INVESTMENT UPDATE
NEWSLETTER

ALLEN TRUST
COMPANY

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William A. Harris, CFA
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For those of you who haven't met her yet, let me introduce Allison Grebe Lee, who helms this month's newsletter. Allison joined us last year as a financial planner to broaden Allen Trust Company's expertise in helping clients and she has been a great addition to the team. This month, Allison informs us on recent changes to Social Security, how they might affect some of us, and what actions we might consider in responding to them. Ladies and gentlemen, with no further ado, Allison Grebe Lee…

Allison Grebe Lee
Financial Planner

Social Security and the Budget Act of 2015

The recently passed Bipartisan Budget Act of 2015 is big news, and many of us have received startling notifications about enticing Social Security benefits being stripped away. While these attention-grabbing messages often seem crafted more to alarm than inform, in reality, there's still time to receive these benefits for individuals who have already reached 62 (for early, reduced-benefit filing) or 66 (for regular filing), as long as they start receiving benefits by April 29, 2016 or December 31, 2016, depending on the specific rule change. ***One key point to emphasize is that there is no change to the core Social Security benefits or how benefits are calculated***.

The following is a very brief summary of some of the changes being made to Social Security benefits in an effort to close so-called "unintended loopholes."

1. "**File and Suspend"**: This currently occurs when married couples have the higher earner suspend her or his Social Security payment when he or she reaches retirement age and continue working, but the lower-earning spouse claims his or her spousal benefit while the "suspended" wage earner benefit is deferred. The deferred payment grows by eight percent per year until the higher wage earner turns 70.
   The Change: Once May 1 arrives this year, a person must file for Social Security and actually receive his or her benefit in order for the spouse to get the spousal benefit. If you are not turning 66 or greater by April 29, 2016 (put another way, your birthdate was April 30, 1950 or earlier), or you are not already using this loophole by the April deadline, you will no longer be able to use the "file and suspend" exemption. **Those who do get in under the deadline will be grandfathered in if they file and suspend on or prior to April 29, 2016.**

2. **Restricted Applications**: Married couples who are 66 or greater currently have the option of claiming Social Security twice. In the first instance they collect 50% spousal benefit payments for the lower income earner's benefit amount and then switch later to the higher earner's benefit payment. This allows for greater claim values by using the delayed Social Security claim period.
   The Change: The new law states that once a spouse files for Social Security anytime after the age of 62, they are deemed to be taking their own benefit. A spouse can only receive the greater of either their spousal benefit or their own benefit. There will be no changes allowed, either; meaning once you choose one or the other that is the benefit that you will receive forevermore. **Those who were born on January 1, 1954 or earlier are grandfathered in on the current rule and can still claim now, claim more later. Those born after January 1, 1954 are out of luck on this benefit.**

3. **Retroactive Lump Sum Payments:** An individual can suspend their Social Security benefit at 66 and allow their benefits to grow at eight percent per year until they start receiving payments at 70. Under current rules, if circumstances change for the individual (for example, they have a life threatening illness and can no longer work), they can remove the suspension of those benefits. They will lose the percentage growth in benefits they would have received by not claiming their benefits until they reached 70 years of age. However, to soften that blow, Social Security sends a lump sum payment representing the years the individual did not claim benefits.
   The Change: Under the new rules, future payments are made at the same rate as if the individual had started receiving payments at 66. An individual can still "unsuspend" payments. However, they will not receive the benefit growth percentage of eight percent a year and they will also not receive a lump sum payment reflecting the suspended payments. Instead, the individual will simply begin receiving monthly payments at a higher rate, which includes the deferral amount.

4. **Dependent Claims on Suspended Payments**: Currently an individual can suspend Social Security payments while allowing a spouse and/or dependent children to receive payments.
   The Change: An individual will still be able to suspend their own Social Security payments, but their spouse and/or children will no longer receive the spouse/dependent child benefits until the individual's Social Security payments are unsuspended. **If you would currently qualify for this benefit but are not using it, you need to start this on or prior to April 29, 2016 in order to be grandfathered.**

When considering how these issues might affect you, you should, of course, talk with your CPA for clarification on your particular situation. The Social Security Administration also offers free online calculators and estimations that can help you investigate how Social Security benefits will work with your retirement income plan and how you can maximize your benefits. The website to create an online Social Security account is https://www.ssa.gov/planners/benefitcalculators.html.