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News Direct

The Need for Wholesaling in the Financial Services Industry

page 4

By Breana Macken

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To join the section, SOA members and non-members can locate a membership form on the Marketing and Distribution Section Web page at http://www.soa.org/professional-interests/marketing-and-distribution/mad-marketing-and-distribution-detail.aspx.

Chairperson's Corner

By Eric Sondergeld

> Using analytics to find, advise, and sell … has become our theme for 2016.

Thank you for being a member of the Marketing and Distribution (MaD) Section. In this brief article, I will share our 2016 theme, some of our planned activities, and encourage you to get involved in the section.

THEME FOR 2016

Early last year, we surveyed MaD members to assess satisfaction and to determine our focus. We received a great response and the number one topic was "using analytics to find, advise, and sell," which has become our theme for 2016. We surveyed the members again this February to find out what areas and activities within that broader topic we should cover this year. Preliminary results suggest members would like information on industry practices and applications of marketing and distribution analytics (e.g., lead generation, cross-selling, personalizing solutions, etc.) as well as how to apply actuarial skills to analytics.

PLANNED ACTIVITIES

While we focus on analytics, we also want to continue educating and bringing new information to our members, especially those who aren't marketing or distribution experts but need to understand how these important functions work in the insurance and financial services industry. We communicate that in a variety of ways, including this newsletter, session-sponsored sessions at SOA meetings, and webinars.

For example, two of the articles in this issue of NewDirect cover important distribution-related topics: wholesaling and social security. Wholesaling has become an increasingly critical function in intermediary channels and is a function unfamiliar to many actuaries. There are more ways to claim social security benefits than you might know. While the rules are somewhat complicated, they provide an opportunity for advisors to assist their clients in making decisions around when and how to claim retirement benefits. The article also describes the impact of some changes being implemented to the rules this year.

MaD is planning to sponsor three webinars this year. One will be a joint webinar with the Long-Term Care section. Another will cover the Department of Labor's proposed fiduciary rule (which may be final by the time of this publication). A third will be on the 2016 analytics theme.

GET INVOLVED

There are lots of ways to get involved with MaD. Of course, we hope that you read these articles, attend our webinars, and attend MaD-sponsored conference sessions. Here are several other ways you can contribute.

- Join the SOA Marketing & Distribution Section group on LinkedIn and contribute to the conversations there.
- Volunteer to write a *NewsDirect* article or volunteer to speak at a section-sponsored conference session or webinar.
- Become a "friend of the council" and attend monthly section council calls and get involved in section activities. Consider running for MaD Section Council. Nominations are typically due by late May so if you're interested in getting involved in some way, please reach out to me or any section council member. ■

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The Need for Wholesaling in the Financial Services Industry

By Breana Macken

To establish and maintain a competitive advantage, financial services organizations must provide a value proposition that gains the attention of financial professionals. To accomplish this, they leverage many approaches—from competitive products, pricing, and compensation arrangements to value-added services and support. Wholesaling is an important strategy in this mix, used by organizations to engage financial professionals and deliver their value proposition. A comprehensive wholesaling strategy not only can help a company get its products on an advisor's shelf, but also—and more importantly—can distinguish it as the company of choice.

- In the financial services industry, wholesaling is necessary since most sales are not through a company-owned sales force. This leads manufacturers to require a sales force to distribute products to the advisors.
- Furthermore, advisors today are "shortening their shelves." That is, they contract with fewer companies than in the past and place the majority of their business for a given product category through one or two manufacturers. So, the need for a wholesaler becomes even more apparent.
- Advisors are also facing increasing product complexity, which leads them to rely on a wholesaler to teach them about products they may want to sell and how those products fit into their practice. After all, advisors not only have to establish their own solid understanding of the products the manufacturer sells, but also be able to clearly explain them to their clients.
- Advisors are often challenged with understanding and delivering on the needs of a complex client base as well. Clients have changing and more demanding needs than they did years ago. Baby Boomers are moving into retirement, and Generation Y is now a primary target market. Further, the U.S. population increasingly reflects more culturally diverse backgrounds. Because of these and other factors, financial professionals are looking to manufacturers to:
    - Offer cutting-edge products and services,
    - Make it easy to do business,
    - Provide underwriting flexibility,
    - Price products competitively, and
    - Compensate sufficiently.

