Mythbusters: 5 Common Beliefs about Social Security that Simply Aren't True

It seems that misconceptions and misperceptions about Social Security just won't go away.

Some of these lead Americans to make Social Security claiming decisions that negatively impact the value of their benefits over time. Below are a handful of common beliefs about Social Security that simply are not true. It's important to carefully consider the truth about these myths when crafting your retirement benefit claiming strategy.

MYTH #1: SOCIAL SECURITY WON'T BE THERE FOR ME WHEN I RETIRE.

Sure, there are funding problems for Social Security. Most of the problems stem from the number of workers versus the number of claimants. When Social Security began in 1935, there were about 16 people contributing to the fund for every one person drawing from it. Now there are around three people working for every claimant. But the system can and will be fixed. Too many Americans rely on Social Security to fund a substantial portion of their retirement. While the payout rules might change a little, and it's possible younger generations might see lower checks, there will still be Social Security benefits far into the future.

MYTH #2: THE SOCIAL SECURITY ADMINISTRATION WILL GIVE ME ADVICE ABOUT WHEN TO CLAIM BENEFITS.

Most consumers don't realize that the agents at the Social Security Administration are prohibited by policy from giving advice about when you should claim benefits. They can answer technical questions, provide benefit amounts for various claiming ages, and help you with the application process. They are focused on helping you file early. But they can't – nor should you want them to – give you advice about what is probably the biggest financial decision of your retirement. Unfortunately, while the agents are working very hard, many don't understand the rules and the claiming options you have.

MYTH #3: I SHOULD CLAIM BENEFITS AS SOON AS POSSIBLE – I'LL GET MORE CHECKS, SO I'LL GET MORE MONEY OVERALL.

While many people tend to believe this myth, it is simply not true if you live to a normal life expectancy. Sure, you'll receive more checks if you claim early, but waiting to claim means substantially larger checks each month – and more in cumulative benefits. Here's an example:

Let's assume your full retirement benefit is $2,000 and you will live to age 85.*

Benefit at age 62: $1,500	**Cumulative at age 85: $414,000**
Benefit at age 66: $2,000	**Cumulative at age 85: $456,000**
Benefit at age 70: $2,640	**Cumulative at age 85: $475,200**

**Example assumes a birth date of January 2 and a full retirement age of 66.*

You can clearly see that waiting means a lot more in benefits. What's more, if you're married, waiting until later to claim can open additional opportunities that can mean substantially more money for you and your spouse because you can take advantage of special rules available to married couples.

"Claiming early not only reduces your cumulative lifetime payout should you live a long life, but it also reduces the survivor benefit."

MYTH #4: I SHOULD CLAIM BENEFITS EARLY AND INVEST THE MONEY. There have been times in history when this might have made sense – at least short term. But we've been in a relatively low interest rate environment for a few years. According to most analysts, it would take a return on the investment of at least 8% -- net of fees – for claiming early and investing the money to make sense. And that would have to be a consistent return on the money year over year over year. The other flaw in this myth is that most people who use this strategy never actually invest the money. Most people are far better off to delay taking benefits, even if it means using your savings to live on until you start your Social Security benefits.

MYTH #5: I SHOULD CLAIM MY BENEFITS EARLY BECAUSE I MIGHT NOT LIVE LONG ENOUGH TO BREAK EVEN.

It's definitely true that none of us knows the number of our days. But the reality is that people are living longer, healthier lives. Look at it this way, if you're married, life expectancy tables indicate there's about a 3% chance that neither of you will live beyond age 73. But there is a 76% chance that at least one of you will still be alive at age 83. Do you want to make a choice that works out to be the best 3% of the time or 76% of the time? Claiming early not only reduces your cumulative lifetime payout should you live a long life, but it also reduces the survivor benefit. Your best course of action is to work with your financial professional to determine a claiming strategy that looks across ranges of life expectancies to help you claim in the way that makes most sense for your situation.

If you find yourself continuing to subscribe to these myths, engage your financial professional in a conversation about your perspectives. Your advisor can show you how a claiming strategy created just for you can make a material difference in the benefit payments you receive throughout your retirement.