Economic and Market Insights
December 3, 2015

By David Stubblefield,
Senior Financial Planner
The Commerce Trust Company

File-and-Suspend: No longer available to married couples ready to claim Social Security

One of the primary strategies for claiming Social Security benefits was closed by the government last month. The closure of the "file-and-suspend" strategy will affect many married couples nearing the retirement plateau. The new rules do not kick in until April 29, 2016, and those who are at full retirement age (or will reach it in the next six months), will still have the opportunity to file-and-suspend.

So the clock is ticking on this Social Security claiming strategy for a small slice of this aging demographic. David Stubblefield, Senior Financial Planner at The Commerce Trust Company, takes a moment to answer some Social Security retirement planning questions related to this unexpected change.

Q. The file-and-suspend loophole was closed by the government for married couples when President Obama signed the recent budget into law. How do I know if this change impacts my particular Social Security benefits claiming strategy?

A. First, check to see if you happen to fall within the six-month window under the old provisions of file-and-suspend. Those who were age 65½ or older by Oct. 29, 2015, still have all the Social Security tools on the table if they take action before new rules apply on April 29, 2016. Second, if you are not in this window, don't waste time worrying. The Social Security Administration says there are many different claiming strategies available for couples and you need a knowledgeable advisor to sort through what's best for you now.

Q. What exactly went away with file-and-suspend?

A. What is going away is the ability for the spouse to collect benefits while *you* are not collecting. Previously, file-and-suspend allowed someone reaching full retirement age to file for Social Security retirement benefits and then immediately suspend them. This approach allowed that person's spouse to apply for and collect spousal benefits while the primary worker subsequently suspended his or her benefit. This was an attractive strategy because the original filer still earned delayed retirement credit increases of about 8% per year through age 70 for waiting.

Q. How can I get a feel for knowing what's best for our situation?

A. Your overall financial situation and the tax characteristics of your assets are extremely important factors in determining your Social Security claiming strategy. For example, it may make little sense to delay receiving Social Security benefits because drawing from your "qualified money" in a 401(k) (or other taxable resources) first may in fact unleash adverse tax implications. For others, it could make perfect sense to defer claiming their Social Security benefits as long as they can. We recommend running the numbers with a professional to make an informed decision on how these decisions can affect your long-term financial health.

Q. Can you give me an example of how an advisor might help?

A. Let's say you hold a 401(k) fund or IRA that will be the predominant source of your retirement resources. Eventually every 401(k) or IRA dollar you take out to support your living expenses is going to get taxed as ordinary income. If you are using those dollars to help you defer the use of your Social Security benefit, you have to ask yourself if the opportunity cost is worth it. It's true you accrue about 8% annually in growth and cost of living adjustments in your Social Security benefit if you defer. But in order <u>not</u> to take that money, you have to pull money out of the 401(k) (or some other resource) that's taxable. So what is that going to do to your overall finances? An advisor can help you know what's right for you.

Q. How far out does the average filer defer his or her Social Security claim?

A. The vast majority of retirees claiming benefits do so well before age 70. The decision is different for everyone and obviously life expectancy figures into the equation.

Q. Is there a break-even point to consider when determining your claiming strategy?

A. Most claiming strategies all break even in the early 80s when you take your individual benefit from whenever you started. If you don't live past average life expectancy, it's really not terribly important if you begin your benefit at 62, 66 or 70. If you live an average life expectancy or beyond, your potential payout is maximized the longer you delay. Only when you have increased longevity for you or your spouse does the delaying pay off.

Q. Has Social Security evolved to a point where the average person needs help in deciding?

A. We think so. Generally speaking, the more your ratio of assets is skewed toward qualified money, the greater the potential that a deeper analysis is needed on your opportunity costs. Deciding when it makes most sense to turn on your benefits is a critical question. The best Social Security claiming strategy is one you make when evaluating your overall financial picture rather than just focusing solely on how delaying will increase your Social Security benefits.

Past performance is no guarantee of future results, and the opinions and other information in the commentary are as of December 3, 2015. This summary is intended to provide general information only and is reflective of the opinions of The Commerce Trust Company's Financial Advisory Services Group.

This material is not a recommendation of any particular security, is not based on any particular financial situation or needs, and is not intended to replace the advice of a qualified attorney, tax advisor or investment professional. Diversification does not guarantee a profit or protect against all risk.

Commerce does not provide tax advice or legal advice to customers. Consult a tax specialist regarding tax implications related to any product and specific financial situations.

Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed.

The Commerce Trust Company
A division of Commerce Bank