



Learn How To Maximize Your Lifetime Benefits



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10 MYTHS ABOUT SOCIAL SECURITY

INTRODUCTION

Understanding how Social Security benefits work can be a challenge. There are a lot of rules, the formulas can seem complex, and making decisions with incomplete or incorrect information could end up costing you. Even a minor Social Security misstep can rob your nest egg of tens of thousands of dollars in retirement benefits.

So, it pays to understand how the system works and how to maximize your Social Security checks. To get you off on the right foot, here are 10 myths about Social Security you will want to avoid.



MYTH #1: YOU DON'T NEED TO CHECK YOUR SOCIAL SECURITY EARNINGS RECORD

Everyone should review his or her earnings record yearly.

To do so, create a Social Security account at: <https://www.ssa.gov/myaccount/>. Once you do, you can access your earnings record and compare the income listed there to your tax returns to make sure all of the information is accurate.

It behooves you to do so because the amount of your retirement benefit is based on your top 35 years of earnings. The Social Security Administration (SSA) gets your income information from the IRS, so your earnings record is normally pretty

accurate. But mistakes can happen. If you change your name and fail to report it to the SSA, or you or your employer accidentally transpose some digits in your Social Security number on your employment paperwork, the SSA may not record your earnings correctly. This could result in your numbers showing less income than you actually earned during the year or no income at all, and that could lead to a lower Social Security benefit than you're entitled to.¹

Yes, employers are responsible for reporting your earnings, but you are responsible for checking your earnings record, as only you can confirm the information is accurate. The SSA suggests reviewing your record at least every year because:

“Sooner is definitely better when it comes to identifying and reporting problems with your earnings record.”

“As time passes, you may no longer have past tax documents and some employers may no longer be in business or able to provide past payroll information.”

A yearly check of your record could be time well worth spent.

1) <https://blog.ssa.gov/why-it-pays-to-keep-a-careful-eye-on-your-earnings-record/#more-2755>



**SOCIAL SECURITY
ADMINISTRATION**



MYTH #2: YOU CAN COUNT ON A COST-OF-LIVING INCREASE EVERY YEAR

A cost-of-living adjustment (COLA) to retirement benefits is mandated by law, depending on certain conditions, but it is not guaranteed.

The mandate was the result of the annual rate of inflation doubling to more than 12% between 1969 and 1974, due largely to the cost of oil skyrocketing.¹ In 1975, Congress mandated that benefit amounts be adjusted annually to keep pace with inflation. Since inflation varies, so do the COLAs.

The COLA is tied to a federal index of prices for select consumer goods and services called the CPI-W. Benefits are adjusted annually based on changes in the CPI-W from the third quarter of one year to the third quarter of the next. In 2019,

the index showed a 1.6% increase in prices, so 2020 benefits grew by that amount.²

But if the index doesn't show a statistically measurable rise in prices — in other words, if there's effectively no inflation — then there's no adjustment to benefits. This has happened three times since the current formula was adopted: in 2010, 2011 and 2016.

1) Source: InflationDate.com. Historical Inflation Rate By Decade. Apr 13, 2021

2) Source: CNBC. Social Security Benefits To Get A 1.6% Boost In 2020. Oct 10, 2019.



MYTH #3: SOCIAL SECURITY BENEFITS ARE NOT SUBJECT TO TAXATION

This was true until 1984. The year before, there was a Social Security overhaul that was passed by Congress and signed by President Ronald Reagan. It included a provision that made a portion of Social Security benefits taxable, depending on your income level.¹

For example, here's how the income levels break down currently:

- You will pay federal income tax on up to 50% of your benefits if your income for the year is \$25,000 to \$34,000 for an individual filer and \$32,000 to \$44,000 for a couple filing jointly.
- Above those thresholds, up to 85% of benefits are taxable.

- Below those thresholds, you don't owe the IRS anything on your benefits.

Those are the federal guidelines. State rules on taxing benefits vary widely (contact your state tax agency to learn more). You might also owe state taxes on your Social Security income if you live in one of the following states: Colorado, Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Vermont, Utah or West Virginia.²

1) Source: Investopedia. How To Avoid Paying Taxes On Social Security. Mar 19, 2021.

