Government Executive

The New Rules of the Social Security Game

By Tammy Flanagan

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A couple of weeks ago I wrote about changes to Social Security claiming strategies for couples that are taking effect in 2016 after passage of budget legislation late last year. There was not a lot of clarity about the new law at the time, but things have become clearer because the Social Security Administration has updated its website. Now we can look at some specific examples of how the law will affect people who are thinking about filing for Social Security retirement benefits.

Here are the new rules, according to SSA:

If you submit a request to suspend your benefits to earn delayed retirement credits on or after April 30, 2016, you will not be able to receive auxiliary benefits on someone else's Social Security record. In addition, if you suspend your benefit, anyone receiving benefits on your record (excluding divorced spouses) will also be suspended for the same months you request suspension.

Finally, for requests submitted April 30, 2016 and later, payments will be suspended the month following the month in which the request was made and ending with the earlier of the month following the month in which the individual turns age 70 or the month following the month of the request to resume benefits.

Below are a few examples to illustrate the meaning of this new law. The first shows the use of the soon-to-be-eliminated "file and suspend" strategy. The second shows how the new law will impact the Social Security of a couple who can no longer use this strategy. The final example involves a couple who decide to claim benefits at the full retirement age and do not receive delayed retirement credits. These examples are simplified--they don't, for example, show the impact of cost of living adjustments or additional wages after age 66.

Traditional File and Suspend

Suppose Robert is 66 years old and files for his Social Security retirement benefit before May 1, 2016. He immediately suspends receiving the benefit. He does this so his wife, Francesca (also 66) can file on his work record to receive her spousal benefit of up to 50 percent of his retirement benefit.

Francesca didn't work much outside the home and doesn't qualify for her own Social Security benefit, but she can receive up to half of Robert's benefit after he files (even though he suspends receiving the benefit). Francesca is the same age as Robert, which allows her to receive the full 50 percent of his benefit since she is at her full retirement age.

When Robert turns 70, he applies to receive his benefit, which will include delayed retirement credits of 8 percent per year for the four years he put off receiving his benefit -- a total increase of 32 percent. Francesca continues to receive 50 percent of Robert's earned benefit.

When either Robert or Francesca die, the surviving spouse will continue to receive Robert's benefit, including the delayed credits.

New Delayed Credits Approach

Ricky decides to delay filing until age 70 to earn delayed retirement credits. His wife, Lucy, will not be entitled to receive her spousal benefit until he begins his benefit.

When either Ricky or Lucy pass away, the surviving spouse will continue to receive Ricky's benefit, including his delayed credits.

Filing Without Delayed Credits

James and Flo are both 66 and are filing for Social Security benefits on James' work record. Flo is entitled to file on his record to receive her spousal benefit of up to 50 percent of his retirement benefit.

When either James or Florida pass away, the surviving spouse will continue to receive James' benefit.

Effects of Delayed Credits

The advantage of delaying Social Security retirement can depend on the length of time a couple will receive benefits over their lifetimes. If both spouses die relatively early, it may not have been worth waiting to receive the delayed credits. However, if both spouses live a long life, then the effects of the delayed credits can pay off, as illustrated in the following scenarios:

Robert and Francesca: Suppose Francesca received $1,000 a month between age 66 and 70; from age 70 the couple received $3,640 a month; and the surviving spouse will receive $2,640 a month. Here are the total amounts of money they might expect to receive in retirement:

- Both spouses live to age 75: $266,400
- Both spouses live to 85: $703,200
- One spouse lives to 80 and the other to 95: $960,000

Ricky and Lucy: Suppose both file at 70; Ricky receives $2,640 a month, Lucy receives $1,000 a month and the surviving spouse will receive $2,640 a month. Here's what they can expect:

- Both spouses live to 75: $218,400
- Both spouses live to 85: $655,200
- One spouse lives to 80 and the other to 95: $912,000

James and Flo: Suppose James receives $2,000 a month and Florida receives $1,000 a month beginning when they're both 66; the surviving spouse will receive $2,000 a month. Here's what they can expect:

- Both spouses live to 75: $324,400
- Both spouses live to 85: $684,200
- One spouse lives to 80 and the other to 95: $864,000

These scenarios show that the file and suspend strategy is most advantageous for couples who outlive their normal life expectancy. They also show the difference between the file and suspend strategy (as used by Robert and Francesca) and the new delayed filing approach (as used by Ricky and Lucy). Robert and Francesca would be eligible for $48,000 more in benefits because Francesca is eligible to claim a spousal benefit on Robert's work record while he delays his benefit to acquire delayed retirement credits.

Here are some answers to additional frequently asked questions about delaying benefits from SSA. And remember, if one spouse receives a pension from work not covered by Social Security, such as a Civil Service Retirement System benefit, there may not be any entitlement to spousal or survivor benefits due to the effect of the Government Pension Offset. The GPO reduces the spouse's or widow's Social Security benefit by two-thirds of the government pension.

Next week, I'll explore another claiming strategy that also was eliminated under the recent legislation called "deemed filing" or "filing a restricted application."

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http://www.govexec.com/pay-benefits/retirement-planning/2016/02/new-rules-social-security-game/126217/