In an increasingly competitive environment, wholesalers can play a critical role in placing products within advisor practices, helping advisors meet client needs, and assisting them to grow their business. Almost all third-party financial professionals engage with (to at least some degree) wholesalers, and value their support. They engage not only with wholesalers representing product manufacturers, but also those who represent intermediaries such as broker-dealers, brokerage general agencies (BGAs), and independent marketing organizations (IMOs). Manufacturers from all corners of the industry are continuously approaching advisors for their business, and that's why it's necessary to have wholesalers who can break through the noise.

WHAT IS A WHOLESALER IN THE FINANCIAL SERVICES INDUSTRY?

Carriers and other product manufacturers alike can have many different models to wholesale, but typically their models contain external wholesalers, internal wholesalers or a combination of both.

An external wholesaler is often the perceived face of the manufacturer, since they are the person who visits the advisor in their office and provides the sales support needed to sell the manufacturer's product. External wholesalers spend much of their time traveling to different advisors in their territory to build and cultivate their relationships with those advisors. This method is effective, but also tends to be costly.

On the other hand, internal wholesalers provide that support from a remote location, typically over the phone. An internal wholesaler's role becomes crucial in the wholesaling delivery model as external wholesalers' territories expand, and more advisors' offices are located in isolated areas. It becomes harder for the external to make enough contact with all advisors to truly build relationships. However, internals have the ability to make frequent contact through emails, phone calls, or even webinars with advisors. Internals are therefore creating the bridge with the advisor to establish a relationship that the external may not have the time to fully invest in.

The growing importance of the internal partner(s) can lead to expanded wholesaling opportunities for manufacturers. This increased reliance on the sales desk (the group of internals) allows advisors to build an ongoing relationship with the manufacturer, even though the external may not be able to travel to an advisor in a remote location, or justify frequent visits to an advisor who does minimal business with the manufacturer. Not only does it expand wholesaling reach, but it does so in a more cost-efficient manner than hiring another external wholesaler. It's important to note however, that many advisors rely more on their externals and that is why a team dynamic is optimal.

WHOLESALING MODELS

While more often than not manufacturers structure their wholesaling model to be closer to a one-to-one model, some manufacturers have multiple internals teamed with one external. Typically this model works best when one external has an expanded territory with multiple designated sales desk representatives. This model allows for the advisor to have several different internals with which to develop relationships, so if one leaves they still have a relationship with another.

Manufacturers also may rely on just a sales desk of internals, however this model typically only works if the advisors in that market understand the product well enough. Additionally, many advisors still want the occasional face-to-face approach that they receive with an external.

Manufacturers that are in advisor markets who are unfamiliar with their products may rely very heavily on high-touch external wholesalers called point-of-sale (POS) wholesalers. These externals typically work in smaller territories, and actually help sell the product to the client in the sales process versus just providing the advisor with the tools they need to do so. It's more time intensive and costly, but advisors who aren't familiar with a product may prefer this.

Another model that some manufacturers have begun to adopt is the hybrid wholesaler model. Hybrid wholesalers typically spend 40 percent to 60 percent of their time on the phone and the balance visiting their territory. Benefits of this model include:

- Lower costs (staffing, travel, turnover, etc.) relative to external wholesalers;
- Being an attractive career opportunity, due to higher earnings potential than a traditional internal wholesaler role, and modest travel time; and
- Providing a bridge for those individuals who ultimately want to become an external.

SO WHAT'S THE BEST MODEL?

