

**Municipal Employees' Retirement System of Michigan**  
**September 28, 2016**

**New Social Security Rules:**  
*How to Maximize Benefits Now*

**Mary Beth Franklin, CFP**  
**Contributing Editor**  
*Investment News*

# New Rules

The ***Bipartisan Budget Act of 2015 (Section 831 “Closure of Unintended Loopholes”)*** changed the rules for some key Social Security claiming strategies. Signed Nov. 2, 2015.

--**File and Suspend** has been eliminated but some workers are grandfathered under old rules.

--**Filing a restricted claim for spousal benefits** is still available to some people, depending on their birth date, for another eight years.



# Gone but not forgotten

Previously, workers 66 or older could file for their Social Security benefits then suspend them. That triggered dependent benefits for a spouse or minor child while the worker's own retirement benefit would keep growing up to age 70.



# Lump Sum Payout Option

- Under old rules, anyone who filed and suspended their benefits at 66 also had the right to request a lump sum payout of benefits back to the date of suspension.
- They could collect up to four years of retirement benefits in a lump sum instead of receiving a delayed retirement bonus. This was a particularly valuable strategy for single people who have no surviving spouse.
- Normally, retroactive SS benefits are limited to six months starting no sooner than full retirement age (FRA). Although the lump sum payout option for suspended benefits is now gone, beneficiaries who are older than FRA can still request up to six months of retroactive benefits.

# File and Suspend Old vs. New Rules

- **Filed by April 29, 2016**

- Trigger benefits for a spouse or child.
- Retain lump sum payout option.
- Own benefit grows by 8% per year between 66 and 70.

- **Starting April 30, 2016**

- No one can collect benefits during the suspension.
- Lump sum payout option disappears.
- Own benefit grows by 8% per year between 66 and 70.

# Why 66 is still the “Magic Age”

- Collect your full retirement age (FRA) benefit also known as “Primary Insurance Amount” or PIA.
- Restrict your claim to spousal benefits if eligible.
- If claimed reduced benefits early, can still suspend at 66 to earn delayed retirement credits to boost future payouts; but no one can collect benefits during the suspension.
- Avoid losing benefits to earnings cap restrictions.



# What are Spousal Benefits?

- A married spouse or eligible divorced spouse can collect benefits worth up to 50% of a worker's PIA depending on the spouse's age at time of claim.
- Spousal benefits are available as early as age 62 but are worth just 35% of the worker's PIA vs 50% of PIA if collected at 66. Spousal benefits do not earn delayed retirement credits. They are worth maximum at FRA even if worker delays benefits until 70.
- In married couples, only one spouse can claim spousal benefits. In divorced couples, each ex-spouse can claim benefits on the other's earnings record.

# Who can claim spousal benefits?

- An eligible\* spouse can collect spousal benefits as early as age 62 if the worker has claimed benefits or had filed and suspended benefits by the April 29, 2016 deadline.
- An eligible\* ex-spouse can claim benefits on a former spouse's work record as long as they were married at least 10 years, are divorced and the individual claiming spousal benefits is single. Both ex-spouses must be at least 62 years old.
- *\*Must be born on or before 1/1/1954.*

# But the days for using the spousal benefits claiming strategy are numbered

You must be born by Jan. 1, 1954 to claim only spousal benefits at 66 and allow your own benefit to keep growing up to age 70.

