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Common Social Security Mistakes by Baby Boomers and Seniors

Figuring out your Social Security retirement benefits can be difficult and the rules for claiming can be pretty confusing. The amount of benefit you receive is determined by a number of factors, such as the amount of time you worked and how much you earned, how or what type of employer you worked for, your age when you start to claim your benefits, your current marital status and marital history, and whether you have dependents and how many.

To create some clarity, below are some of the biggest mistakes that can prevent deserving retirees from receiving the most of their Social Security retirement benefits, along with some strategies that factor the changes that came about through the new set of regulations.

For simplicity, this assumes that you're at or between ages 62 and 70, the window for starting retirement benefits. This means that full retirement age–the age at which you can receive a full benefit–is 66.

You don't bother filing for a spousal benefit because you earned more than your spouse.

This is a mistake if you reach your full retirement age during or before 2019 and your spouse has already filed for his or her own benefits. You can build wealth by waiting until age 70 to collect your own retirement benefits, but also filing a claim at your full retirement age restricted to spousal benefits only. Thus you collect two benefits sequentially–spousal then your own–which will give you more over your lifetime than if you waited for one. There's another bonus to this strategy. Even if your spouse is below full retirement age, and therefore receiving a reduced, early benefit, your spousal benefit will nevertheless be based on what your spouse would have collected at his or her full retirement age.

You file at 62 because you need the income, but stop working because your benefit will be reduced by the "Earnings Test."

This can be a "cutting your nose off to spite your face" mistake. While benefits may be reduced depending on the amount of wages you earn after filing, those reductions are not necessarily "lost." They will be repaid at full retirement age pro-ratably over your remaining life expectancy. Furthermore, continuing to work–even past the age of 70–

can have the effect of increasing your annual benefit going forward. Too many Americans assume, to their financial detriment, that filing for Social Security means a hard stop to work.

You figure there's no point in waiting beyond 62 to file because you may die young.

Yes, you may, and in fact, the extra benefits you'll receive by waiting are calculated to be statistically equivalent to the additional benefits you'll receive by filing early based on an average life expectancy of approximately 85 years. In other words, it's a 50/50 bet, but only if you are single. If you are married, the odds are 50/50 that one of you will live into your 90s – i.e., well past the break-even date for singles. It makes sense to bank on those odds, by having the higher earner in your marriage delay benefits for as long as possible. In this way, you lock in that higher benefit as either a retirement or a survivor benefit for that longer joint life expectancy, regardless of who dies first.

You urge your spouse to take benefits at full retirement age so you can get spousal benefits.

It's true that you can't take spousal benefits unless your spouse has filed for his or her own benefit. (This is not true for ex-spouses filing for a spousal benefit). However, if your spouse is at full retirement age now or will be within six months of the law's enactment (which was Nov. 2), he or she can file and suspend at full retirement age up until the end of the six-month period and delay his or her own claim until 70–thereby enabling you to get a spousal benefit, while also increasing his or her own benefit by delaying.

You screwed up by taking benefits early, but there's no point crying over spilt benefits, right?

But there may be reason to start over. There are two ways to do this. If you've been taking benefits for less than a year, you can repay those benefits, and start over later, as if you had never filed. If you've been receiving benefits for more than a year, you can voluntarily suspend those benefits at full retirement age, and let them earn delayed credits until age 70 when you can again start drawing a check. This is relevant to those whose financial circumstances have changed for the better after they took an early benefit.

You're single and assume "filing and suspending" is just a strategy for those who are married.

Not necessarily true. As a single person, if you are now 66 or will turn 66 within six months of the law's enactment (Nov. 2), you can file and suspend when you reach full retirement *age at any point between now and the end of the six-month period. You would do this not to open up benefits for a spouse since that is not relevant, but to essentially bank those benefits and earn 8% annually until age 70. By suspending rather than just delaying your benefits, you retain the option to change your mind about delaying your benefits and to request a lump sum of all the benefits suspended since your full retirement age (though not the "accrued interest"). So for singles meeting the new age and time-frame requirements, file and suspending is a form of taking out an insurance policy against the risk of dying before 70, as well as a form of ready liquidity in the event of an emergency.*

You get your Social Security advice from family, friends or non-professional sources.

You're in good company–most Americans get their advice in this way–but you're not getting richer. With tens of thousands of lifetime dollars at stake, it pays to get advice from an accountant or financial adviser who will consider a multitude of factors in developing solutions that will benefit you most and put you in the best position.