The best model for a manufacturer will vary depending on the complexity of the product being sold, the channel(s) the product or products are being sold through, and the company's value proposition. A manufacturer that has a large career channel or that predominately distributes through insurance intermediaries, which already provide extensive support and training to advisors, may find the team-based model to be more efficient. While a manufacturer that sells complex financial products like annuities, may find a wholesaling model that provides more POS support to be best. At the end of the day, many models will work as long as the team of wholesalers effectively communicate and provide seamless support to the financial professionals they serve. ■

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Life and Annuity Living Benefit Riders: Marketing Considerations

By Carl Friedrich

The opinions expressed and conclusions reached by the author are his own and do not represent any official position or opinion of the Society of Actuaries or its members. The Society of Actuaries makes not representation or warranty to the accuracy of the information.

A 2015 Society of Actuaries Report (co-sponsored by the Reinsurance Section, Product Development Section, and Committee on Life Insurance Research) titled "Life and Annuity Living Benefit Riders: Considerations for Insurers and Reinsurers," is available on the Society of Actuaries website (www.soa.org). It covers a wide range of living benefit riders with medically-related triggers on life or annuity products. This article is largely derived from that report, covering several of those riders.

The life insurance industry has expanded its product offerings significantly in the last few years. Some of the most innovative new coverages are provided by riders that can be attached to life insurance policies, and in some cases, annuities. These combination plans allow base policy values, such as life insurance death benefits and annuity cash values, to be accelerated to the policyholder prior to death in the event of a long-term care need or, under some policies, a chronic illness event (which often is very similar). In addition, many of these plans will continue long-term care insurance (LTCi) benefit payments even after the base plan values are depleted. This provides a form of insurance leverage that can result in LTCi benefits that might be double or triple the death benefit. These riders make life insurance or annuities more useful to the policyholder, providing living benefits to address this under-insured need of our society. At the same time, contrasted with stand-alone LTCi policies, these policies reduce the risk to insurance companies. Policyholders of combination plans share in the LTC risk since they are using their own "family" assets initially. For instance, they receive an advance on their life insurance benefit to pay for the first layer of coverage. This factor and other by-products of these riders such as the reduction in lapse activity on the underlying base plans make these products a win-win proposition for insurers and consumers alike.

In order to add to the marketing implications of these plans, Claude Thau, in his capacity as President of Thau, Inc., has provided additional commentary from the perspective of a marketer who is active in this field. Thau notes that for people who want to self-insure, combo products can be ideal. "Self-insuring using your heirs' death benefit costs little because the insurer is simply paying your death benefit a bit earlier. Then you wrap a partial stop-loss (i.e., partial catastrophe) extension of benefit coverage around the accelerated death benefit. That partial stop-loss coverage costs little because it effectively has a two-year to three-year elimination period while accelerated benefits are being paid."

Further, Thau notes that the combo market is growing, while the stand-alone LTCi market has been decreasing. However, it is his belief that simple combo design and marketing innovation could spur faster and more profitable growth, attracting more distribution by strengthening an insurer's portfolio. In addition, he observes that product design should also be tailored with an eye on the extremely attractive §1035 exchange markets.

CHRONIC ILLNESS ACCELERATED DEATH BENEFIT RIDERS

The first living benefits discussed are chronic illness riders attached to life insurance policies. These riders provide for Accelerated Death Benefits (ADB) to be paid under conditions specified by the rider. The purchase of accelerated benefit chronic illness riders, if structured properly, may allow chronic illness benefits to be free of federal income tax, subject to certain IRS rules and limits per section §101(g) of the Tax code.

Most plans require that for benefits to be paid, the insured must be chronically ill as certified by a licensed health care practitioner. Typically, the first requirement is that the insured is unable to perform two or more activities of daily living (ADLs) without human help, or the insured suffers from a severe cognitive impairment. Many riders require that the condition must be expected to be permanent. State insurance laws require a series of provisions to be met under these chronic illness plans:

- A lump sum payout option is required, commonly, but not always, interpreted by regulators as annual lump sums. Often the payouts are spread out over two to four years. The SOA report includes a survey of direct writers, and among 23 plans, 17 offer a single lump sum and 20 offer periodic payouts (eight annual, 14 monthly, and a few with other variations). Further, it should be noted that the regulations do not allow for any restriction on the use of proceeds. This essentially makes the rider a "cash" ("disability") design for LTCi benefits which costs a lot less for combo products than for stand-alone LTCi (because accelerated benefits generally cost less than independent LTC coverage since accelerated benefits reduce future death benefits). Thau expects "cash" benefits to become an increasing part of the combo market.

