Six Social Security Traps to Avoid

On January 31, 1940, the first monthly Social Security check was issued to Ida May Fuller of Ludlow, Vermont. It was for $22.54. She was 65 years old at the time and passed away at 100 years of age.

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

Today, nearly 70 million people receive some form of assistance from Social Security. You and I will never receive the return on our 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 sources of income, we can take proactive measures that maximize benefits while avoiding the pitfalls that poor choices can create.

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

1. **Collecting benefits too soon.** You may begin receiving your retirement benefit at age 62 . . . at a reduced rate. You probably know this, but let's get into the 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 us, "When is the right time for me to begin receiving benefits?" We usually respond with a less-than-definitive, "It depends," because many variables, both objective and subjective, factor in.

2. **You collect prior to your full retirement age while still working.** If you are under full retirement age for the entire year, Social Security deducts $1 from your benefit payments for every $2 you earn above the annual limit. For 2019, that limit is $17,640. Ouch!

   In the year you reach full retirement, Social Security deducts $1 in benefits for every $3 you earn above a higher limit. The 2019 income limit is $46,920. Only earnings before the month you reach your full retirement age are counted.

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

3. **You are unaware that your Social Security may be taxed**. IRA and 401k contributions may be deducted from income. Social Security taxes paid by the employee, however, are not deductible. But that doesn't necessarily translate into tax-free Social Security income.
   If you file a federal tax return as an "individual" and your combined income (excluding Social Security) runs between $25,000 and $34,000, you may have to pay income tax on up to 50% of your benefits. Earn more than $34,000, and up to 85% of your benefits may be taxable.

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

4. **You decide to defer the 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.

5. **Remarriage and your benefit. It's complicated.** You may already be aware that divorced spouses are eligible for 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.

   Even so, if you remarry, you lose the rights to your former spouse's benefits unless your new marriage ends, whether by death or divorce.

   I understand that the monthly Social Security check you receive may pale in comparison with the new journey you are about to begin, but it's important that you are aware of the financial component.

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

   We also understand 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? Social Security averages in zero for those years, which reduces your benefit. If you have at least 35 years but some of those years are low earning years, they will be averaged in, creating lower benefit versus continued employment at higher wages.

Are you still working in your 50s or 60s? Great! Those afterschool jobs in high school or years when your income may have been low are removed from the benefit calculation if you've exceeded 35 years of income.

When we are factoring in pensions and retirement savings, those extra dollars may or may not amount to much, but I believe it is something to be aware of.

For some folks, Social Security may seem simple. For others, it feels as if you're entering a complicated financial maze.