Five Social Security Myths Debunked

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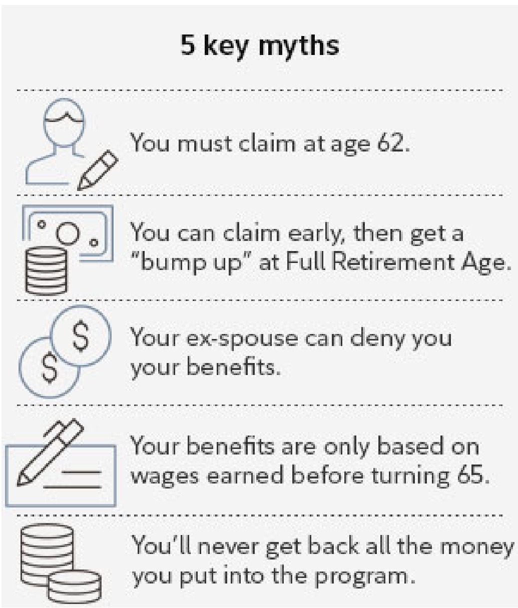
Focus on the facts before claiming this valuable retirement income benefit.



Getting your arms around Social Security can be pretty complicated. Misinformation, partially informed opinions, and complex benefits formulas can easily lead one down an incorrect—and costly—path.

Before you make your decision about claiming this valuable benefit, let's clear up five of the most common myths and misperceptions.

Myth #1: You must claim your Social Security benefit at age 62.

Many people are adamant that Social Security benefits must begin at age 62. This is a myth: 62 is the *earliest* age you can claim your benefit, but, it's not the only age.

Your benefit is calculated based on your "Full Retirement Age," or FRA. The year you were born determines your FRA. Your base benefit is calculated assuming you'll claim your benefit at FRA.

- **Tip:** You'll find your FRA at Social Security's website, SSA.gov, or on a paper statement mailed to you by the Social Security Administration. For those born between 1943 and 1954, your FRA is 66. Those born later have an FRA of 66 and some months or 67.

If you claim any time before your FRA, you lock in a *permanent reduction* in monthly income. Claiming at 62 translates to a reduced income of 25% to 30%, depending on your FRA. That means you may receive a lot less monthly retirement income, every year, for potentially several decades. You might think you are not going to live a long life, but many people do: 25% of men will live until 93; 25% of women will live to 96[1]. A key consideration is maximizing your income for a retirement that could last longer than 30 years.

Wait until age 70 and lock in a "bonus":

- Waiting to claim Social Security until after your FRA comes with a hefty bonus: 8% per year if you wait until your FRA rather than claiming at 62.
- If your FRA is 66, your monthly income would increase by 32% by waiting.
- If your FRA is 67, your monthly income would increase by 24% by waiting.

Myth #2: You can claim early, then get a "bump up" once you reach Full Retirement Age.

Many believe there is a "bump up" or "added income" once they reach their full retirement age. They've heard they can claim early at 62, then when they reach 66 or older, their checks will increase to the amount that corresponds to their full retirement age benefit. That's a big misperception.

There is no bumping up of income once you've claimed your Social Security retirement benefit. You have made an irrevocable decision.[2] You get an annual cost of living adjustment, but there is no increase when you reach FRA. There is, however, one case where you could get a "top up" benefit at FRA, but you still need to wait until your FRA to claim your Social Security benefit.

Case Study: Lower-income spouses may get a "top up" or "auxiliary" benefit.

In this hypothetical example, Sally earned less during her career than her husband Brad. Her benefit is $700 per month; his is $2,000. As a spouse, she's entitled to 50% of Brad's benefit if she claims at her FRA. She would receive a "top up" of $300 to bring her benefit up to the $1,000 (half of Brad's benefit) to which she is entitled. Social Security will calculate her options and pay out the higher benefit to which she is entitled.

Myth #3: Your monthly Social Security benefit could be reduced or denied if your ex-spouse claims Social Security in a certain way.

In a recent survey,[3] Fidelity asked more than 1,000 people if an ex-spouse could influence their Social Security benefits. Fifty-two percent of them said yes, this is true.

The real answer: False.

There are a lot of things an ex-spouse might do to complicate your life, but Social Security is off limits. Your ex has no influence over your benefits. If you have an ex-spouse, you may be entitled to spousal benefits as if you had remained married. If you were married for 10 consecutive years and have not remarried, you are entitled to either your own benefit—or 50% of your ex's Social Security benefit, whichever is higher—once you reach your FRA.

If you wish to claim on your ex-spouse's benefit, you simply make an appointment with your local SSA office and bring documents that prove the marriage and divorce. They will calculate your benefit options and when you submit your claim, you'll receive the higher benefit.

- **Tip:** There's no need to discuss this with your ex-spouse, and your claim does not reduce or affect your ex's benefit in any way. It's your benefit, even if you've been divorced for many years. And, it may be larger than your own individual benefit.