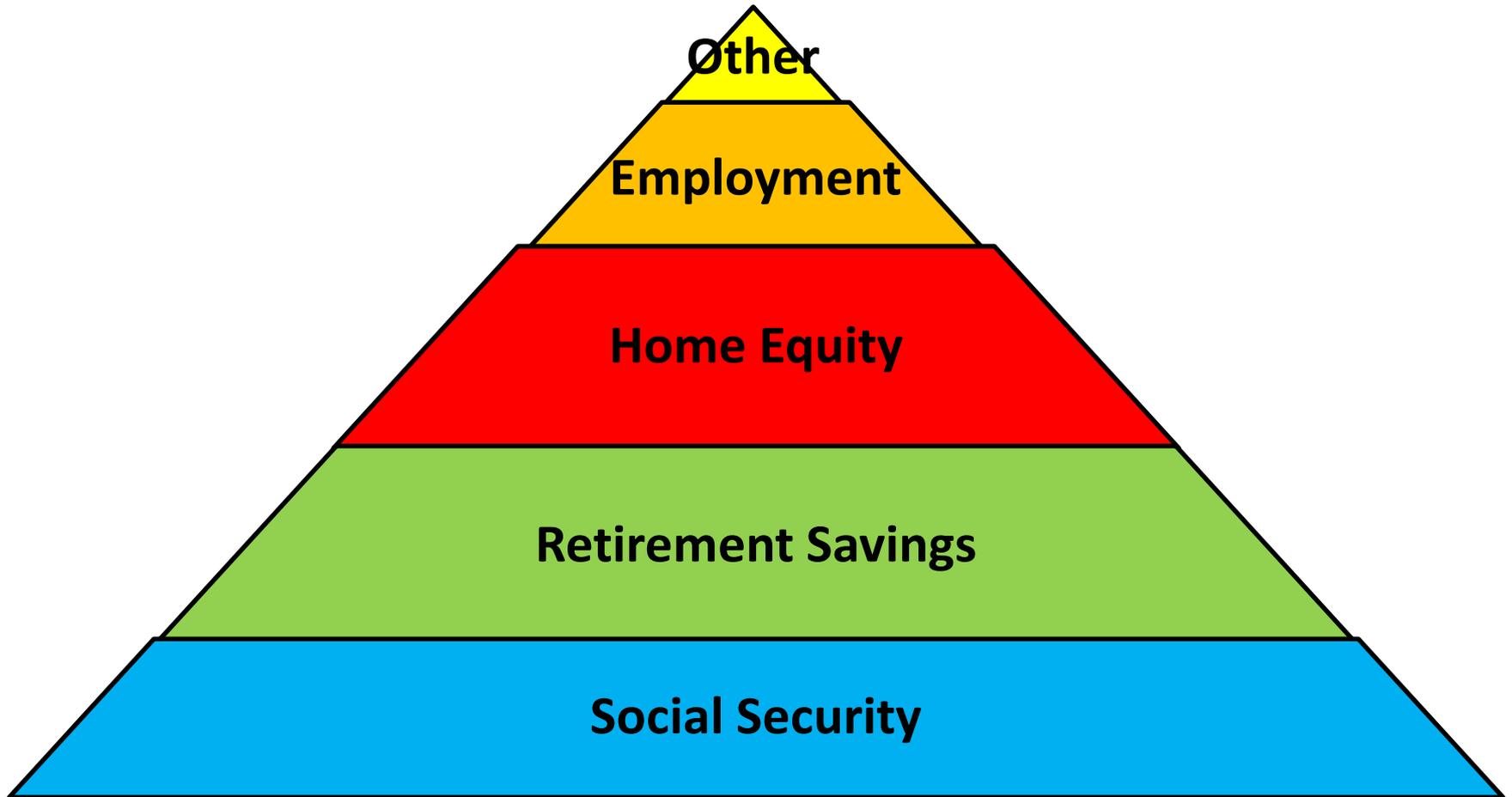


# Clients born after Jan. 1, 1954, lose access to all creative claiming strategies

They will never be able to choose which benefit to claim. They will be “deemed” to file for all their benefits—both retirement and spousal—at the time of claim and be paid the higher of the two. This applies to both married spouses and divorced ex-spouses but not survivors.



# Even after these changes, Social Security will remain a key piece of retirement income



# Review of Basic Rules: Your Age Matters

- You can collect Social Security retirement benefits as early as 62, but they will be permanently reduced by 25% or more for the rest of your life.
- If you wait until your full retirement age (FRA), currently 66, you can collect your full retirement benefit even if you continue to work.
- But if you delay collecting benefits beyond your normal retirement age, you can increase the amount by 8% per year up to age 70—a 32% increase.

