



2015 Budget Deal Affects Social Security Benefits and Medicare Part B Premiums

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With a budget deadline approaching and the possibility of a catastrophic U.S. default, Congress has passed a 2 year budget bill which will run through fiscal year 2017. While there are numerous government programs and departments which are affected by the budget bill, changes to Social Security benefits and Medicare Part B premiums will affect some individuals in the short term and many in the long term.

Repeal of the “File and Suspend” Social Security Strategy

Back in 2000, as part of a law designed to encourage more seniors to work, Congress fashioned a “voluntary suspension” procedure allowing a person who is of full retirement age to file for Social Security and then suspend receiving payment until a later date, while earning an 8% a year increase for postponing benefits past full retirement age, up to age 70. The same legislation also allowed a spousal benefit to be obtained, while the spouse who reached full retirement age filed and suspended, and allowed their benefit to grow. As a quick example, a two income household, where the married couple both turn 66 during 2015, could elect the following Social Security claiming strategy to maximize their benefits. The husband would file for Social Security, then immediately suspend his Social Security benefits. His wife would then apply for the 50% spousal benefit only, allowing her earned benefit to grow as well. Note, only one partner of a married couple could claim spousal benefits.

Some couples of mixed ages are unaffected by the new legislation. For example, if the husband is currently 68 and his wife is 63, she will be able to claim the spousal benefit when she turns full retirement age because her husband will be 71 and his benefit will not be suspended at that point.

Divorced couples who were married over 10 years and who never remarried may claim the 50% spousal benefit on each other’s benefit, letting their own benefit grow 8% a year up to age 70. This is still the case even if both individuals are working.

Under the new budget deal, the file and suspend option will end six months after the bill was passed (May 2, 2016). Leading up to this date, anyone who begins taking spousal benefits based on a file and suspend strategy can continue to benefit from it until age 70. Individuals who are currently utilizing this strategy are grandfathered in. After that, if an individual voluntarily suspends their benefit, they will not be able to claim benefits based on anyone else’s earnings record, and no one will be able to claim benefits based on their record. Therefore, after May 2, 2016 they can no longer file and suspend to enable their spouse to file for a spousal benefit. Also, closing this loophole does not allow benefits for school age children, since filing for an individual’s own retirement benefit is usually a precondition for starting family benefits.

Survivor's benefits have not changed under the new laws; the surviving spouse will still be able to claim whichever benefit is larger. The same is true for divorced couples who never remarried. They can still claim the larger benefit when the ex is deceased.

Medicare Part B Premiums Relief

Medicare Part B premiums cover the cost of most doctor visits, outpatient services and durable medical equipment. These costs have increased year after year, due to individuals living longer and a general increase in cost for medical services. Social Security recently announced there will be no 2016 COLA adjustment, since there has been no consumer inflation. Under the Social Security "hold harmless" provision, benefit checks of the lowest tiered participants (those with a Medicare Modified Adjusted Gross Income up to \$85,000 for singles and \$170,000 for joint filers) cannot decline from one year to the next. 70% of Medicare Part B beneficiaries fall under this category. Their Medicare Part B monthly premium of \$104.90 is deducted from their monthly Social Security benefit. The premium will remain at the \$104.90 per month level in 2016, and until a COLA is justified in the future. This leaves the remaining 30% of Medicare Part B beneficiaries to cover the shortfall in 2016. In order to cover this amount, premiums would have needed to increase approximately 52% for everyone else.

In order to soften the 52% premium hike, the budget agreement calls for Medicare to receive a \$7.5 billion loan from the U.S. Treasury to help cover expenses. In addition, all those not held harmless will pay a \$3 per month surcharge to repay that loan. Also, the base rate for Medicare Part B premiums increased to \$120 per month for individuals in the lowest income tier who had not paid their Medicare Part B premium through their Social Security monthly benefit (perhaps because they filed and suspended), as well as all higher income Medicare beneficiaries. As a result, the new base rate for Medicare Part B premiums will be \$123 per month, which is an 18% increase. Higher income Medicare beneficiaries will see their Medicare Part B premiums adjusted upward at a similar rate. The final 2016 Medicare Part B premium and surcharge figures for these individuals have not yet been released.

Another group of individuals who will pay the new higher Medicare Part B premium base rate and loan payment surcharge, are those enrolling in Medicare Part B in December 2015 and beyond. They will not be held harmless even if they are in the lowest Medicare income tier bracket. Therefore, they will pay \$123 per month at the base, while higher income beneficiaries will face higher amounts based on the tier they fall within.

Going forward, all beneficiaries who are not held harmless in 2015 will continue to pay the \$3 per month surcharge. The 70%, whose premiums are not being increased for 2016 are not out of the woods yet. When the Social Security COLA is next adjusted, they will pay the \$3 surcharge as well. It is anticipated that the surcharges will repay the U.S. Treasury loan over the next 5 years.

Conclusion

President Obama indicated that this budget bill is a good example of bipartisan cooperation. The 2 year agreement should put the government on a more responsive path, and finally free us from the cycle of shutdown threats and last minute fixes. This budget should also allow Congress the ability to plan for the future.

With local elections now behind us, and with the upcoming national elections in 2016, time will tell. As always with our elected officials, there will be changes and future opportunities to rethink retirement strategies.

When it comes to retirement and cash flow planning, consider these new changes to Social Security and Medicare Part B premiums while planning for the future. As always, we appreciate your confidence and welcome questions about your individual situation.



Stephen G. Green, CFP®

Scott M. Lefebvre, CPA/PFS

G. Joseph Votava, Jr., CFP®, CPA, JD

**Mary S. Brown, CPA
Tax Manager**

**Joseph F. Banach, EA
Tax Manager**

**Jason M. Fuller
Tax Analyst**

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