Investment Services • Retirement Planning • Trust and Investment Management

Financial Issues

Spring 2016 CEFCU® Investment Services and Wealth Management

New Social Security Claiming Rules

Two strategies to optimize married couples' benefits are ending.

Your strategy for claiming Social Security can have a huge impact on your retirement income. For many couples — especially those in good health — waiting to claim Social Security until age 70 makes sense. However, the sun is setting on the opportunity to receive some spousal benefits while you wait.

Congress changed the Social Security benefit rules.

Two strategies, known as "file-and-suspend" and "restricted application for a spousal benefit," have often been used by married couples to increase their total Social Security income. As part of the Bipartisan Budget Act of 2015, Congress eliminated those strategies for most future retirees in order to reduce the long-term shortfall of the Social Security trust funds. However, you may still have time to take advantage of them, depending on your age.

File-and-suspend method.

With this strategy, if you had reached full retirement age, you could file for retired worker benefits so that your spouse or dependent child could file for a spousal or dependent benefit. You could then suspend your retired worker benefit, accumulate delayed retirement credits, and claim an increased worker benefit at a later date (up to age 70).

Under the new law, a spouse or dependent child can no longer receive benefits based on your record while your own benefit is suspended. In addition, you cannot reverse your suspended Social Security benefits in order to get a lump sum payment.

Restricted application.

Under this approach, if you were married and had reached full retirement age, you could file a restricted application for spousal benefits after your spouse had filed for retired worker benefits. This allowed you to collect spousal benefits and delay filing for your own benefit in order to accumulate delayed retirement credits.

According to the new law, if you were born in 1954 or later, you will not be able to file for a restricted application when you reach full retirement age. You will receive the higher of the spousal benefit or your own benefit and will no longer be able to receive a smaller spousal benefit while delaying your own benefit until age 70.

When do the new rules take effect?

The file-and-suspend strategy will no longer be available after April 30, 2016. If you will be 66 or older before this date, you may be able to use the file-and-suspend strategy to allow your eligible spouse or dependent child to file for benefits off of your record while also increasing your future retirement benefit. To file a restricted application and claim only spousal benefits at age 66, you must have been 62 or older by January 1, 2016. At the time you file, your spouse must have already filed for Social Security retirement benefits.

If you are already using one of these strategies, you have already met the age requirements and will not be affected by the new rules.

2016 Retirement Plan Contribution Limits

Moderate yearly inflation means very little change

Below is a chart comparing the limit changes from 2015 to 2016:

COMPARISON OF LIMITS

Plan Type	2015 Limits	2016 Limits
Traditional* and Roth IRA[1]**		
Contributions if 49 and younger	$5,500	$5,500
Contributions if 50 and older	$6,500	$6,500
401(k), 403(b), 457 & TSP[2]		
49 and younger	$18,000	$18,000
50 and older	$24,000	$24,000
SIMPLE IRAs[1]		
49 and younger	$12,500	$12,500
50 and older	$15,500	$15,500
SEP-IRAs & Solo 401(k)s[1,2]		
Maximum deferral amount	$53,000	$53,000
Compensation limit	$265,000	$265,000
Employee compensation threshold	$600	$600

*The deduction available to active participants in employer-sponsored retirement plans is phased out on a sliding scale for single taxpayers with modified adjusted gross income between $61,000 and $71,000, and for joint filers with modified adjusted gross income between $98,000 and $118,000.

**For Roth IRA, the contribution is phased out on a sliding scale for single taxpayers with modified adjusted gross income between $117,000 and $132,000, and for joint filers with modified adjusted gross income between $184,000 and $194,000. Contributions must be made from earned income.

Citations.

1 — forbes.com/sites/ashleaebeling/2015/10/21/irs-announces-2016-retirement-plans-contribution-limits-for-401ks-and-more/ [10/21/15]
2 — irs.gov/uac/Newsroom/IRS-Announces-2016-Pension-Plan-Limitations%3B-401%28k%29-Contribution-Limit-Remains-Unchanged-at-$18,000-for-2016 [10/21/15]

How are benefits for surviving spouses affected?