# Your FRA May be Higher

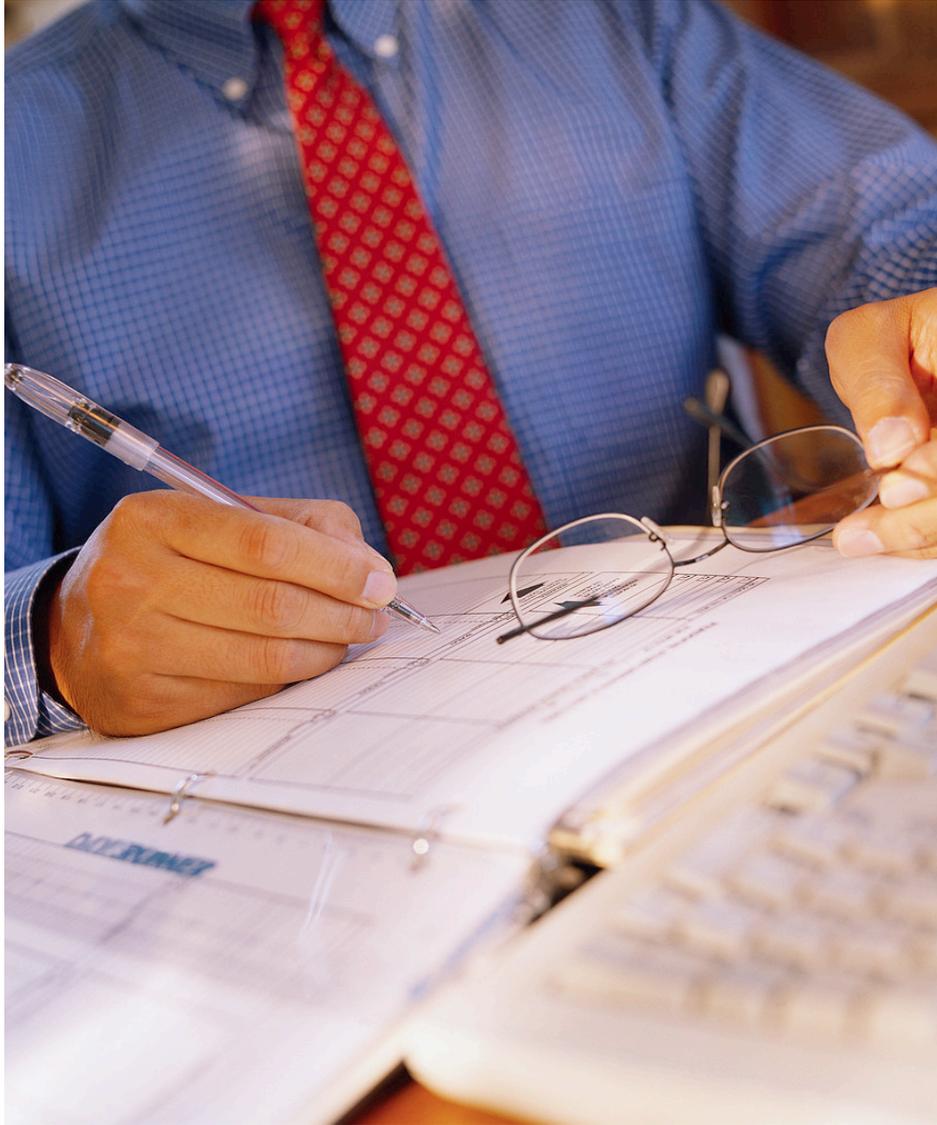
Birth Year	Full Retirement Age	Benefit Reduction at 62
1943 – 1954	66	25.00%
1955	66 and 2 months	25.83%
1956	66 and 4 months	26.67%
1957	66 and 6 months	27.50%
1958	66 and 8 months	28.33%
1959	66 and 10 months	29.17%
1960 and later	67	30.00%

**Increasing the FRA to 67 increases the reduction for claiming early at 62 to 30% and reduces the amount of maximum delayed retirement credits at age 70 to 24%.**

# The Value of Waiting

- For every year you postpone collecting Social Security beyond FRA, your benefits increase by 8% per year up to age 70, boosting payments by up to 32% . E.G., a PIA of \$2,000 at age 66 would be worth \$2,642 per month at 70, plus any annual cost-of-living adjustments (COLA) in the intervening years.
- The difference between collecting reduced benefits at 62 (75% of PIA) vs at 70 (132% of PIA) is a 76% increase in lifetime benefits. A larger base amount means larger COLAs each year. A maximum retirement benefit also translates into a bigger survivor benefit for the remaining spouse.

# Earnings Cap



If you collect Social Security benefits before FRA and continue to work, you will lose \$1 in benefits for every \$2 earned over \$15,720 in 2016. Higher limits apply in the year you turn 66 (losing \$1 in benefits for every \$3 earned over \$41,880 during the months before your birthday). The cap disappears at 66.

