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TOP 10 MISCONCEPTIONS ABOUT SOCIAL SECURITY

By Marci Rosenblum, Local 1180 Communications Director

Two surveys conducted in 2015 demonstrate just how little the average American knows about Social Security benefits.

Only 28% of the more than 1,500 adults who took an online quiz about basic Social Security facts received a passing grade, according to one survey. And the vast majority of more than 900 current and future retirees age 50 and older who participated in a different survey said they are worried about the Social Security running out of money during their lifetimes. That could prompt some to claim benefits earlier than they should.

Here are the most popular misconceptions about Social Security and the facts everyone should know to make educated claiming decisions.

Myth #1
Social Security will go broke within the next 20 years.

The Truth
Social Security is essentially a pay-as-you-go system. Most everyone contributes 6.2% of each paycheck, and employers kick in an equal amount (self-employed folks pay the full 12.4%). As long as payroll taxes exist, Social Security will never go broke. Until 2010, payroll taxes brought in more than enough to cover benefits for retirees and other recipients. The surplus went into a trust fund, which is invested in special Treasury securities. The fund also reaps interest on the securities plus taxes on the benefits of some beneficiaries. Problem: In recent years, more money has gone out in benefits than has come in from payroll taxes. The government has been using the interest on the securities to cover the shortfall but will have to start redeeming the securities themselves by 2020. Failing a fix by Congress to raise taxes or cut benefits, or both, the trust fund will run out of money in 2034. That doesn't mean benefits will disappear altogether. Payroll taxes will still be enough to cover 79% of promised benefits. Will a 21% reduction in benefits really happen? Probably not. Much as Congress dislikes confronting hard choices, it is not likely to risk the reaction of millions of Social Security beneficiaries (read voters) to the idea of such a cut. Expect a solution to be pounded out long before 2034. (kiplinger.com)

Myth #2
It doesn't matter when you claim benefits.

The Truth
The age when you claim benefits makes a huge difference in the amount you will receive for the rest of your life. Claim Social Security at the earliest age of 62 and you will receive a permanent 25% cut in retirement benefits compared to full benefits at 66. Wait until 70 to claim benefits and receive a 32% boost above your full retirement age amount. Claiming benefits at 70 rather than 62 would result in a 76% increase in monthly income. (investmentnews.com)

Myth #3
Due to Social Security's shortfall, you won't get back the dollars you contributed to the system.

The Truth
You don't get back exactly what you put into the system anyway. Benefits are based on your 35 highest-earning years. But Social Security uses a progressive formula that replaces a higher portion of income for lower earners than for high earners — not a dollar-for-dollar match of what each worker pays in. Whether you'll recoup more or less than the amount of tax you paid into the system depends on your earnings and how much tax you paid during your career, your age when you claim benefits, whether you're married, and how long you (and your spouse) live to collect benefits. Even if Social Security did pay a dollar-for-dollar match, the dollars you contributed are not stowed in your personal lock box. In fact, the money you paid went to fund someone else's retirement; your benefits come from the payroll taxes of current workers. (kiplinger.com)

Myth #4
Working while collecting Social Security has no impact on the benefit amount.

The Truth
Wrong! If you claim Social Security benefits before your full retirement age and continue to work, your benefits will be temporarily reduced by $1 for every $2 you earn above $15,720 in 2015 and 2016. There is a higher earnings cap in the year you reach full retirement age. If you plan to keep working, it is better to wait until the magic age of 66 to claim benefits when earnings restrictions disappear. But this rule, known as the earnings test, eases in the year you reach full retirement age. In that year, you give up $1 for every $3 you earn over a much larger cap — $41,880 in 2016 — before the month you reach your full

retirement age. Starting in the month of your birthday, there's no limit on how much you can earn. Better yet, Social Security will adjust your benefits going forward with the goal of insuring that, during your life expectancy, you'll be repaid every dime you lost to the earnings test. (investmentnews.com)

Myth #5
You don't have to pay taxes on Social Security.

