Social Security Highlights

The 5 Most Common Mistakes When Claiming Social Security

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We've spent many years advising clients and financial professionals on the best options when it comes to Social Security, and one thing is abundantly clear: ***every situation is different.*** And that's a big reason so many people end up confused.

But after doing this for so long, we've seen some basic patterns developing. The same basic mistakes seem to repeat themselves over and over. Here are just a few of the most common.

1 Relying Only On Social Security Personnel

The role of the financial advisor is absolutely critical, but not everyone understands this. And with Social Security, one mistake today could cost you money every month for the rest of your life.

Understand this: Social Security personnel are generally well-trained, dedicated professionals—but they are prohibited from giving you any sort of financial advice. And sadly, not all the information provided—either in person or over the phone—proves to be accurate.

Therefore, you need to be prepared before you go to your local Social Security office, and it's generally a good idea to set an appointment in advance. This will cut your wait time dramatically, and will make it more likely that you'll see a higher level, more experienced staff person. This is especially important if you're doing anything at all unusual, such as applying for a "spousal only" or survivor benefit.

Better still, this is a great time to seek professional help. Too many people show up at their local Social Security office without a plan. They then rely on someone they don't know in that office to show them what to do.

2 Not Considering Survivor Benefits

Survivor benefits can complicate your choices. Let's take a quick look at a simple example. Let's say your "Primary Insurance Amount" (PIA) is $2,000 and your Full Retirement Age is age 66. This means that you would get $2,000 per month at age 66, but $2,640 if you waited to age 70.

You might be inclined to take the $2,000 now rather than waiting. After all, you're not sure whether you're going to live long enough to make it worth the wait. But what about your spouse?

Understand how basic survivor benefits work. Assuming both you and your spouse live past age 70, the survivor benefit is generally the higher of the two benefits. So if you're getting $2,000 and your spouse is getting $1,000 per month, the spouse would step up to $2,000 if you died. If your spouse died first, you would remain at the $2,000. Either way you still lose the lower benefit, but it's better than nothing.

It's important to remember this when deciding on a claiming strategy. If you wait until age 70, the survivor benefit would be $2,640, and that benefit would continue for the rest of your life, then your surviving spouse's life. So although you may feel it's not worth the wait for you, it may be worth it when you consider how long that potentially higher benefit could continue.

3 Not Applying for All the Supplemental Benefits

Here's one big problem if you try and do it yourself: you may not remember to apply for everything you're entitled to. Probably the biggest issue here is a spousal benefit.

Let's say you worked your whole career with a non-working spouse. Even though that spouse would not be eligible for a personal benefit, in almost all cases he or she would be eligible for a spousal benefit based upon your work history. You would have to apply first, and your spouse would have to be at least age 62.

This is one area where Social Security employees are usually pretty good at keeping people informed. If you go to the Social Security Office, they will most likely be able to explain it to you, although there is certainly no guarantee.

But according to GAO statistics published last September, a full 52 percent of people are completely unaware that spousal benefits even exist! (Source: GAO-16-786 "Improvements to Claims Process Could Help People Make Better Informed Decisions about Retirement Benefits," published September 14, 2016).

But there's more to it than just that. There could be children's benefits if you have children under 18 or disabled adult children. And there could also be a special "child in care" benefit for your spouse, regardless of his or her age.

As with most of the problems illustrated here, the solution is a simple one: enlist the help of a qualified financial services professional before you start.

4 Not Considering the Earnings Test

As financial professionals we've made a lot of progress over the last few years. Not long ago government statistics indicated that 70 percent of people were taking Social Security at age 62. That number has dropped considerably in recent years.

The so-called "earnings test" is one good reason for waiting that people often miss. Of course, your benefit will be actuarially reduced if you apply any time before your Full Retirement Age. If you go at age 62 you're getting 75 cents on a dollar.

But there's more to it than that. You will be subject to a further reduction if you keep working. And it's a steep one. If you earn more than $16,920 in wages, you will get a reduction of $1 for every $2 over the limit. (Note that you may get some of that money back starting at your Full Retirement Age, but that's a topic for another day.)

Too often it happens that someone retires at 62 but gets bored, and quickly changes their mind about working. Just realize that this can have an adverse effect on your Social Security benefit.

5 Trying Too Hard to Maximize Your Benefit

According to figures provided by the Social Security Administration, the maximum benefit for someone who turns 66 in 2017 is $2,687 per month. Many people we talk to are close to the maximum but not quite there yet. Is it worth getting all the way to the top, even if it means working an extra year?

Well, in many cases the answer is no. Keep in mind the cost of Social Security: 6.2 percent of wages up to $127,200, plus another 6.2 percent thrown in by the employer. If you make the max, that's $7,886 apiece—per year.

Add to that the complicated formula used to figure out the benefit—which counts your 35 highest years of earnings and is designed to be more favorable to low-income taxpayers. So your $7,886 "investment" may not get you much of a return (i.e., increased Social Security benefit) at all. And it's even worse if you're self-employed.

It is, of course, more complicated than all that, but generally speaking, for a high income earner, an increased Social Security benefit is not going to be much of an incentive to keep working.

And a Bonus: Not Considering Other Sources of Retirement Income

Understand that the "Deferred Retirement Credits" (DRCs) are a big part of Social Security planning. For every year you wait beyond your Full Retirement Age (FRA), your benefit goes up by 8 percent. For example, as noted earlier, if your monthly benefit is $2,000 and your FRA is age 66, you would get $2,640 per month if you waited until age 70.

That's an enticing bonus. That monthly increase would apply for the rest of your life.

But suppose you've already decided to retire at age 66. Now what? Too many people in that situation apply for Social Security at that age when they don't have to. It might make more sense for some of these people to use another source (maybe their 401(k), savings, or a life insurance policy) to fund those first four years, then switch to a maxed-out Social Security benefit at age 70.

This is something that many people miss. If they're going to retire at 66 with, let's say, $6,000 a month of projected income, they would normally take their $2,000 from Social Security and the other $4,000 from other sources.

It never occurs to them to take, if possible, all of the money from those other sources for the first four years to take full advantage of those DRCs.

Social Security **Evaluator**

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