Myth #4: Your benefits are only based on wages that you've earned before age 65.

True or False?

If you work past age 65, your Social Security benefit is calculated based only on earnings up to age 65.

Based on our survey,[4] the percentage who answered "True":

- **40%** of Baby Boomers
- **57%** of Gen Xers
- **56%** of Millennials

The answer is **False.**

How your Social Security benefit is calculated can seem mysterious. However, it's important to know a few essential facts to aid your claiming strategy. You can use the tools on SSA.gov to do the calculations.

- Your benefit is calculated based on your highest 35 years of earnings; they do not have to be consecutive years or before age 65.
- If you work past age 65, those earnings years will be included, so long as they are high enough to be part of your highest 35 years.
- Even working part-time after turning 65 may be part of your highest 35 years of earnings.
- If you don't have 35 years with earnings, zeros will be included in the calculation.

Myth #5: You'll never get back all the money you put into the program.

Although 70% of the respondents from our survey[5] thought they might not get back all they money they put in, many will. Everyone's situation is different. Simply put, if you live a long time, you may collect more than you contributed to the system.

Due to the complexity of claiming strategies and number of variables involved, the Social Security Administration no longer offers a break-even calculator on its website. Social Security is designed to provide a safety net of income for the retired, the disabled, and survivors. The contributions you and your employers make during your working years provide:

1. Current retirees and other Social Security recipients with payments

2. A guaranteed income benefit when you reach retirement

While the government does not have a specific account set aside just for you with your FICA contributions (the taxes for Social Security and Medicare paid by you and your employer), one of the most powerful features of Social Security is that it provides an inflation-protected guaranteed income stream in retirement, ensuring against the risk you will outlive your savings. Even if you live to 100 or more, you continue to receive income every month. And, if you predecease your spouse, he or she also receives survivor benefits until his or her death.

Social Security: Your contributions vs. potential benefits

Let's look at a hypothetical case of an American worker, Steve, who reaches his FRA in 2016. He's retiring in December and will begin collecting his Social Security benefit in January, 2017 at his FRA. In Steve's case, if he lives past age 74, he will receive a larger benefit than he contributed to the system. There is no standard break-even point, but let's look at **Steve's situation in more detail:**

First year of work	1972
Gross income in 1972	$6,200
Gross income in 2016	$102,000
Steve's FICA taxes paid	$108,043
Employer's FICA contribution	$111,359 on his behalf
Steve's total FICA contribution	$219,402
Steve's estimated benefit at FRA	$2,238

If Steve lives for this many years past his FRA	his Social Security income totals approximately (not COLA adjusted)	% of his total FICA contribution
8 years (until age 74)	$219,402	100%
21 years (to his life expectancy of age 87)	$564,000	257%
27 years (to age 93)	$725,000	330%

Hypothetical case assumes a final year of wages in 2016 to be $102,000. Using the Quick Calculator on SSA.gov, a rough estimate of benefits was calculated at FRA in today's dollars. For an estimate using your personal earnings history, go to SSA.gov.

Checklist for your Social Security claiming strategy

- **Know your numbers.** Your FRA, earnings history, and estimated benefits.
- **Stay current.** Sign up for your most current statements on SSA.gov.
- **Do the math.** Use calculators on SSA.gov to check out your monthly benefit options.
- **Get the facts.** Don't succumb to myths; use primary resources such as SSA.gov.
- **Start planning early.** Claiming Social Security is an important part of your retirement income plan, but it takes some time to understand the options—and the implications to your savings. It's a good idea to develop your retirement income plan early with your financial advisor, and look at all your options.

For many, Social Security benefits are the foundation of their income in retirement. Social Security benefits provide guaranteed income that will last as long as you live. Know your numbers, do the math, and develop a plan for a claiming strategy that supports your overall retirement income strategy.

The benefit calculations and discounting in this article do not account for the effect of taxes. The after-tax discount rate for one individual could be very different from that of another individual depending on multiple factors, including the sources and levels of income. For individualized estimates, try the Retirement Estimator from the Social Security Administration.

1. Society of Actuaries RP-2014 Mortality Table projected with Mortality Improvement Scale MP-2014 as of 2016.)

2. In general, you can cancel your Social Security claim if you do so within the first 12 months of receiving benefits. You must repay the full amount you've received, and the full amount a current spouse or family member received. Then, you are eligible to claim again at a later date and will receive a larger monthly payment. Each individual can only cancel a claim once in their lifetime.

3. This Fidelity-sponsored study presents the findings of an online survey conducted among a sample of 1,023 adults comprising 512 men and 511 women 18 years of age and older. Interviewing for this CARAVAN® Survey was completed on September 15-18, 2016, by ORC International, which is not affiliated with Fidelity Investments. The results of this survey may not be representative of all adults meeting the same criteria as those surveyed for this study.

4. Ibid.

5. Ibid.