2) Source: AARP. The 13 States That Tax Your Social Security Benefits. Apr 9, 2019



MYTH #4: AN EX-SPOUSE'S BENEFITS COME OUT OF YOUR OWN

This is not true.

It is true, if you are divorced, your former spouse may be eligible to collect Social Security benefits on your earnings record (and vice versa). As with benefits for a current spouse, these can be up to 50 percent of the benefit amount you are entitled to at full retirement age.

But the benefits received by your ex-spouse or

current spouse do not reduce your Social Security. They are distinct payments and have no effect on what you receive each month, even if both a current and a former spouse (or multiple former spouses) are collecting them. You receive the full benefits you're entitled to, based on your earnings history and the age when you file for Social Security.

That's true of children, too. What your children get does not affect at all what you receive.



MYTH #5: YOU LOSE BENEFITS PERMANENTLY IF YOU KEEP WORKING

Not true. Social Security does have a rule, called the “earnings limit” or “earnings test,” that can temporarily reduce the benefits of people who still work. But it does not apply to all working beneficiaries and is not permanent.

The rule only applies to people who claim benefits before “full retirement age” and continue working. Full retirement age (FRA) is when you become eligible for 100 percent of the benefit amount calculated from your lifetime earnings. The FRA is gradually rising over the next several years and

depends on the year you were born. For example, if you were born between 1943 and 1954, your full retirement age is 66. If you claim benefits before FRA, Social Security withholds a portion of benefits if earnings from work exceed a set cap.

On the date when you reach FRA, the earnings test goes away: there is no benefit reduction, regardless of your income. Plus, Social Security adjusts your benefit upward so, over time, you recover the money that was withheld. In other words, you get all your money back, but not in a tidy lump sum.



MYTH #6: IT'S NOT POSSIBLE TO RECOUP ALL THE MONEY YOU PAID INTO SOCIAL SECURITY

It is possible. Everyone's situation is different, but if you live long enough, you may collect even more than what you contributed to the system.

The Social Security Administration used to provide a "break-even" calculator on its website showing workers by what age they had recovered the money they paid in. Due to the complexity of claiming strategies and number of variables involved, however, the calculator is no longer offered.¹ Remember, Social Security is designed to provide a safety net of income not

only for the retired, but also for the disabled and survivors of deceased insured workers. The contributions you and your employers make during your working years provide:

1. Current retirees and other Social Security recipients with payments
2. A guaranteed lifetime income benefit when you reach retirement

While the government does not have a specific account set aside just for you with your FICA con-

tributions (the taxes for Social Security and Medicare paid by you and your employer), one of the most powerful features of Social Security is that it provides an inflation-protected guaranteed income stream in retirement, ensuring against the risk you'll outlive your savings.

Even if you live to 100 or more, you'll continue to receive income every month.

And, if you predecease your spouse, your spouse also receives survivor benefits until their death.

In case you're curious approximately when a worker might reach a break-even point, let's look at what Devin Carroll, owner of Carroll Investment Management in Texarkana, Texas, calculated. He looked at individuals who retired at age 66 and had worked from 1972 to 2019 before retiring. Based on that scenario, he found that most average workers would get back the money they paid into Social Security in less than 6 years after filing for benefits.²

1) Source: Kiplinger. How Misinformation From Social Security Can Cost You Tens Of Thousands Of Dollars. May 5, 2017

2) Source: <https://www.marketwatch.com/story/these-7-social-security-myths-just-arent-true-no-matter-how-often-you-hear-them-2019-08-27?pagenumber=2&tesla=y>





MYTH #7: EVERYONE SHOULD WAIT UNTIL AGE 70 BEFORE FILING FOR SOCIAL SECURITY BENEFITS

This is a tactic you'll want to consider. It is based on the fact that, if you wait until age 70 to start your benefits, your benefit amount will be higher because you will receive "delayed retirement credits" for each month you delay filing for benefits. (There is no additional benefit increase after you reach age 70.)

But you can't apply this tactic to all situations, because there are multiple scenarios where filing earlier makes more sense. Below are a handful of those scenarios.