# Lesson #1



If you plan to keep working, in most cases it makes no sense to claim Social Security benefits before FRA. All types of benefits—retirement, spousal and survivor—are subject to income limits on earnings if collected before FRA. But benefits lost to the earnings cap are not gone forever. They will be restored at full retirement age.

# Reasons to SS Claim Early

- If you are in poor health and are unlikely to reach normal life expectancy. On average, a 65-year-old man is likely to live to 84; a woman to 86. But half of all Americans will live even longer.
- If you really need the money.
- If you earn less than the annual earnings cap.
- In some cases, one spouse may want to claim early .

# Married Couples should coordinate their benefits.



# Strategies for Married Couples

- In most cases, it makes sense for the higher-earning spouse to delay benefits as long as possible, up to age 70, to lock in the maximum retirement benefit as well as the largest survivor benefit should he or she die first.
- The lower-earning spouse may want to claim reduced benefits early at 62, assuming she or he is no longer working, or at FRA if still working. It increases household cash flow while the other spouse delays benefits up until age 70.
- Spouses with no SS benefits of their own must wait for the workers to claim retirement benefits before they can collect.

# How Spousal Benefits are Reduced if claimed before full retirement age

Age of claim	% if FRA is 66	% if FRA is 67
62	35%	32.5%
63	37.5%	35%
64	41.7%	37.5%
65	45.8%	41.7%
66	50%	45.8%
67	--	50%

# Entitled to Two Benefits?

- Spouses and eligible ex-spouses who are entitled to spousal benefits, plus have worked long enough to qualify for retirement benefits on their own earnings record, will be paid the higher of the two benefits based on their age at time of claim. Usually own benefit is topped off by excess spousal amount.
- Only those spouses and eligible ex-spouses (married for at least 10 years, divorced and currently single) born on or before 1/1/1954 can elect to claim only spousal benefits at 66 and switch to their own retirement benefit, if larger, at 70. Younger people will never have this dual-claiming option.

## **Benefits for same-sex couples**

Same-sex couples are now entitled to the same spousal and survivor benefits as other married couples, no matter where they live. All couples must be married 1 year to collect spousal benefits and 9 months for survivor benefits.

# Don't Waste This Strategy

- Eligible clients should consider claiming only spousal benefits if one spouse was born on or before Jan. 1, 1954—even if it means altering plans. Example:
  - Husband (64) DOB 3-24-1952, PIA \$2,694
    - Too young to file and suspend; old enough to claim spousal.
  - Wife (61) DOB 12-15-1954, PIA \$2,598
    - Too young for either strategy.
- Old plan:** Husband files and suspends; wife claims spousal.
- New plan:** Wife claims at 66, husband claims spousal at 68.

# Calculating the Real Spousal Benefit

- Husband's PIA at 66 \$2,400
- $\frac{1}{2}$  of husband's PIA ( $\$2,400 \times 50\%$ ) = \$1,200
- Wife's PIA on own work record = \$ 800
- Spousal benefit = difference between
- $\frac{1}{2}$  of his PIA ( $\$1,200$ ) and her PIA ( $\$800$ ) \$ 400

# Spousal Benefits “Top Off” Retirement Benefits

Wife (born 1/1/1954 or earlier) claims her retirement benefit early at 62. She receives \$600 per month ( $\$800 \times 75\% = \$600$ ).

When husband claims his retirement benefit, wife steps up to a larger amount

Her reduced retirement benefit of	\$ 600
is added to her spousal benefit differential	+ \$ 400
to create her new combined benefit amount	= \$1,000

Her new benefit amount of \$1,000 per month is less than the full spousal benefit of \$1,200 per month because she collected before her FRA. She is still entitled to full survivor benefits.

# New Deemed Filing Rules

- Anyone born after January 1, 1954, will never be able to choose which benefit to claim. When they claim SS, they will be “deemed” to file for all available benefits, both spousal and retirement, and be paid the higher of the two.
- Example: Wife claims reduced retirement at 62; if husband has already claimed SS, she will be “deemed” to file for both benefits and receive the higher of the two amounts for her claiming age. If husband has not yet claimed, she will automatically be “deemed” to file for spousal benefits, if larger than her own, when he files. Survivor benefits are exempt from deeming rules.