The Truth
If your combined income — adjusted gross income not including any Social Security benefits plus any nontaxable interest plus half your benefits — is between $25,000 and $34,000 for singles, and $32,000 to $44,000 for couples filing jointly, you'll owe taxes on up to 50% of your Social Security benefits. If your combined income exceeds the $34,000 limit for singles or the $44,000 limit for couples, you'll owe tax on up to 85% of your benefits. More than half of all beneficiaries paid federal tax on Social Security benefits in 2015. (kiplinger.com)

Myth #6
Claim spousal benefits early and switch to your own maximum retirement benefit at 70.

The Truth
No. If you claim Social Security benefits before full retirement age, you can't select which benefit to receive. You must collect your own reduced retirement benefits first and would receive an additional amount only if your spousal benefit, also reduced for early claiming, were higher than your own. But if you wait until 66, you can restrict your claim to spousal benefits, receiving half of your mate's benefit amount, and switch to your own larger benefit at 70 (investmentnews.com).

Myth #7
Divorced spouses are out of luck when it comes to collecting on an ex.

The Truth
Benefits available to divorced spouses are among the least understood Social Security benefits. As long as you were married at least 10 years, are divorced, and currently single, you can collect on a former spouse's earnings record. But basic claiming rules apply. For some, waiting until 66 to file a restricted claim to spousal benefits while allowing their own benefits to earn delayed retirement credits may be a smarter move. (kiplinger.com)

Myth #8
The maximum social security benefit is $2,600.

The Truth
Social Security benefits are primarily based on two variables: your highest earnings over 35 years and your age when you file for benefits. The maximum benefit when retiring at full retirement age in 2016 was $2,639 a month. The maximum benefit normally increases each year, but it can also fall, as it did in 2016 from the 2015 level. The age at which you claim is also key. For each year you wait after full retirement age until 70, you'll get an 8% boost in benefit. Assuming your 35 highest-earning years qualifies you for the highest benefit, you'd get $3,576 at age 70. Conversely, if your full retirement age is 66, you'll take a 25% cut in the benefit if you claim at 62, the earliest date at which you're eligible. In that case, the maximum monthly amount was $2,102 in 2016. You might be wondering why the maximum benefit at 70 isn't 132% of the amount you'd get at 66 ($2,639), nor is the benefit at age 62 a 25% reduction of $2,639. It's complicated, but suffice it to say that each individual's benefit turns on the benefit levels in the year a person turns 62. So, a beneficiary who claims at age 62 will have a different base level from one who turns 66 in the same year, and a beneficiary who turns 70 that year will have yet another base level. (kiplinger.com)

Myth #9
If a worker delays collecting Social Security until 70, his/her spouse will receive half of his/her maximum benefit.

The Truth
No. The maximum spousal benefits is worth 50% of the worker's full retirement age amount. But if the worker delays benefits until 70 and later dies, the remaining spouse will collect a survivor benefit worth 100% of what the deceased worker collected — including any delayed retirement credits.

Myth #10
A Social Security claiming decision is forever.

The Truth
A hasty claiming decision can be reversed. If you withdraw your application for benefits within a year of first claiming and repay all the benefits you have received, you can wipe the slate clean and receive higher benefits at a later date. If you miss the 12-month window, you can suspend benefits at 66 — but not repay them — and earn delayed retirement credits of 8% per year up until age 70. (investmentnews.com).

IMPORTANT NOTE: This story addresses only a small handful of questions about Social Security. Each individual's situation is different. Local 1180 suggests you utilize the free Union benefit that provides Social Security and retirement counseling through 1-877-2RETIRE, LLC. They will help you to make educated and informed decisions about your Social Security and retirement planning. Advisors are at the Local 1180 Union Office every other Thursday from 3:00 p.m.-8:00 p.m. You can visit their website at www.1-877-2RETIRE.com for additional information or contact them directly to schedule an appointment at 1-877-2RETIRE (1-877-273-8473). Be sure to mention that you are a Local 1180 member.