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Debunking Social Security Myths

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Social Security can be one of the most complex government programs to understand and there are many myths about its rules, taxation and benefits. March's Wealth Management Insights investigates a few of these common misunderstandings about Social Security and what you need to know if you're thinking about taking benefits.

Social Security myths can have an adverse impact on your retirement planning, so it's important to take the time to understand what is and is not true.

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What you should know:

1. **There are a few pervasive myths about Social Security benefits, including how they're paid, who's eligible for them and how they're taxed.**

- The amount you pay in to Social Security is the amount you receive later on. There is no dollar-for-dollar match for the amount you pay into Social Security. Your benefit payments depend on several factors including your career earnings, how much Social Security tax you pay, when you claim benefits and more.
- Social Security benefits aren't taxable. False – however, beneficiaries are usually only taxed if they have other income in addition to Social Security benefits. Depending on your provisional income, you may owe federal income taxes on up to 85% of your benefits.
- If you never worked for an employer, you aren't eligible for Social Security. If you're self-employed and have filed taxes, you can expect benefits because you've paid into Social Security. If you are or have been married and you've never worked outside the home, you may file for spousal benefits, which may be up to 50% of the working spouse's full benefits.

2. **Know the facts about how Social Security can impact your retirement strategy.**

- The full retirement age is currently 66. Beginning with people born in 1955 and later, the full retirement age – the age at which you become eligible for full Social Security benefits – gradually increases from 66, topping off at 67 for individuals born in 1960 and later.

- Your benefit amount is determined by your last 10 years of income. This isn't true. The Social Security Administration calculates your benefits based on the 35 years in which you earned the most income.
- There's a Social Security account with your name on it. Social Security doesn't function like a personal retirement savings account. The money withheld from your paycheck is not held on your behalf – it's used to fund benefit payments for current beneficiaries, and your Social Security benefits will come from future taxpayers.

3. Contrary to popular belief, there are a few steps you can take to maximize your Social Security benefits. Don't fall for these misconceptions:

- You should start to collect benefits as soon as you're eligible. This may not be the best option for everyone. You can claim benefits as early as age 62, but there's a penalty for collecting benefits before full retirement age. If you collect early, benefit payments may be reduced by as much as 30%.
- Once you start to take Social Security, you're locked in. You can change your mind once. If you change your mind, you can withdraw your application within 12 months of filing. You must repay any benefits you received, and you can reapply for Social Security at a later date.
- You can work and collect Social Security without a penalty to your benefits. Working individuals who collect benefits before full retirement age will see their benefits reduced by $1 for every $2 earned in excess of Social Security's annual earnings limit, which is $16,920 for 2017.

What you should do now:

Social Security is a critical component of a comprehensive plan for retirement. Your Baird Financial Advisor can work with you to analyze your situation and identify the best Social Security planning strategies for your unique situation. ■