Simple combo design and marketing innovation could spur faster and more profitable growth, attracting more distribution.

- The product may not be marketed as LTCi. This relates to the fact that although some chronic illness riders may pay benefits in largely the same situations as LTCi, they are not required to meet the consumer protection requirements to qualify as LTCi and do not provide the full range of mandatory optional benefits as LTCi. For example, chronic illness benefits are constrained to the life insurance death benefit, and inflation related benefit increases are not generally available on these plans. Thau notes that financial advisors are being put in a difficult position. The difference between §101(g) and §7702(B) designs has almost completely evaporated, yet advisors are forbidden from using the clear term "long-term care insurance" when describing §101(g) products.
- Allowable pricing methods include a dollar-for-dollar death benefit reduction approach with upfront charges, a discounted death benefit approach, and the lien approach, each of which will be explained below.

So how do these ADB riders work? Under the discounted death benefit design, the riders are free with no extra cost upfront, but when medical trigger requirements are met, a portion of the life death benefit is paid out. However, only a discounted portion of the reduction to the death benefit is paid to the policyholder. For example, if the policy has a two-year annual lump sum ADB rider on a $250,000 life insurance policy, upon the first claim the death benefit would be reduced by $125,000 ($250,000/two years), and upon the second claim if the insured is still chronically ill, the remainder of the life policy would be used up. The actual payments to the insured would each be less than the two $125,000 reductions to the death benefit, and those amounts will be dependent on the age of the insured and the mortality assumptions and factors in use by the insurance company at that time. At younger ages, the payout amounts may be fairly small percentages of the reductions to the life insurance face amounts. For example, the policyholder might only receive $100,000 in total as accelerated benefits over the two-year period as opposed to the $250,000 he would have received if he kept his coverage (and paid premiums until his death). For this reason, chronic riders using the discounted death benefit approach are much less likely to be utilized.

Under the lien approach, normally offered without an upfront charge, benefits are not discounted, but a lien is placed on the policy values and lien interest is normally charged to the policyholder, so this works essentially like a loan to the policyholder. To increase the insurer's ability to collect charged interest, lien approaches may limit the amount of the death benefit that can be accelerated.

For riders with charges upfront, most notably the dollar-for-dollar death benefit reduction approach, a portion of the life death benefit is paid periodically, and the policyholder receives the full amount equal to the reduction in the death benefit. The charges for these riders are often only 10 percent to 15 percent of the cost of the base plan, which many might view as more attractive than dealing with the uncertainty of what benefits might be paid under the discounted death benefit approach.