Rules pertaining to surviving spouses are not affected by this new legislation. If you are eligible for both a survivor benefit and a retirement benefit based on your own earnings record, you can still file a restricted application for survivor benefits while your own benefit accumulates delayed retirement credits.

How do these new rules affect *your* retirement strategy?

Even if you can no longer take advantage of the file-and-suspend or restricted application strategies, you may still benefit from considering your Social Security filing options. The age when you begin receiving Social Security benefits can have a significant impact on your retirement income and survivor benefits.

To evaluate your retirement portfolio, consider talking with a Representative from CEFCU Investment Services. Representatives can meet with you at most CEFCU Member Centers, or you can schedule a phone appointment.

Best of all, Representatives work on a salary, so you can rest easy knowing there's no financial incentive to guide you to products or investments that are not in *your* interest. To schedule a no-cost, no-obligation appointment with a CEFCU Investment Services Representative, call 1.800.356.7865, ext. 32571 today.

Citations.

1 — https://www.bonadio.com/news-events/articles/five-questions-and-answers-about-new-social-security-claiming-rules [11/23/15]
2 — marketwatch.com/story/key-social-security-strategies-hit-by-budget-deal-2015-10-30 [11/2/15]

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Meet Retirement Challenges Head On

Gone are the days when you might stay with a single company for your entire career and retire with a nice pension. When it comes to having a secure retirement, many Americans are pretty much on their own.

So what will *your* retirement be like? A lot depends on your ability to recognize and overcome the potential financial challenges you may face in the years ahead.

Keep Tabs on Expenses

Your retirement budget may be a lot different from your budget while you're working. You may have paid off your mortgage and eliminated most other debt, such as credit card balances and car loans. Plus, you won't have commuting and other work-related expenses. However, costs to travel and pursue other hobbies, could actually increase and may be significant, at least in your early retirement years.

Keep in mind that health care may represent a substantial portion of your retirement spending, especially as you age, so plan accordingly. Longer life expectancies can make budgeting for health care costs one of your biggest challenges.

Balance Investment Risk

You want to be confident that your savings will last throughout your lifetime. However, investing too aggressively in retirement can be risky. Falling stock prices could cause your portfolio to suddenly lose value, leaving you with far less savings than you anticipated. Conversely, investing too conservatively could prevent your investments from earning returns that stay ahead of inflation. Finding the right balance between risk and potential return will be another challenge as you get ready to enter your new stage of life.

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The Social Security Dilemma

Deciding when to begin receiving Social Security benefits can make a big difference in your retirement income. You can claim reduced benefits starting at age 62, but delaying benefits until your full retirement age (FRA) increases your benefit significantly. For each year after your FRA that you wait to collect, up to age 70, your annual benefit increases by 8%. Determining a claiming strategy can have a huge impact on your retirement income. A member of our team can help you review your options.

Asset Withdrawal

Choosing a withdrawal strategy that preserves your nest egg isn't always easy. Market fluctuations and income taxes can take their toll on your portfolio if you don't manage their impact. Holding several years' worth of living expenses in a low-risk account is one strategy to consider.

Meet Retirement Challenges Head On, *continued on back page*

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Meet Retirement Challenges Head On, *continued*

Professional Assistance

Retirement planning has its challenges. Preparing to meet them can put you in a better position to enjoy your retirement years. If you're ready to review your portfolio, or if you would like to learn more about retirement strategies, contact Kevin Barbier, Trust and Investment Management Officer and CERTIFIED FINANCIAL PLANNER™ professional.

Kevin is part of the CEFCU Wealth Management team and can provide sound, unbiased investment planning and management that follows the same standards that guide your Credit Union — looking out for *your* best interests. To schedule your appointment, call 309.633.3836 or 1.800.633.7077, ext. 33836 today.

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