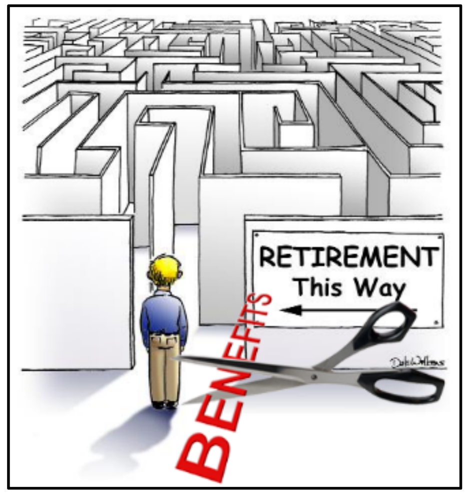
Reprinted from the *Lexington Minuteman*

"Honey, they shrunk our SS options!"

Navigating the Retirement Maze



"You can't ignore politics, no matter how much you'd like to."
– Molly Ivins (columnist, author; 1944 – 2007)

As Samuel Johnson once commented: "Nothing focuses the mind like a hanging." Or an impending government shutdown, if you happen to be a member of Congress. Facing the possibility of the latter, the U.S. Congress pulled off a last-minute bipartisan effort and managed to finalize a budget, signed into law by the President two days later. Now we can all breathe a collective sigh of relief. No closed post offices. No delayed reimbursements. Crisis averted.

However, before you go popping the champagne cork, be aware that this legislation includes a surprise that wasn't discussed or debated beforehand. Buried in this bill is the elimination of several claiming options for Social Security that result in a significant reduction in retirement income if you had planned to use them. If you were born before 1954, you're mostly safe. For those of us who won't reach the age of 62 by the end of this year, that future additional income is "gone, baby, gone."

SS claiming strategies

While many people are unaware of the multitude of rules governing the claiming of Social Security income, most financial planners factor them into a client's retirement income planning. Depending upon the ages, marital status, and accrued Social Security earnings of an individual or couple, there are ways to increase retirement income through the judicious use of the various filing strategies. Since you've already paid for Social Security benefits with paycheck deductions throughout your career, it makes sense to maximize them when you finally collect. Thus, optimizing Social Security income is one of the best types of "longevity insurance" available.

For example, a married couple of similar ages at their full retirement age (FRA) could have the higher earning spouse "file and suspend" – file for Social Security benefits but not actually take them until age 70, thus allowing them to grow at 8 percent per year – while the other spouse could collect "spousal benefits" (also called a "restricted application") starting at FRA, and let their own benefits also grow an additional 32 percent, switching over to their own at age 70 if greater than their spousal benefit. Using this approach could add as much as $64,000 in additional benefits.

Say goodbye to "file and suspend"

The budget bill effectively kills the "file and suspend" option for most people who have not already employed this tactic. (Those already using it are grandfathered, and can continue with that strategy.) For those not yet using it but are candidates for it, which are couples and some divorcees who are between the ages of 66 and 70 by April 29, 2016, it is still available until that date. (Divorcees must have been married for at least ten years and were still single at age 60, and ex-spouse at least 62 by the deadline.) Miss that window, and "file and suspend" ceases to be an option.

What the new law specifies is that for a family member to be able to use the benefits of a parent or spouse, the latter individual must currently be collecting Social Security benefits. Thus, if the high earner in a family suspends benefits until age 70 to maximize both their eventual benefits as well as the "survivor benefit" for their spouse, no other family members can collect benefits associated with that individual during that time.

Actions to take now

Even with this reduction in filing options, there are still choices that you can make to enhance your lifetime income through an optimal Social Security claiming strategy. I tell my clients that their major lifetime risk is living too long, and thus possibly outliving their available financial resources, so I prefer to err on the side of longevity when comparing claiming strategies. Since the "break even" age for delaying Social Security versus taking it at FRA is typically around 80, I usually recommend that at least the higher earning spouse wait until age 70 to claim. I use software to determine the optimal claiming strategy for various life expectancies, using ages of 85 and higher for this financial "worst case."

For those of you who are already using a "file and suspend" strategy, you're safe. If you or your spouse are between the ages of 66 and 70 and aren't already using "file and suspend," now is the time to find out whether you would benefit from using it. As for the under 62 crowd, revisit your retirement income calculations and hope for better luck with future legislation.

George Gagliardi is a financial advisor with Coromandel Wealth Management in Lexington, where he helps clients develop and implement investment and retirement strategies. He can be reached at (781) 728-9001 or george@CoromandelWM.com. George is affiliated with Trust Advisory Group, Ltd., a Registered Investment Advisor. This article is intended for general information purposes only, and may not be appropriate for your specific circumstances. Investment advice is particular to each individual, and should only be given after an individual situation has been reviewed.