# Who Collects Delayed Retirement Credits?

- The 8%-per-year increase in benefits between ages 66 and 70 applies *only* to the worker's retirement benefit. It does not apply to a spousal benefit. The maximum spousal benefit is worth 50% of the worker's PIA if claimed at full retirement age or later.
- So why delay collecting Social Security if a spouse doesn't earn delayed retirement credits?

# Maximize Survivor Benefits



Survivor benefits = 100% of worker's benefit including any delayed retirement credits if surviving spouse is at least 66; less if collected earlier. The goal of most married couples should be to maximize the survivor benefit by having the spouse with the higher SS benefit delay claiming until 70.

# How Much are Survivor Benefits?

Start Age	% of Deceased Worker's Benefit
60	71.5
61	76.3
62	81.0
63	85.8
64	90.5
65	95.3
66	100.0

# Survivors Can Switch Benefits\*

- Widows and widowers can collect survivor benefits as early as age 60, but are subject to benefit reductions and the earnings cap if they continue to work.
- They can collect survivor benefits initially—worth up to 100% of the deceased spouse's benefit--and then switch to their own benefit that continues to grow at 8% per year until age 70. Or they could collect their own reduced retirement benefit first and switch to maximum survivor benefits at FRA.

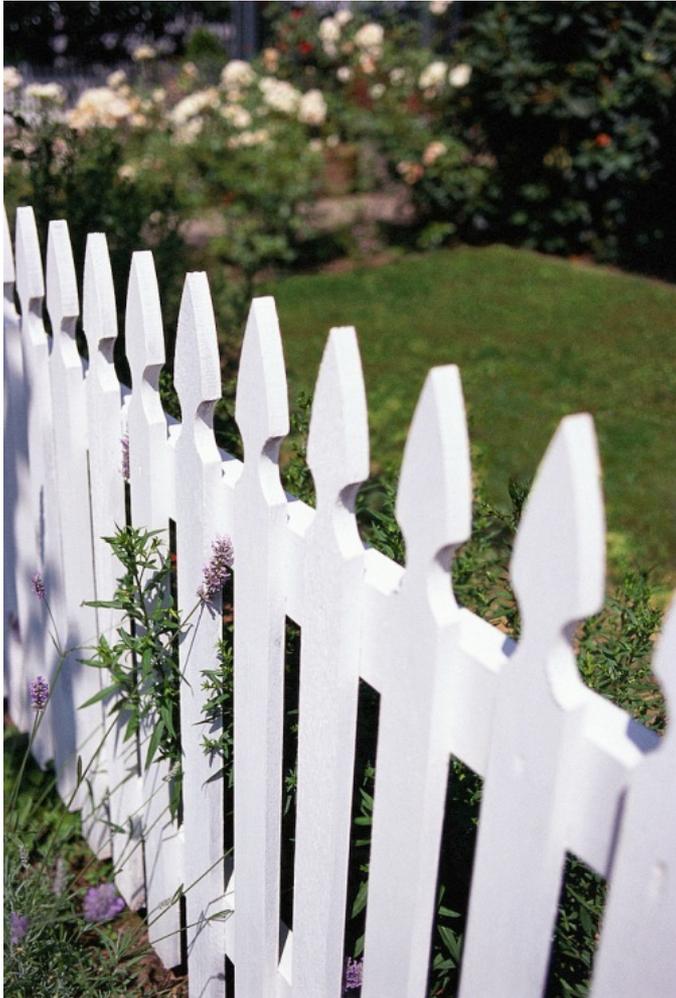
*\*These rules DO NOT change under the new law*

# Singles

Benefits based on age at time of claim. No more “file and suspend” strategy so no longer option to request a lump sum payout. Delaying claiming benefits until age 70 will result in a larger monthly payment, but it may not be worth waiting that long since no one will collect a survivor benefit.



# Benefits for Divorced Spouses



- If married at least 10 years and currently unmarried, you may be able to collect on your ex-spouse's work record as early as age 62.
- If you have been divorced at least two years, you can collect benefits on your ex even if he or she has not yet claimed as long as you both are at least 62.

# Better Strategy for Ex-Spouses

Wait until normal retirement  
age of 66\* and  
file a restricted claim for  
spousal benefits only.

Defer collecting your own  
retirement benefit until it's  
worth the maximum amount  
at age 70 and then switch.