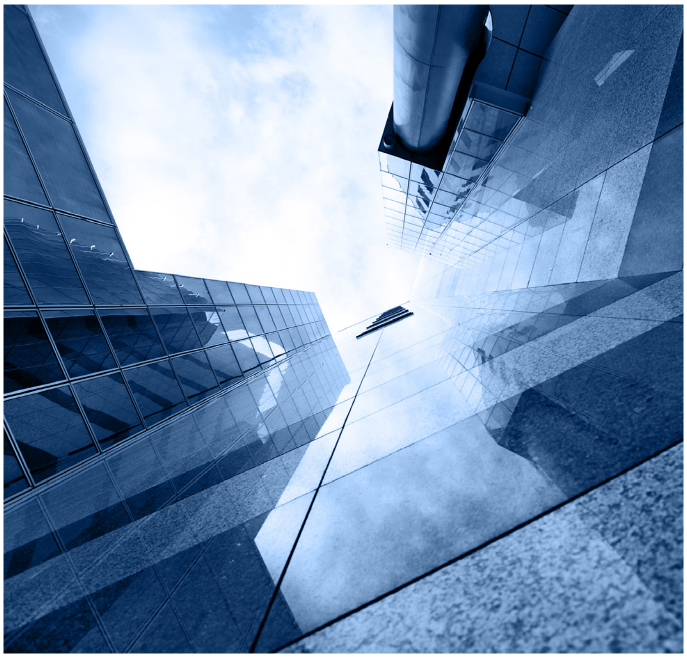
The SOA survey of insurance companies issuing chronic illness riders revealed that these riders are attached to a variety of base plans, with the most common being universal life, whole life, and indexed universal life. As noted above, triggers usually require licensed health care practitioner certification, and the inability to perform two of six ADLs or cognitive impairment, but seven plans out of 23 also require permanent nursing home confinement. Fourteen of 23 plans require an expectation of permanence of the condition, which is more restrictive than LTCi requirements.

The report also involved interviews with reinsurers. More reinsurers are moving to fully participate in these coverages by paying their share of accelerated benefits at the time acceleration occurs, but various concerns were expressed. The biggest concern is with the discounted death benefit method. There were comments about low percentage payouts under certain circumstances, and whether insurers were able to provide enough information to consumers to avoid unrealistic policyholder expectations. It was noted that in the past, very few people have taken a discounted death benefit offer unless they were relatively healthy and the discount was not that substantial. Some reinsurers questioned whether chronic illness discounted death benefits can work well without underwriting at the time of claim, which would allow companies to provide a payout appropriate to the insured's actual medical condition at that point.

LONG-TERM CARE INSURANCE ACCELERATED BENEFIT RIDERS

Another type of living benefit covered in the SOA report was LTCi riders that provide accelerated life insurance benefits. These are very similar to chronic illness riders, with a few key differences.

LTCi Accelerated Benefit Riders (ABR) are governed by LTCi laws and regulations, with some exemptions from normal LTCi



rules. Most qualify as tax qualified LTC under federal tax laws in the United States, so benefits are generally tax-free subject to some IRS limits.

Under an LTCi ABR, a specified portion of the death benefit is eligible to be paid each month on claim, with a proportionate reduction to cash values, when traditional LTCi triggers are met (two of six ADLs or cognitive impairment, with no permanence requirement). This difference in trigger requirements relates to different regulations that govern chronic illness ADB riders and LTCi ABR riders. Allowed benefit structures include the dollar-for-dollar death benefit reduction approach, or the lien approach, but the discounted death benefit approach is not allowed.

There are three potential types of payout structures. Expense reimbursement plans pay benefits that are capped at the lesser of the maximum payout specified in the rider, such as 2 percent or 4 percent of the face amount every month, or at the level of LTC expenses actually incurred, any unpaid balance being available in the future. Indemnity plans or disability plans pay an amount specified in the policy without regard to actual LTC expenses incurred. The indemnity design does require proof that formal care is being received, such as receipts from providers, while the disability model does not. Under the disability model, the insurance benefits are paid even if the only care is being provided by family members or other informal care providers.

Most LTCi riders are expense reimbursement or indemnity, which lowers the cost of coverage compared to a disability model. In contrast, all chronic illness riders are based on the disability model due to regulations.

The SOA survey on LTCi ABR riders indicated that universal life is the most common base plan. Five of eight companies use an indemnity structure and two use a disability model under plans where only an acceleration rider is included. However, this section of the survey does not include those products that also include an Extension of Benefit rider (EBR), which continues coverage after the full face amount is depleted and which may result in LTCi benefits that are double or triple the life insurance death benefit if catastrophic LTC expenses are incurred, which leads us to the next set of living benefits.

