Nearing Social Security age (or know someone who is)? Deciding on your Social Security strategy is crucial to your overall retirement plan. The differences in what age to start can be in the tens to hundreds of thousands of dollars in benefits. Of course, much depends on your life expectancy and whether or not benefits cuts occur in the future. However, there are a few things you should consider when determining when and how to turn on benefits. Here's a good article on the traps to avoid. Still have questions? Give me a call, I have programs available to review the alternatives.

----Chuck

6 Social Security Traps to Avoid

On January 31, 1940, the first monthly Social Security check was issued to Ida May Fuller of Ludlow, Vermont. She received a check for $22.54, according to the Social Security Administration [*Reference*: https://www.ssa.gov/history/idapayroll.html]. She was 65 years old at the time. She passed away at 100 years of age.

Ida May Fuller had worked for three years under the Social Security program and paid a total of $24.75 in payroll taxes. Over time, she collected $22,888.92 in Social Security benefits.

Today, nearly 70 million people receive some form of assistance from Social Security [*Reference*: https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/].

Most Americans will never receive the return on contributions that Ms. Fuller received, but Social Security can and does play a role in supplementing savings accumulated over a lifetime.

Recognizing that Social Security *supplements* other retirement resources, we can take proactive measures to maximize benefits while avoiding the pitfalls that poor choices can create.

With that in mind, let's review potential financial Social Security traps that could cost *you* money.

1. **You collect Social Security benefits too soon.** You may begin receiving your Social Security retirement benefits at age 62…at a reduced rate. You probably know this, but let's review some details.

   If you were born in 1960 or later, full retirement age is 67. At age 62, your monthly benefit amount is reduced by about 30% of what you would receive if you waited until you are 67. The reduction for starting benefits at 63 is about 25%; 64 is about 20%; 65 is about 13.3%; and 66 is about 6.7%.

   In casual conversation, it's common for folks to ask, "When is the right time for me to begin receiving Social Security benefits?" Financial advisors will usually respond with a less-than-definitive, "It depends," because many variables factor into the answer, both objective and subjective.

   If you have questions, call your financial advisor, who will tailor thoughts and recommendations to your specific circumstances.

2. **You collect Social Security benefits prior to your full retirement age while still working.** If you are under your full retirement age for the entire year, the Social Security Administration (SSA) will deduct $1 from your benefit payments for every $2 you earn above an annual limit. For 2019, that limit is $17,640. In the year you reach full retirement age, SSA will deduct $1 in benefits for every $3 you earn above a higher limit. The 2019 income limit is $46,920. SSA only counts earnings before the month you reach your full retirement age. Beginning with the month you reach full retirement age, your earnings no longer reduce your benefits, no matter how much you earn.

   In many cases, the price of collecting Social Security benefits while working and younger than full retirement age can be costly.

   [*Reference*: https://www.ssa.gov/planners/retire/whileworking.html.]

3. **You are unaware that your Social Security benefits may be taxed**. IRA and 401(k) contributions may be deducted from income. However, Social Security taxes paid by an employee are not deductible. But that doesn't necessarily translate into tax-free Social Security income.

   If you file a federal income tax return as an "individual" and your total income (excluding Social Security benefits) runs between $25,000 and $34,000, you may have to pay income tax on up to 50% of your Social Security benefits. Earn more than $34,000 and up to 85% of your benefits may be taxable.

   If you file a joint federal income tax return, the threshold rises to $32,000 and $44,000, respectively.

   [*Reference*: https://www.ssa.gov/planners/taxes.html.]

4. **You decide to defer the Social Security spousal benefit.** The longer you wait to take Social Security, the greater the monthly benefit, up to age 70. So, why not employ the same strategy for your spouse, if money isn't the primary issue? Unfortunately, that may not be a wise choice.

   The most your spouse may receive is 50% of the monthly benefit of the primary account that you are entitled to at full retirement age. If your spouse waits past his or her full retirement age, he or she is leaving money with the government.

   [*Reference*: https://www.aarp.org/retirement/social-security/questions-answers/maximizing-spousal-social-security-benefit/.]

5. **Remarriage and your Social Security benefit: It's complicated.** You may already be aware that divorced spouses are eligible for Social Security benefits tied to their former marriage.

   Eligibility is determined by these criteria:

   - You were married for at least 10 straight years.

- You are at least 62 years old.
- Your ex-spouse is eligible for retirement benefits.
- You are currently unmarried.

However, if a divorced spouse remarries, he or she loses the rights to their former spouse's benefits unless that new marriage ends, whether by death or divorce.

[*Reference*: https://www.elderlawanswers.com/how-do-divorce-and-remarriage-affect-social-security-benefits-14386.]

6. **How many years have you worked?** Most people understand this simple concept: the longer you wait to take Social Security (up to age 70), the higher the benefit will be (spousal benefit may be an exception–see #4).

   Another basic concept is that higher wage earners can expect to receive a higher benefit. But did you realize that your monthly benefit is also based on your highest 35 years of earnings?