- If you are no longer working and need income, you may want to file as soon as you're eligible to receive it. Sometimes there is no other feasible strategy.
- If you're single and have health issues. You only have your own income needs and life expectancy to consider, so filing early might make sense.
- If your spouse is the higher earner and has health

concerns that will shorten their life expectancy. Since their earnings were higher, their Social Security benefits will likely be higher. If they pass away early, your lower benefit will drop off and you'll begin to receive their higher benefit. Delaying filing for several years to increase your own benefit won't be worth it if you will eventually get your spouse's higher benefit.

- If you have minor or disabled children at home. You might want to consider filing early because they may qualify for a benefit when you file. By delaying your filing, you miss out on your own reduced benefit plus the benefit payable to your child.

This is a quick look at just a few scenarios. Before considering them or the other possible scenarios, you should consult with someone knowledgeable in Social Security rules.



MYTH #8: YOU CAN CLAIM BENEFITS EARLY, THEN GET A “BUMP UP” ONCE YOU REACH FULL RETIREMENT AGE

Many people have heard they can claim early at 62, and then when they reach their full retirement age of 66 or older, their checks will increase, bump up, to the amount that corresponds to their full retirement age benefit. That's a big misperception.

If you choose to file for benefits at age 62, your benefits will be reduced by up to 30%. Those lower benefits are permanent. Even after you reach full retirement age, they typically will never increase, except for inflation adjustments. If you're the main breadwinner in your family, you may want to think twice about starting your Social

Security benefit early at 62 since your spouse may receive that smaller benefit amount one day.

If you feel you've made a mistake in filing when you did, you can cancel your Social Security claim if you do so within the first 12 months of receiving benefits. You must repay the full amount you've received, and the full amount a current spouse or family member received based on your benefit. Then, you're eligible to claim again at a later date and will receive a larger monthly payment. Each individual can only cancel a claim once in his or her lifetime.¹

1) Source: MoneyTalkNews. 7 Social Security Blunders That Can Ruin Your Retirement. April 14, 2021



MYTH #9: YOU ONLY NEED TO CONSIDER YOUR OWN BENEFITS WHEN FILING

This is not true. You could be missing out on a larger benefit if you file for the Social Security benefits you're entitled to based solely on your earnings record. This is especially important if you don't have enough work credits to qualify based on your own earnings record.

For example, if you were a stay-at-home parent while your spouse worked, you might not have earned the minimum 40 work credits to qualify, or your benefit might be small. However, you could still qualify for Social Security benefits under your spouse's work record. You will therefore want to

check to see how much you would be eligible to receive under your spouse's work record before deciding how to claim benefits.

The same holds true for divorced people, male or female. If you're divorced, you could also claim benefits under your ex-spouse's earnings record if the marriage lasted at least 10 years, you are age 62 or older, you are unmarried, your ex-spouse is eligible to receive Social Security retirement or disability benefits, and your benefit from your own work is less than what you would receive under your ex's earnings record.



MYTH #10: THE AGENTS AT YOUR LOCAL SOCIAL SECURITY ADMINISTRATION OFFICE WILL ADVISE YOU HOW BEST TO CLAIM YOUR BENEFITS

Social Security agents will tell you the rules, but that's not the same as advice. In fact, Social Security agents aren't allowed to provide guidance of any kind.

If you need advice, you should look for a knowledgeable financial advisor who's got your best interest in mind. An advisor who understands the nuances of Social Security and Social Security

claiming strategies can assist you in choosing the right benefits at the right time so you can take full advantage of the benefits to which you are entitled. An advisor can also help you coordinate your Social Security benefits with other retirement assets so you can potentially put more money in your pocket by paying fewer taxes.



CONCLUSION

Remember, Social Security benefits are just one piece of a retirement income puzzle. They can impact how you draw down other retirement income sources — such as a pension, 401(k) or cash savings. Benefits also impact the amount of retirement income you pay in federal or state taxes. Failing to consider these factors when making Social Security decisions — as well as rushing to those decisions —

can cost you a big chunk of your nest egg.

Claiming Social Security benefits is a big decision with potentially thousands of dollars at stake, so don't short-cut it. Unless you're extremely confident in your knowledge of Social Security rules, you will likely want to work with a reputable financial advisor, someone who can help you evaluate your options in the context of your overall financial picture.

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