LINKED BENEFIT PRODUCTS

The products that include both an accelerated LTCi benefit, as well as additional benefits (EBRs) that are payable without reducing the base plan values, are sometimes called linked-benefit products, and can feature a life insurance or an annuity base plan. All LTCi regulations apply to the EBR provisions/riders. From the SOA survey on life/LTC linked-benefits, of the seven plans participating, four are attached to single premium products only, one is attached to both single and recurring premium plans, and two are attached to recurring premium products only. Five of seven use the expense reimbursement model, and two use an indemnity structure. They are all required to offer inflation benefits to applicants. Reinsurers increasingly are providing support for LTCi accelerated death benefit riders, but there is still only limited support for the EBR and inflation benefit provisions that these plans offer.

The annuity linked-benefit plans work much like the life linked-benefit plans, but the amounts paid out during the accelerated benefit period under most designs are a percentage of the annuity cash value at the time of initial claim (with surrender charges being waived), as opposed to a percentage of a life insurance face amount. In contrast, some plans base the LTCi benefit on a multiple of the initial premium going into the policy. These policies include an extension of benefit feature, as do life linked-benefit plans. This feature continues the monthly LTCi benefits, after the account value is depleted, for an extension period specified in the policy so long as LTCi claim requirements are still met. Inflation benefits are also offered. Not all survey respondents answered the question of what design their policy used, but two indicated that benefits were based on account value at the time of claim, and two said that LTCi benefits were based on a multiple of initial premium. Essentially, all of the annuity linked-benefits feature a single premium base plan. One is a variable annuity contract, and the other respondents reflected a mix of book value annuities or market value adjusted annuities. Three of five plans reported the use of an expense reimbursement structure, and two feature an indemnity design.

FINDINGS

In summary, there is widespread interest and participation in these products by both direct writers and reinsurers. Favorable tax treatment of benefits can be realized by policyholders under several structures, subject to certain limitations. Thau has observed that with today's investment volatility, many buyers appreciate that combo products will rebuild their estate if the coverage is not needed to cover LTC costs. Behind the scenes, reinsurers are working more with direct writers to provide complete reinsurance mechanisms to support this business. Sales information gathered from the 2015 survey was somewhat fragmented. However, from data gathered in the survey for 2013, plus other sources, the author estimates chronic illness sales (total policy premium) to be $1.2 billion in first year premium, sales with LTCi riders on life business to be more than $2 billion in first year premium including base plan and rider totals, and annuity linked-benefit business to be more than $300 million and climbing. In addition, a number of companies are reporting that a growing percentage of their life insurance sales include some form of living benefit rider. This is a very positive sign for the industry and consumers alike, and one that should continue as additional innovative solutions emerge to cover the risks of long-term care or chronic illness. ■

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Evolution of Social Security Claiming Strategies and the Bipartisan Budget Act of 2015

By David G. Freitag and Bruce Tannahill

On April 7, 2000, President Clinton signed into law P.L. 106-182, the Senior Citizens' Freedom to Work Act. This significant legislation liberalized how benefits are paid to Social Security beneficiaries. The major change made by this legislation to the Social Security law was the elimination of the earnings test for people who worked between their full retirement age and their age of 70. Before the Senior Citizens' Freedom to Work Act became law, prior to age 70, Social Security benefits were reduced if a worker had earned income over an established threshold in the year that benefits were paid. Although this earnings test threshold limit increased each year, the earnings test reduction in benefits was not popular with the increasing number of working seniors. The earnings test was a holdover of the Depression era rule that tried to force older workers out of the work force to make room for younger workers. The rule had seen its time and needed to be changed to keep up with the evolving role of older workers in the United States economy.

In addition to the elimination of the earnings test, the Senior Citizens' Freedom to Work Act quietly introduced new filing options that added flexibility to the system and allowed workers to leverage their spousal benefits. The most significant new filing option was called the File and Suspend strategy. The second filing option was called the Restricted Filing strategy.

