Social Security

Three Common Social Security Misconceptions: Don't Make a Claiming Mistake

The rules evolve over time, there's dated information out there, and what works for someone else might not work for you. Here's what to look out for.

(Image credit: Getty Images)

Although Social Security provides a significant portion of the income most retirees depend on when their paycheck goes away, many people — even those who plan to retire soon — know little about how the program works.

It's easy to understand why. The rules that determine whether you're eligible for Social Security, how much you can get and when you can claim your benefits can be complex — and they continue to evolve over time. There's a lot of dated information out there, not to mention all the stuff that's just plain wrong.

I hear the misinformation that's being passed around — or passed down from one generation to the next — all the time. And I worry for the many future retirees who could make an expensive mistake when claiming their benefits based on something they read a few years ago, or something they were told at a party, or even something they saw on the Social Security Administration's website, but didn't interpret correctly.

Here are three of the misconceptions I hear most — and a reality check for each:

Misconception #1: Social Security benefits are in danger of disappearing.

We've all seen the news stories warning that the Old-Age and Survivors Insurance (OASI) Trust Fund, which helps pay Social Security benefits for current retirees, could experience a funding shortfall as soon as 2033. And unless something is done to fix the trust's long-term funding problems, Social Security recipients' benefits may be reduced in the future.

That doesn't mean the overall program is going bankrupt, however, or that benefits will disappear entirely. As long as Americans are working and paying taxes, Social Security can survive.

Your checks might be smaller — by about 23%, according to the OASI trustees' "best estimates." But, again, that's only if nothing changes. And there are several things the government can do to help keep Social Security funded. It could increase the Social Security payroll tax rate, for example. It could push back the full retirement age (the age when you're eligible to receive 100% of the benefits you're owed). Or it could make changes to the way Social Security's cost-of-living adjustment (COLA) is calculated.

Whatever happens, it's unlikely our elected officials will do anything to rile up the Baby Boomers who are already retired or will be retiring soon. (No politician who hopes to be re-elected wants to mess with those folks.) Still, you may want to talk to your financial adviser about a backup income stream just in case benefits are reduced at some point. If you're still working, you also might consider contributing more to your 401(k), 403(b) or IRA.

Misconception #2: There's only one 'right' retirement age.

Some people think it only makes sense to claim your benefits at 62 (the earliest age you can file). Others believe 65 is the best choice, because that's when Medicare starts. And some are set on filing at their full retirement age (FRA), which ranges from 66 to 67, depending on your year of birth.

The reality is, there's no "right" retirement age; it's different for everyone, and there are many factors to consider, including your health, if you're married, if you plan to keep working after claiming your benefits, how your benefits might impact your taxes and the role your benefits might play in the legacy you hope to leave behind for your loved ones.

What you don't need to worry about is when your parents, friends, co-workers and neighbors claim their benefits, or what they think you should do. Your retirement income plan could look very different from theirs — if, for example, they have guaranteed income from a workplace pension and you don't, or if you have a two-income household and they don't.

And, going back to Misconception #1, if you're thinking about filing at 62 so you can get your money "before Social Security is gone," you may want to reassess that strategy. Remember, the worst-case scenario at this point is that benefits may someday be reduced. But if you file early (before your FRA), your benefits will *definitely* be reduced, permanently, and from day one.

Misconception #3: Waiting until 70 to maximize your benefit is always the best option.

It is true that if you wait until you're 70 to claim your benefits, your payments will be bigger.

Every month you delay filing past your FRA, Social Security will increase your payment by two-thirds of 1%, or about 8% per year. That's a really nice bump and absolutely worth considering.

But waiting isn't necessarily the right option for everyone. It's important to think about your overall financial plan and what you'll require — and when you'll require it — to reach your retirement goals.

Would you like to get your benefits when you're younger, albeit in smaller payments, so you can travel and enjoy other activities? Or do you think you'll need more income when you're older, for medical bills or long-term care?

If you're facing a long-term funding shortfall of your own, you may find it makes sense to delay filing and get the increased benefit. But you'll also want to be sure you can make ends meet in the meantime, by continuing to work or tapping other income sources first.

Unfortunately, there's no easy, one-size-fits-all answer.

Which is why retirement income planning is so valuable!

Coordinating the various income streams you'll have available to you when your paycheck goes away is arguably the most important part of retirement planning. Often, the decisions you make regarding guaranteed income (Social Security, employer-backed pensions, annuities) can't be reversed, so those choices shouldn't be made lightly. And you'll want to be clear about how each income stream could impact your taxes and other parts of your plan.

Since Social Security is often the key to getting your income right in retirement, you also may want to talk to a financial adviser about running a Social Security optimization report to narrow down the overwhelming number of claiming options. You'll get up-to-date research based on your individual situation and needs (or your needs as a couple). And you won't have to worry about misinformation, politics or what your neighbor Bob said at the last barbecue.

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