*\*Must be born by January 1, 1954*



# Survivor Benefits for Ex-Spouses

- As long as you were married at least 10 years, you can collect survivor benefits on your ex-spouse—worth up to 100% of the deceased worker's benefit—even if your ex-remarried.
- Although you lose the right to collect spousal benefits on a living ex if your remarry, you CAN collect survivor benefits on a deceased ex if you wait until 60 or later to remarry.
- Remember spousal benefits are worth up to 50% of a worker's PIA; survivor benefits are worth up to 100%. Your ex is worth twice as much dead than alive!

# Don't Forget the Kids

Minor dependent children under age 18 or permanently disabled adult children may be entitled to dependent benefits when a parent collects retirement benefits or survivor benefits after the parent's death.

Dependent benefits are worth 50% of the parent's PIA;  
Survivor benefits are worth 75% of PIA.

A spouse of any age may qualify  
For spousal benefits when caring for  
A child under age 16.



# Family Maximum Benefit Limits

There is a limit to how much a family can collect on a worker's Social Security benefit. The total depends on the worker's PIA and the number of family members who qualify for benefits.

The total varies but generally a family can receive 150% to 180% of a worker's PIA. If total benefits exceed the family maximum, dependent benefits are reduced proportionately. A worker's benefit is not affected.

If a divorced spouse qualifies for benefits on a worker's record, it will not be included in the family maximum.

# Do-over strategy

If you change your mind within 12 months of first claiming retirement benefits, you can repay the money you have already received and restart your benefits at a higher rate later.

Or, if you wait until 66, you can suspend your benefits—but not repay them—and earn 8%-per-year up to age 70. You can *still* do this under the new law—the only use for file and suspend under the new rules.



# Public Employees: You must pay to play

- If you receive a pension from work in a public sector, including some school teachers, where you did not pay FICA taxes, your Social Security benefits may be reduced or eliminated.
- **The Windfall Elimination Provision (WEP)** can reduce a worker's SS retirement benefit by up to half of his or her pension, but not more than \$428 per month in 2016.
- **The Government Pension Offset (GPO)** rule reduces spousal and survivor benefits by two-thirds of the amount of the non-covered pension with no maximum dollar limit.

# States affected by WEP/GPO

- Public employees in 12 states, including school teaches in some jurisdictions, do not pay FICA taxes:
  - Alaska
  - California
  - Colorado
  - Connecticut
  - Illinois
  - Louisiana
  - Maine
  - Massachusetts
  - Missouri
  - Nevada
  - Ohio
  - Texas
- Plus, public employees of some local governments in Georgia, Kentucky and Rhode Island do not pay FICA taxes.
- Federal workers covered under the old Civil Service Retirement System are also affected by WEP/GPO reductions unless they have at 30 years of “substantial earnings” under Social Security.

# SS Benefits are Taxable

Filing Status	Combined Income	Taxable up to
Single	< \$25,000	0%
Single	\$25,000 - \$34,000	50%
Single	> \$34,000	85%
Married & Joint	<\$32,000	0%
Married & Joint	\$32,000 - \$44,000	50%
Married & Joint	> \$44,000	85%

Combined income = Adjusted Gross Income plus tax-free interest plus half of Social Security benefits. Revenue from taxes on SS benefits is added to SS trust funds.

# New Rules, New Plan

- **Married couples:** Coordinate claiming and maximize larger benefit. Claim spousal benefits only if eligible.
- **Divorced spouses:** Benefit based on the higher of your own earnings or as a spouse; claim spousal only if eligible. Entitled to survivor benefit on ex.
- **Singles:** Don't collect until FRA if still working; but may not be worth delaying until 70.
- **Families with minor children:** Children receive benefits only if parent is collecting; perhaps claim early and suspend at 66.
- **Survivors:** Can still claim retirement first and survivor benefits later, or vice versa, to maximize benefits.

# Case Study #1

## Married Couple

Husband filed and suspended before April 29, 2016, deadline.  
Wife turned 64 in May 2016.

Can wife claim only spousal benefits? When?

**Answer:** Yes. Because the wife was born before 1/1/1954 she is eligible to file a restricted claim for spousal benefits when she turns 66 and allow her own retirement benefit to grow until age 70. This strategy makes sense only if the wife's benefit + 32% in delayed retirement credits exceeds her spousal benefit.

