 66.**

**Lifetime benefits of \$1,050,000**

Johnny and Alexis both collect their individual benefits starting at age 66 to age 83. When Johnny dies at 83, his benefit is \$3,500/mo, and Alexis' individual benefit is \$1,718/mo. The increase in benefits between 66 and 83 were credited by an annual COLA of 2.5%. Alexis steps-up and collects a survivor benefit of \$3,500/mo at 83 and collects until she passes at age 86.

**Case #2: The Individual Benefit, Starting at 70**

**Lifetime benefits of \$1,042,000.**

Johnny and Alexis both collect their individual benefits starting at age 70 to age 83. By delaying to 70, they both earn delayed retirement credits which increases Johnny's first check to \$3,036/mo and Alexis' first check to \$1,584/mo. When Johnny dies at 83, Alexis' survivor benefit is now \$4,185/mo.

### Case #3: The Restricted Application

**Lifetime benefit of \$1,095,000**

*Important! This is not available for anyone born after 1/1/56*

Johnny files and receives his individual benefit at 66, similar to Case #1.

Alexis contacts social security and tells them to restrict her individual benefit, and turn-on her spousal benefit. In other words, Alexis intentionally collects a spousal benefit of \$1,150, which is \$50/mo **less** than her individual benefit of \$1,200.

So, why would anyone intentionally choose to collect less money? And why would social security want to remove a benefit that allows people to intentionally collect less money?

By collecting a spousal benefit, Alexis continues to earn delayed retirement credits on her individual benefit. When Alexis turns 70, she can then switch over her individual benefit of \$1,584/mo. **This is \$200/mo higher** than what she would have received by starting to collect her individual benefit at 66.

The restricted application allows Alexis and Johnny to increase their combined lifetime benefit of \$45,000 over the individual benefit at 66.

Note to reader – the spousal benefit of 50% applies to people of the same age of 66. Your actual spousal benefit percentage may be different. We can help you determine the actual benefits and strategies that are most appropriate for you.

**Case #4: File and Suspend**

**Lifetime benefit of \$1,086,000**

*Important! This expires April 29, 2016!*

*This applies to people born on or before April 30, 1950.*

Johnny files his application at 66, but intentionally suspends his benefit. Why would Johnny file but then immediately decide not to collect? By having Johnny file, this creates an opportunity for Joanne to collect a spousal benefit of \$1,150/mo at 66. Since neither Johnny OR Alexis are collecting individual benefits, they both earn delayed retirement credits of 8% per year until age 70.

At 70, they both collect their own individual benefits, which is \$3,036 for Johnny and \$1,584 for Alexis. When Johnny passes at 83, Alexis then collects the survivor benefit of \$4,185/mo.

The story of Johnny and Alexis is a good example to have a better understanding of the rules and strategies could have applied to them. It's obvious to realize that Social Security is similar to a pension – the longer you live, the more they pay. Here is a summary of lifetime benefits of the life expectancies assumed in the case and two other examples.

**Summary of lifetime benefits.  
Side-by-side comparison for different life expectancies.**

Johnny lives to	83	83	92
Alexis lives to	86	92	92
Case #1: Individual Benefit Starting at 66	\$1,050,000	\$1,347,000	\$1,592,000
Case #2: Individual Benefit Starting at 70	\$1,042,000	\$1,388,000	\$1,695,000
Case #3: Restricted Application	\$1,095,000	\$1,391,000	\$1,685,000
Case #4: File and Suspend	\$1,086,000	\$1,459,000	\$1,753,000



But how can *you* take advantage of the best options to maximize your social security? A customized, comprehensive strategy will help you identify the best solutions based your goals. Do not hesitate to contact me with any questions. I'll do my best to provide you with clear answers to your important questions, help you understand your options, and make smart decisions with your money.

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