

# Retirement Power Hour

with Joe Allaria, CFP®



## 7 Biggest Social Security Mistakes & How to Avoid Them



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## **Sources**

<https://www.kiplinger.com/article/retirement/t051-c032-s014-the-7-most-common-social-security-mistakes.html>  
<https://www.forbes.com/sites/bobcarlson/2021/01/05/7-common-and-costly-social-security-mistakes/?sh=168471ac4dd2>  
<https://www.aarp.org/retirement/social-security/questions-answers/maximizing-spousal-social-security-benefit.html>  
<https://www.ssa.gov/>

# About CarsonAllaria Wealth Management

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*Age 50+, Business Owners, Medical Professionals*



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Management**



**Retirement  
Planning**



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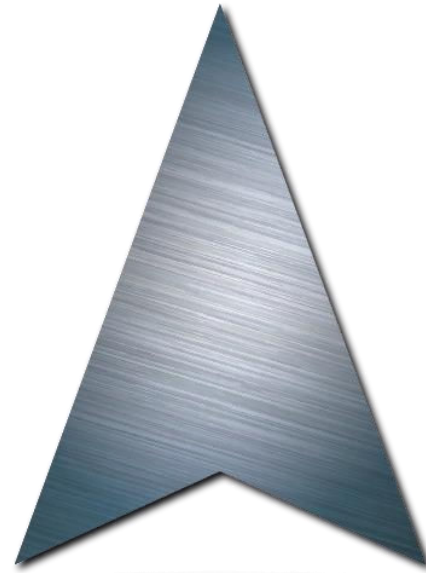
**Risk  
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**Estate  
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**Professional  
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*< 500 employees*



**Defined Contribution  
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**Employee Benefits  
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**Buy/Sell  
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**Professional  
Coordination**

# 7 Biggest Social Security Mistakes

1. Ignoring your **earnings record**
2. Taking benefits **too early**
3. Not coordinating for **married couples**
4. Not maximizing **survivor benefits**
5. Not maximizing **divorced benefits**
6. Relying on **Social Security Administration** for advice
7. Not realizing **some claiming decisions can be changed**

# Social Security Basics

- **PIA:** Primary insurance amount
- **FRA:** Full retirement age
- **COLA** (cost of living adjustment): announced every October and affects benefits received in January
  - COLA based on CPI-W from 4<sup>th</sup> quarter of one year through 3<sup>rd</sup> quarter of the next year
  - COLA for 2021: 1.3%

# #1. Ignoring Your Earnings Record

## How benefits are calculated

- Each year's earnings on which Social Security taxes were paid are tallied, index factor is applied to each year's earnings
- Highest 35 years' earnings are totaled and divided by 420 (the number of months in 35 years)
- Result is AIME, or average indexed monthly earnings, which is applied to a formula
- **Common mistake #1:** Not achieving a full 35 years of earnings
- **Common mistake #2:** Business owners paying themselves too little in wages to reduce FICA taxes
- **Common mistake #3:** Not verifying your earnings record vs. your actual W2 earnings (mistakes happen)



# #2. Taking Benefits Too Early

## Earnings test

- “Earnings test” applies if under FRA: \$1 in benefits withheld for every \$2 earned over \$18,960 in 2021
- Earnings test in year attaining FRA in months before birth: \$1 in benefits withheld for every \$3 earned over \$50,520 in 2021
- Earnings test applies to all benefits, including retirement, spousal, and survivor benefits (while under FRA)
- Benefit will be automatically adjusted at FRA
- After FRA, no reduction in benefits for working
- **Reduction** of benefits different than **taxation** of benefits



# #2. Taking Benefits Too Early

Age	% of PIA	Benefit if PIA is \$3,000	Benefit with 2% COLAs
62	70	2,100	2,100
63	75	2,250	2,295
64	80	2,400	2,497
65	86.67	2,600	2,759
66	93.33	2,800	3,031
67	100	3,000	3,312
68	108	3,240	3,649
69	116	3,480	3,997
70	124	3,720	4,359

## Life expectancy

- Taking a small benefit now can cause prevent you from receiving a larger benefit later
- Need to know/estimate how long you'll live...
- SSA.gov says a 65-year-old male has an estimated life expectancy of 84.1 years, vs. 86.6 years for a female<sup>1</sup>
- Assuming 2% COLA, simple breakeven between filing at 62 vs. filing at 70 occurs at age 79

1. <https://www.ssa.gov/oact/population/longevity.html>

# #2. Taking Benefits Too Early

## Social Security insolvency issues

- OASDI trust fund currently holds around \$2.9 Trillion
- Costs are expected to begin to exceed income (starting in 2020)
- By 2035, trust fund will be exhausted, and income will be enough to pay 80% of promised benefits
- Takeaway: taking benefits early because you think the system will go broke may be a mistake