   What if you haven't worked 35 years? The SSA will include $0 for each the years with no income when determining benefits, which reduces your amount. If you have worked at least 35 years but some were low-earning years, keep in mind that those years will be averaged in, creating lower benefits versus continued employment at higher wages.

   Are you still working in your 50s or 60s? Great! Those afterschool jobs in high school or other years when your income may have been low will be removed from the benefit calculation, year for year that you've exceeded 35 years of income. Again, your benefit is based on your *highest* 35 years of earnings.

   [*Reference*: https://www.ssa.gov/planners/retire/stopwork.html.]

Thinking about the monthly Social Security benefits you receive may pale in comparison with the new journey you begin at retirement, but it's important that you are aware of the Social Security financial component.

For some folks, Social Security may seem simple. For others, it feels as if you're entering a complicated financial maze. If you have questions about Social Security benefits or are uncertain how to proceed, be sure to contact your financial advisor.

In addition, always consult your tax advisor regarding current and prospective tax scenarios.

Finally, your local Social Security Administrative office can be quite helpful.

The bond market turns upside down

When we were young and began receiving monetary gifts or small income from chores, our parents often started a passbook savings account for us. Besides offering a great lesson on saving, our parents provided a simple explanation of bank savings accounts and monthly interest. Years ago, FDIC-insured savings may have earned 3% to 5%.

How times have changed! Rates are much lower today. But it's an even more difficult situation for savers in several developed nations. "Negative interest rates" have become a reality.

In a negative interest rate environment, you do not earn any money by lending cash to a government, (i.e., buying government bonds). Instead, you pay the government to hold your cash.

Currently, all German government bonds offer yields below 0%, while financial service providers UBS and Credit Suisse are planning to charge a small fee for clients who hold large cash balances (Source: Bloomberg News).

We have not seen negative interest rates in the U.S., but in much of Europe and Japan, below-zero rates on government bonds are common, with over $15 trillion (yes, trillion, that's not a misprint) in government debt with yields lower than 0% (*Source*: Bloomberg News).

Table 1: Below Zero Percent Government Bonds

10-Year Govt Bond	Yield
Switzerland	-1.02%
Germany	-0.70%
Denmark	-0.68%
France	-0.40%
Sweden	-0.35%
Japan	-0.28%
Ireland	-0.09%
Spain	+0.11%
Portugal	+0.13%
U.K.	+0.48%
Italy	+1.00%
U.S.	+1.50%
Greece	+1.63%

Sources: MarketWatch, Bloomberg 8/30/19

How can you buy a bond with a rate that's below 0%?
Let's say Germany issues a 10-year bond with a par value of 1,000 euros (German currency is denominated in euros). You won't pay Germany an annual coupon. Instead, you'll buy that bond at a price that's greater than 1,000 euros. At maturity, you'll receive 1,000 euros.

It's a great deal for Germany but it doesn't seem to make much sense for an investor. But that's today's new global reality for government bonds.

What's going on?
Today, several factors contribute to below-zero yields.

1. Inflation in Europe is very low.

2. Growth has been substandard in Europe for much of the decade. Global trade tensions add to the uncertainty, and some fear Europe is headed toward a recession.

3. The European Central Bank has been much more accommodative than the U.S. Federal Reserve and appears set to ease again this month.

4. Too much cash sloshes around the globe that can't find a home in viable industrial projects. So, the cash finds a home in creditworthy government bonds.

The next question that usually surfaces: "Why should I care? I'm in the U.S."

What happens around the globe can affect investors at home.

Below-zero yields in major countries can encourage foreign investors to seek positive returns in other nations, including purchasing U.S. Treasuries. Since yields and bond prices move in opposite directions, an influx of foreign cash increases U.S. bond prices and knocks down yields.

This is one reason the yield on the 30-year U.S. Treasury fell to a record low of 1.94% on August 28 (*Source*: U.S. Treasury), and the benchmark 10-year U.S. Treasury carried a yield of less than 1.50% on the same day.

Clearly, these rates are a far cry from the risk-free savings account we may have begun many years ago as children. Times have certainly changed.

Table 1: Key Index Returns*

	MTD %	YTD %
Dow Jones Industrial Average	-1.72	13.19
NASDAQ Composite	-2.60	20.01
S&P 500 Index	-1.81	16.74
Russell 2000 Index	-5.07	10.85
MSCI World ex-USA**	-2.73	8.00
MSCI Emerging Markets**	-5.08	1.92
Bloomberg Barclays US Aggregate Bond TR	2.59	9.10

Sources: *Wall Street Journal*, MSCI.com, Morningstar, MarketWatch
MTD: returns: Jul 31-Aug 30, 2019
YTD returns: Dec 31, 2018-Aug 30, 2019
*It is not possible to invest directly into an index.
**in US dollars

Bottom line
We continue to share this reality: We can only control what we can control.

You can't control the stock market; you can't control headlines; and timing the market isn't realistic. However, you and your financial advisor can control your portfolio.

Your plan should consider your time horizon, risk tolerance, and financial goals. Risk is always present when investing, but your financial advisor will tailor recommendations with your financial goals in mind. If you believe your risk tolerance or your goals have changed, contact your financial advisor for a discussion.

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