

Impacts of the Bipartisan Budget Act of 2015

On November 2, 2015 the Bi-Partisan Budget Act of 2015 was signed into law. In essence, it has eliminated some Social Security retirement distribution choices. The changes could cost thousands of dollars in Social Security benefits, depending on your date of birth and marital status.

Below is a summary of the new laws. In which of these categories do you fall?

Widow/widower planning was not impacted at all. All strategies are still available.

Single: The impact on singles is very simple:

If you are born on or before May 1, 1950, for whom the optimal strategy would delay benefits past Full Retirement Age, you should file and suspend as soon as you're eligible, either immediately or upon reaching Full Retirement Age. Your suspension election must be received prior to April 30th in order to fall under the old rules. Suspending benefits under the old rules should preserve the option to request a retroactive lump-sum payment should your circumstance change while benefits are suspended.

If you were born after May 1, 1950, the new rules take effect, meaning the lump sum option is no longer available once you suspend benefits.

Married: the impact on planning for couples is nuanced. There are now three sets of rules:

1) If you are born on or before May 1, 1950 (turn 66 for Social Security purposes in April 2016), you have access to voluntary suspension in order to grow your benefit until age 70. Additionally, your spouse may collect benefits at 50% of your full retirement age benefit, as long as your request for voluntary suspension occurs prior to April 30, 2016. The claim for these auxiliary benefits is done through a Restricted Application which is available at Full Retirement Age through age 70. It allows you to restrict the benefits you are receiving to spousal only, and switch to your own benefit later.

2) If you were born after May 2, 1950, but before January 2, 1954, voluntary suspension of your own benefits up to age 70 is still available. However, by electing to suspend your own benefits, spousal and children's benefits are also suspended. In other words, by suspending your own benefit, your spouse and eligible children may not collect benefits based upon 50% of your full retirement benefit.

What this means is that if you suspend your benefits to collect the additional 8% per year until age 70, your spouse and children may not collect benefits based on your full retirement benefit.

However, if you take your retirement benefit at full retirement age, your spouse and children may collect retirement benefits at 50% of your retirement benefit, by filing a restricted application. This allows them to collect the higher benefit and switch to their own benefit later.

In other words, there's no more double dipping by getting the 8% and the larger spousal/child benefit.

3) If you were born on or after January 2, 1954, voluntary suspension also suspends the benefits of a spouse and children. That means spouse and children cannot receive the spousal/children's benefits. This group no longer has the option to file a restricted application. They are deemed to be filing for all of their benefits at one time.

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