The Four Costliest Social Security Mistakes

The Social Security Administration (SSA) received some bad press recently. The Office of Inspector General released a report outlining recent findings that "9,224 widow and widower beneficiaries age 70 and above were underpaid approximately $131.8 million," according to CNBC. The SSA failed to notify these individuals that they could take a survival benefit and suspend their own, allowing their benefits to increase with time. Instead, those affected were under the impression that they would have to start taking all of their benefits and lose out on the financial incentives of suspending them.

The reason this amounts to such a large underpayment is that when individuals wait to take their benefits, they are qualified to receive a higher amount of money than if they had taken their benefits earlier. The report found that the SSA didn't do enough to make sure that these individuals fully understood their options in order to maximize their payments.

Most people aren't fully aware of the options that apply to their unique situation. Unfortunately, bad advice on how people should set up their Social Security is rampant. It can be intimidating to trust anyone who claims they understand Social Security. Not only do your Social Security benefits represent a lot of money, but it also represents a portion of your income for the rest of your life. It's a big responsibility to make sure you do it right.

The top four Social Security mistakes

In addition to problems for widow and widowers, there are four other major mistakes that you don't want to make when you file for Social Security. The good news is that they are all easy to avoid with a little preplanning.

1. *Relying on the SSA to answer your questions*

If you've ever tried to call the SSA with a question about your benefits, it's likely that you weren't satisfied with your answer. They aren't being rude. Those who work at the SSA are not allowed to give you advice on how you should fill out forms or what's the best course of action to maximize your benefits. You will need to speak with a financial professional who understands the rules and has experience with how to file.

2. *Taking retirement early*

Taking retirement too early is a tragedy that should be avoided at all costs. There are many factors that contribute to when to file your Social Security: income, spousal benefits, investments and life expectancy to name a few. Know the outcome of every scenario before deciding on course of action.

If you were born after the 1960, you don't qualify for full-retirement benefits until age 67. You could start taking benefits as early as age 62, but you will be hit with a 30% cut in benefits. The cut gets smaller and smaller each year as you get closer to age 67, when you qualify for 100% of your benefits. However, if you can continue to delay taking benefits, you can earn up to 8% more per year until age 70. After age 70, there is no financial incentive to delay your benefits.

3. *Ignoring a missed payment*

If you miss a Social Security payment, don't let it go by assuming the SSA made a simple mistake, or chalk it up to bad luck. When Social Security payments go missing, there's a chance you've been a victim of identity theft. If so, move quickly. Correcting a stolen identity can be quite a process because you'll have to prove that you are who you say you are. Get the process started as quickly as possible so that you can get your benefits back on track. You can learn more about the anti-fraud programs that the SSA has in place at its blog.

While I am on the subject, you may receive phone calls from the SSA, but you will never receive an email. The SSA will never require you to prove your identity by giving out your Social Security number. Scammers will often send emails pretending to be representatives from the SSA in an attempt to access your personal information.

4. *Misunderstanding spousal benefits*

The report making headlines in March highlighted a problem with widows and widowers, but many people fit into this category. Divorced widows and widowers can still qualify for a benefit under their deceased ex's Social Security. In order to qualify, they must have been married for at least 10 years and not remarried and be born before January 1, 1954.

Spouse benefits aren't reserved for just widows and widowers. As reported on Kiplinger, if one spouse earned more income than the other, the one with the higher income could continue working and suspend their benefits until age 70. At that point, they will earn 8% more per year in exchange for waiting the extra years to start receiving benefits. However, the other spouse could start to take their spouse benefit at the normal time, bringing in an additional income. If you don't understand all of the options for suspending individual benefits while taking spousal benefits, you could be losing out on a large sum of money.

Good Social Security advice

Now that I've covered which mistakes to avoid, let's talk about how to get the maximum benefit available from Social Security. There are a few important steps to take that will give you confidence that you're following the best strategy, including due diligence, learning how the website works, and quickly fixing mistakes.

Use a retirement calculator

There are many different calculators available online to help you get an idea of how much Social Security you can expect in benefits and what other kinds of savings you need for retirement. Start with the Retirement Estimator at the SSA to get an idea of what benefits you've earned. There are different calculators available through the SSA depending on whether or not you've currently earned enough credits to qualify.

If you have several years left before you are planning to apply for Social Security, you can use calculators to verify that you're saving a responsible amount of money for the future. It's free and easy to access these calculators and the information they give you saves you countless hours doing those calculations on your own. If you don't have the full picture before you apply for retirement, you may find out that your benefit isn't what you were expecting. This can cause you to drastically alter your lifestyle at a time when you are most anticipating enjoying it.

Talk to a financial planner

Ideally we would all live in a perfect world where we consulted with our financial planners every couple of years, starting when our high-earning years well ahead of us. The unfortunate truth is that we often postpone planning sessions far too long or skip them all together.

A financial planner brings an outside perspective to your finances and has experience helping other people through retirement and other life stages. Meeting with a financial planner to go over your options is a smart idea, even if you are confident that you've done all you can to save for retirement. Financial planners see all kinds of different personal situations and will have insight that can help you.

It’s always better to consult an expert. This is especially true when making a bad decision could be the difference between a comfortable retirement and struggling every month for the rest of your life.

Run the numbers

The only way to know that you’ve taken the best path while applying for Social Security is to do the math yourself. Sit down and compare what your benefits would be in every situation for which you are qualified.

Social Security is complicated and lots of different factors change the benefits you can expect. We all qualify for Social Security, but there are over 80 different ways that a married couple can file. One change to your Social Security strategy could add up to a big difference in terms of the total benefits you receive in your retirement.

It seems like a lot of work, but nothing can give you more confidence that you’ve made the right decision like seeing all the possible decisions laid out.

What to expect after you file

All Social Security payments are made the month after they are accrued. For example, you will receive your January benefits in February. Payments are deposited to your bank account on either the second, third, or fourth Wednesday of the month. Which date you’ll get paid depends on your date of birth. If your birthday is between the 1st day and the 10th day of the month, you’ll fall on the second Wednesday. A birthday between day 11 and day 20 will give you a payday on the third Wednesday. Anyone born on a date after the 21st will receive their payments on the fourth Wednesday.

Retire with more money

Retirement is a lot scarier if you don’t have confidence in your Social Security application. There’s a lot of bad advice, even from the SSA itself. Put in the due diligence to show you’re taking the best path forward.