The Bipartisan Budget Act of 2015

On November 2, 2015, President Obama signed into law the Bipartisan Budget Act of 2015, legislation that raises the federal debt limit and establishes the framework for a two-year budget deal. The legislation, needed to avoid an impending default on U.S. debt, also contains multiple unrelated provisions, including an elimination of two Social Security retirement benefit claiming strategies and a provision to prevent a significant increase in Medicare Part B premiums for some.

Social Security

A Social Security claiming strategy used by married couples, commonly referred to as "file and suspend," has received quite a bit of attention over the last several years. The strategy involves one spouse filing an application for retirement benefits when he or she reaches full retirement age and immediately requesting that benefits be suspended, allowing his or her eligible spouse to file for spousal benefits. The file-and-suspend strategy has been most commonly used when one spouse has much lower lifetime earnings, and thus will receive a higher retirement benefit based on his or her spouse's earnings record rather than on his or her own earnings record.

In a provision labeled "closure of unintended loopholes," the legislation effectively eliminates this strategy--if an individual chooses to suspend retirement benefits, neither the individual nor his or her spouse can receive spousal benefits during the suspension period. This provision will be effective in six months and applies to new file-and-suspend claims. Those who are both eligible and have implemented the file-and-suspend strategy before the six-month period ends will not be affected by the change.

Another strategy that has been used to potentially increase retirement income involves one spouse filing for spousal benefits first, then switching to his or her own higher retirement benefit later. If a spouse reaches full retirement age and is eligible for both a spousal benefit based on his or her spouse's earnings record and a retirement benefit based on his or her own earnings record, he or she could choose to file a restricted application for spousal benefits only, then delay applying for retirement benefits on his or her own earnings record (up until age 70) in order to earn delayed retirement credits.

The legislation eliminates this strategy. Anyone applying for either a spousal or retirement benefit is deemed to have filed an application for the other type of benefit as well. This change affects individuals who attain age 62 after calendar year 2015. Individuals who reach age 62 on or before December 31, 2015, will continue to be able to file restricted applications for spousal benefits once they reach full retirement age.

Medicare Part B

For 2016, there will be no automatic increase in monthly Social Security benefits. The fact that Social Security benefits are not increasing also affects Medicare Part B premiums. A "hold harmless" provision in the Social Security Act protects about 70% of Social Security beneficiaries from increases in Medicare Part B premiums when there is no Social Security cost-of-living increase (the standard premium is currently $104.90). That means, however, that Medicare Part B premium increases have to be spread out over the roughly 30% of Medicare beneficiaries who are not protected by this provision. These beneficiaries include those with higher incomes who are subject to income-adjusted Part B premiums, low-income beneficiaries whose Part B premiums are paid by Medicaid, beneficiaries who are enrolled in Medicare but not yet receiving Social Security benefits, and new Medicare or Social Security enrollees. Premiums for some of these individuals were scheduled to increase by as much as 52%.

To prevent this outcome, the legislation sets a new 2016 Part B premium of $120 for certain beneficiaries not protected by the "hold harmless" provision. This figure is the amount the premium would be if the increase was spread among all beneficiaries. These beneficiaries will pay an additional $3 in monthly Part B premiums until the shortfall is made up. Those paying higher income-adjusted Part B premiums will pay more. The provision will apply in 2017 as well if there is again no Social Security cost-of-living adjustment.

Other provisions

The legislation includes several other provisions worth noting, including:

- Changes affecting single-employer Pension Benefit Guaranty Corporation (PBGC) premiums, and modification of the rules relating to the use of mortality tables.
- Repeal of the requirement established by the Affordable Care Act for employers with more than 200 employees to automatically enroll new full-time equivalent employees into a qualifying health plan, and to automatically continue enrollment of current employees.
- Modification of partnership audit rules, and clarification of the rules governing recognition of family partnership ownership interests.
- Changes to improve the financial health of the Social Security disability program, including a temporary reallocation of a portion of the payroll tax rate.