# Case Study #2

## Married Couple

Married couple, both age 60. Husband has the larger SS benefit. Wife does not have own SS benefit.

What are their options?

**Answer:** Because both were born after 1/1/1954, neither can elect to claim only spousal benefits. Husband should probably wait until FRA to claim benefits but may not want to wait until 70 because his wife cannot collect any spousal benefits until husband claims his retirement benefit.

# Case Study #3

## Widow

Husband died 2002 at age 50. Widow turned 62 in December 2014. Widow is eligible for both survivor and retirement benefits. She plans to retire this year.

What are her options?

**Answer:** She can choose to collect one type of benefit first and switch to the other later if it would result in a bigger benefit. Because the husband died so young, her own retirement benefit may be bigger than the survivor benefit. She could claim survivor benefits first and switch to her retirement benefit at 70.

# Case Study #4

## Parent/Minor Children

- Husband/father, 62, retired. Twin sons, age 14.
- What are his options now and later?
- **Answer:** Because the father is retired and will not trigger earnings cap restrictions, he should claim SS now even though his retirement benefits will be reduced by 25%. Both his sons will be eligible for up to 50% of his PIA, subject to family maximum limits. When sons age out of benefits at age 18, father will be 66. He could then suspend his benefits and earn delayed retirement credits and resume benefit at 70.

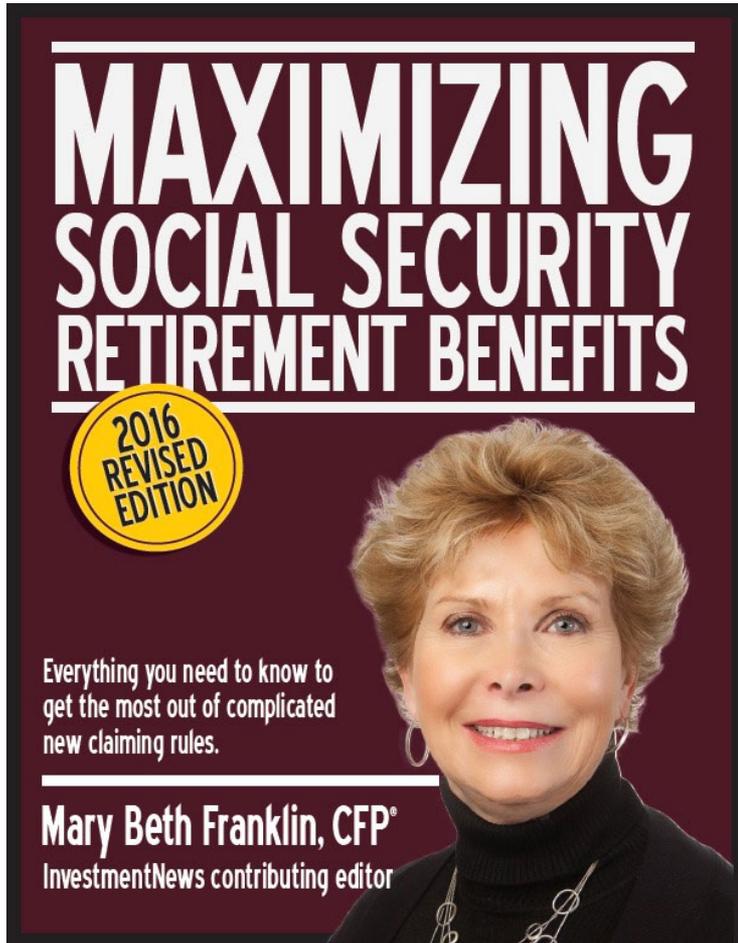
# Case Study #5

## Divorced Spouses

- Divorced ex-wife, 67, still working. Ex-husband, 70, is collecting his SS benefits.
- What are wife's options?
- **Answer:** Because the wife was born before 1/1/1954, she can claim spousal benefits on her ex-husband's earnings now and switch to her own maximum retirement benefits at 70. Because spousal benefits are worth the maximum amount at age 66, she can request a lump sum payout of the maximum six months of retroactive benefits plus her monthly amount.

# For more information:

[www.InvestmentNews.com/MBFebook](http://www.InvestmentNews.com/MBFebook)



**Contact information:**

[mbfranklin@investmentnews.com](mailto:mbfranklin@investmentnews.com)  
(703) 609-4764