The details and advantages of the File and Suspend strategy and the Restricted Filing strategy are clear when used in a short case study. In this example, let's assume that married couple Bob and Mary were both born in the same year (1950) and are both now 66 years old. Let's also assume that Bob has earned benefits that would pay him $2,400 a month at his full retirement age of 66 (this year). Let's also assume that Mary has earned benefits that would pay her $1,000 a month at her full retirement age of 66 (this year). Using these filing options, both Bob and Mary could increase their retirement income cash flows from Social Security. In this case, Bob would file for benefits and suspend the payments. Bob would do this for two reasons:

1. To allow Mary to file for her spousal benefits from his record and also earn delayed retirement credits of 8 percent per year (simple interest) on her record. Using this strategy, her benefits would increase by 32 percent for the rest of her life, starting at her age 70.

2. To allow Bob to earn delayed retirement credits of 8 percent per year (simple interest) on his own record. At his age 70, his benefits would also increase by 32 percent for the rest of his life. Before age 70, he could lift the restriction and either begin receiving Social Security benefits with the delayed retirement credits earned to that time or receive a lump sum payment of the suspended benefits and start receiving benefit payments without delayed retirement credits.

Mary would apply for Social Security benefits but using a Restricted Filing, restricts it to only her spousal benefits. This would allow her to receive half of Bob's benefits while her own benefits earn delayed retirement credits. When she is 70, she lifts the restriction and receives her own benefits. Her benefits have increased by 32 percent, to an amount that exceeds her spousal benefits on Bob's record.

The extraordinary thing about the combination of these two filing strategies is that Mary could have monthly income benefits starting at age 66 from her spousal benefits. This spousal benefit income could help provide an income bridge to their age 70 when delayed retirement credits would add 32 percent to both of their earned benefits.

It is important to remember that delayed retirement credits were introduced in 1983 as a way to entice people to take benefits later in life. The delayed retirement crediting rate of increase for people born after 1943 is two-thirds of 1 percent per month or 8 percent per year. Keep in mind that the prime interest rate, as reported by the Federal Reserve on their website in 1983, hovered in the 10.5 percent to 11 percent range. In 1983, this made the 8 percent rate for delayed retirement credits reasonably conservative. However, by 2008, when people born in 1944 started to approach their full retirement age of 66, the prime interest rate, as reported by the Federal Reserve, hovered in the 3.5 percent range. These interest rate differences reflected the relative decline in rates between 1983 and 2008. Although the rates available to the average person were different from the prime rate, they dramatically reflected the change in rates over time.

Because of this implosion of interest rates, in the shadow of the looming Great Recession, the value of the 8 percent per year delayed retirement credit with no market risk, became a very big deal. By combining the two filing strategies of File and Suspend with File and Restrict, workers turning 66 in 2009 had a real advantage over the existing interest rate market and could dramatically increase their benefits with little or no interest market rate risk.

It took some time for workers, the financial service industry and the press to catch up to the new world of Social Security retirement benefits.

By 2015, however, the File and Suspend and File Restricted methodologies were perceived by some in government as the evolution of aggressive claiming strategies, which would only be used by higher income people to game the system in ways that were never intended by those who drafted the Senior Citizens Freedom to Work Act in 2000. As a result, changes to the Social Security law were included in the Bipartisan Budget Act of 2015. It was signed by President Obama on Nov. 2, 2015.

There is some good news contained in this new law. People who have already claimed benefits using these filing strategies and those who qualify for survivor benefits are not affected by these changes. There is also some bad news contained in this law.

Workers now fall into one of three tiers, with different levels of impact for each tier.

Tier 1 – The ability to file and suspend at age 66 so that a spouse (or other dependents) can claim benefits using the worker's personal earnings record is only available until April 29, 2016. To take advantage of this limited "grandfather" provision, the worker must be 66 and apply to the Social Security Administration to file and suspend "their benefits by April 29, 2016. After April 29, 2016, suspending worker's benefits will also suspend benefits of anyone who has also claimed on that record."

It is important to note that these dates are tentative and subject to change at any time by the Social Security Administration. In fact, a revision to one of the File and Suspend dates was just announced on Feb. 18. Suspending benefits after April 29, 2016 will suspend the worker's benefits and any other benefits being paid on the worker's record.