# #3. Not Coordinating for Married Couples

- Low-earning spouse may receive 50% of higher-earning spouse's PIA (worker-spouse must have filed for his or her benefit)
- If spouse qualifies for own work record, that benefit will be paid first
- If spouse's PIA is less than 50% of worker-spouse's PIA, that difference will be paid as a spousal add-on to bring the total up to 50% (less if filing before FRA)
- Consider letting larger benefit delay and beginning smaller benefit (this is what the surviving spouse will receive)
- Some old strategies are being phased out (i.e. restricted filing)
  - For couples with at least one spouse born before January 2, 1954, you need to be aware of restricted filing
- For those planning to wait until 70, BE AWARE that spousal benefits do not increase like primary worker benefits after full retirement age



# #4. Not Maximizing Survivor Benefits

- Survivor benefit = 100% of deceased spouse's benefit including delayed credits (even if benefit is unclaimed due to delaying)
- Best way to maximize survivor benefits is to let higher earning spouse delay to age 70
- Survivors can begin survivor benefit as early as 60, but at a reduced rate
- Survivors can start their own benefit at 62 and **switch** to survivor benefit at FRA (good if survivor benefit is higher)
- High-earning widows(ers): Take survivor benefit at 60 and **switch** to maximum earned benefit at 70 (earnings test applies before FRA)
- Remarriage before age 60 negates survivor benefit unless that marriage ends



# #5. Not Maximizing Divorced Spouse Benefits

- Same rules as for spousal benefits if applicant:
  - Is at least 62
  - Was married to worker at least 10 years
  - Is currently unmarried
- Former spouse must be at least 62 (does not need to have filed for benefits if divorce occurred more than two years ago)
- Worker's own benefit (and benefits for current spouse) are not affected
- **If you are the divorced spouse of a worker who dies, you get the same benefits as a widow/widower!**



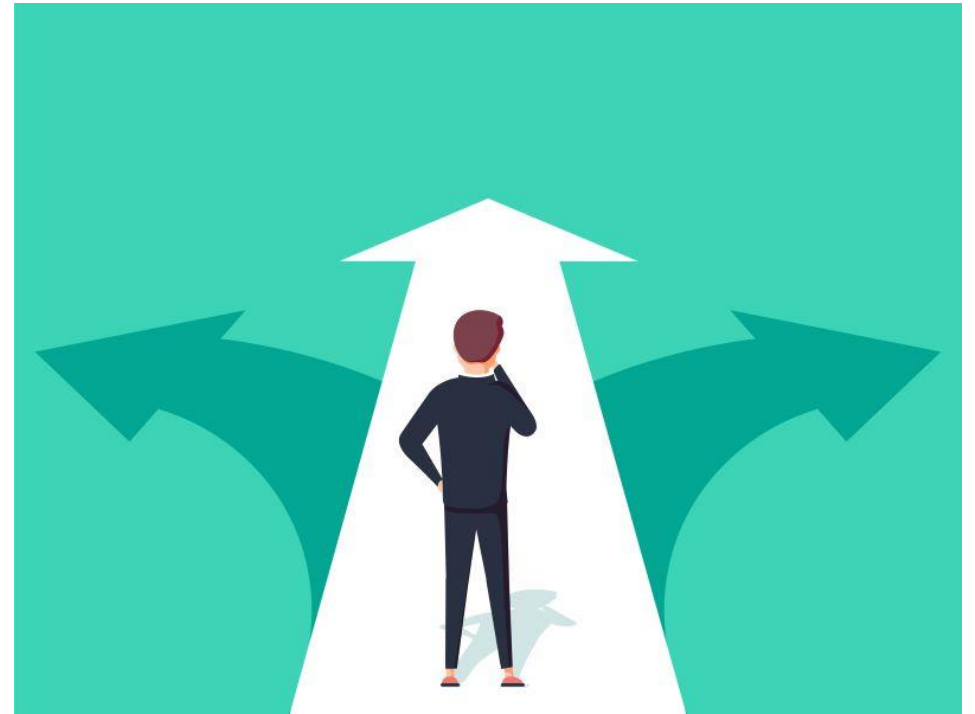
# #6. Relying of SS Agents for advice

- Conflicting information on different occasions
- ["Half of the answers Social Security is giving people are wrong or misleading" – Laurence Kotlikoff, professor of economics at Boston University \(CNBC.com\)](#)
- A report from the agency's Office of the Inspector General found that bad Social Security advice cost claimants \$131 million
- The Social Security program is complex and takes specific expertise
- Your decision could be irrevocable!



# #7: Not Knowing Some SS Decisions Can Be Changed

- You can cancel your application for up to 12 months after you become entitled to retirement benefits (the process is called a “withdrawal”)
- You must repay all the benefits you received including benefits you received, money withheld for Medicare, tax withholding, etc.
- You can reapply later
- If you cannot withdraw your application and you have reached FRA (full retirement age), but are not yet 70, you can request to suspend your benefits
  - Will help you earn delayed retirement credits for each month your benefits are suspended
- Consider how you will pay for Medicare premiums (if applicable)



# Questions?



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