Windows Open on Social Security Moves

Budget deal will end strategies, but there are ways filers can still take advantage

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Congress is putting an end to two Social Security filing strategies that many couples have used to add tens of thousands of dollars to their retirement incomes. But some who move quickly may still be able to hang on to some of the money.

The implications of the new Social Security rules became clearer Friday after the Senate passed the budget bill hammered out with the White House that includes the changes. The measure will become law after President Barack Obama signs it.

The strategies under fire—known as file-and-suspend and a restricted application for spousal benefits—have made it possible for both members of a couple who are 66 or older to delay claiming benefits based on their own earnings records while one pockets a spousal benefit based on the other's earnings.

To do this, one individual files for benefits and suspends them, while the other files a restricted application to collect only a spousal benefit—not his or her own earned benefit even if it would be higher. That way, both individuals can take advantage of delayed retirement credits, which increase their earned benefits by 6% to 8% for each year in which they defer claiming between the ages of 66 and 70—and one gets some income from Social Security in the meantime.

While the new law shuts down the two strategies, some people can still take advantage of them if they act fast. Here's what you need to know:

A six-month window before new rules kick in

Under the new law, Social Security will no longer allow relatives to submit a new claim for spousal or dependent child benefits based on the earnings record of a worker who has suspended his or her own benefits. However, that provision won't go into effect for six months from the date President Obama signs the budget bill.

If you are 66 or older there may be an advantage in filing and immediately suspending your benefit.

As a result, if you are 66 or older now—or will turn 66 within the next six months—there might be an advantage in filing and immediately suspending your benefit. That would give a spouse who is also 66 or older the option to file a restricted application for only a spousal benefit and receive that benefit while both of you delay claiming on your own records. But both you and your spouse must act within the six-month window.

There is a similar window for individuals at full retirement age who have children under age 18 or disabled adult children. Those who are 66 or older—or will turn 66 within the next six months—can file-and-suspend so their children can claim dependent benefits. Again, both parties need to take action within six months.

If you won't turn 66 until after the six-month window closes, your relatives won't receive a dime unless you are already receiving your benefits, said Web Phillips, senior legislative representative at the National Committee to Preserve Social Security and Medicare, a nonprofit advocacy group.

Some people get a break. Families who are already using these strategies will be grandfathered. Their benefits won't be changed or interrupted due to the legislation, said Mr. Phillips.

Also, if you turned 62 this year or are older, you will still be able to file a restricted application for only a spousal benefit starting at age 66. This will allow you to receive a spousal benefit while you defer claiming your own benefit so that it can grow larger.

After file-and-suspend is phased out in six months, to take advantage of this, your spouse must already be claiming a benefit, said Michael Kitces, director of planning research at Pinnacle Advisory Group Inc. in Columbia, Md.

When married individuals apply for a retirement benefit other than with a restricted application, they are deemed to have filed for both their own earned benefit and a spousal benefit, and will receive whichever is higher, instead of having a choice to get one and switch to the other later.

Flexibility on retirement vs. survivor benefits remains.

Generally, widows and widowers won't be affected by the new law, said William Meyer, chief executive of SocialSecuritySolutions.com, a service that identifies claiming strategies. And individuals who are eligible for both earned and survivor benefits will continue to have a couple of claiming strategies open to them, making careful comparison worthwhile.

Starting at age 60, a survivor can take a reduced benefit based on his or her deceased spouse's benefit—and then switch to his or her own benefit later if it is higher. Alternatively, the survivor can start with his or her own benefit as early as age 62 and then switch to a full survivor benefit at full retirement age.

One of these strategies is often better than simply sticking with one benefit or the other.