Tier 2 – If workers were born on or before Jan. 1, 1954, they can still make a Restricted Filing to restrict their Social Security application to spousal benefits once they turn age 66. This will allow their own benefits to grow with delayed retirement credits while they collect spousal benefits. If married workers want to take advantage of this limited grandfather provision of the law, one spouse must either be receiving benefits or have filed and suspended.

Divorced workers who were married more than 10 years, and born on or before Jan. 1, 1954, can file for spousal benefits from their ex-spouse. If the workers have been divorced for at least two years, the ex-spouse does not have to file for benefits. If the workers have not been divorced for at least two-years, the ex-spouse must have filed for his or her benefits before spousal benefits can be paid.

Tier 3 – For younger workers, the option to File and Suspend and the Restricted Filing strategies have been eliminated. For younger workers, suspending benefits will now impact all benefits. After April 29, 2016, no one else can receive benefits based on the worker's record during the suspension. File and Suspend will only be beneficial to the worker who filed for benefits before his full retirement age and wants to now stop and earn delayed retirement credits. For example, the worker could file for benefits at age 62, perhaps to allow a spouse or dependent child to receive benefits. The worker could then suspend his own benefits at full retirement age to earn delayed retirement credits. This would increase his Social Security benefits when the suspension is lifted at a later age.

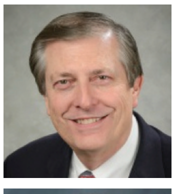
If a worker files and suspends his benefits after April 29, 2016, he will not be able to request a lump sum payment of the benefits that he was entitled to receive during the suspension period.

In addition, if a worker is under age 62 on Jan. 1, 2016, he will not be able to file and restrict his benefits to claim spousal benefits while he earns delayed retirement credits on his own record.

CONCLUSION

For those who cannot File and Suspend or cannot file a Restricted Application, Social Security planning is still important. If a worker's full retirement age is 66, waiting until age 70 will result in a 76 percent larger benefit than claiming benefits at age 62. Waiting even one or two years past full retirement age can produce a larger monthly benefit in retirement.

Coordinating the starting ages for a married couple, or for singles, is still a powerful and the only remaining way to maximize these benefits during retirement. The removal of the File and Suspend and the Restricted Filing strategies has shifted greater responsibility for funding retirement to individual workers. Only by careful planning and increased savings can younger workers build bridging strategies that will help offset the loss of Social Security benefits they could have received using these strategies. ■



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MaD Happenings

By Jill Klibanov

UPCOMING MEETING SESSIONS

MaD will be sponsoring the following sessions at the Life and Annuity Symposium:

- Session 32 Panel Discussion: Reaching the Middle Market and Addressing the Financial Security Gap
- Session 46 Lecture: Optimum Use of Deferred Income Annuities
- Session 66 Panel Discussion: Trends and New Tools in Insurance Marketing and Distribution
- Session 73 Panel Discussion: Predictive Modeling for the Marketing Actuary

PODCASTS

You can download MaD podcasts (or MadCasts, as we like to call them) from the iTunes store or just click on the link below:

https://www.soa.org/Professional-Development/Event-Calendar/Podcasts/Marketing-and-Distribution-Section.aspx

Check back often for the latest MadCasts!

LINKEDIN

Are you LinkedIn? Join the Marketing and Distribution Section's LinkedIn group to hear the latest news on our continuing middle market research, sessions at SOA meetings, upcoming webinars and articles of interest. Click here to join.

You do need to have a LinkedIn account to join the MaD LinkedIn group, but creating an account is free and easy. LinkedIn is a great way to stay connected with other actuaries and professionals.

MEMBER INVOLVEMENT

For anyone interested in getting involved with MaD, a great way to get started is by becoming a friend of the council. By doing so, you can join in on monthly conference calls with the council and find additional opportunities to participate in section activities. To become a friend, simply contact any member of the council. ■

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