

AVOID THE COMMON SOCIAL SECURITY MISTAKES

According to the Social Security Administration, there are 8,000 claiming strategies available for couples and more than 2,700 separate rules on benefits. To say that understanding Social Security can be a challenge is an understatement.

Avoid the following common mistakes to get the most out of your Social Security benefits.

1 Claiming too early

The earliest you can claim Social Security benefits is age 62. However, full retirement age is 66 or 67, depending on the year you were born. Claiming benefits before your full retirement age means a permanent 25% reduction in your monthly benefit. Waiting longer can give you an extra 8% a year in delayed retirement credits up until age 70. If your full retirement age is 66 and you delay your claim until age 70, you will receive a 32% boost.

2 Claiming too late

Life expectancy plays a role in maximizing your Social Security benefits. When estimating your longevity, you should consider your family history and overall health. While it is impossible to know exactly how long you will live, this exercise can provide valuable perspective on when and how to claim Social Security.

3 Working fewer than 35 years

Your Social Security benefit is calculated using your top 35 years of earnings. If you have fewer than 35 years in your earnings record, those years where you don't have earnings will factor in as zeros thereby bringing down your average earnings. You can replace those zeros with a year of earnings, regardless of what age you return to work. A year of part-time work can help boost your benefit.

4 Planning to claim benefits and work before full retirement age

Your benefits will be reduced if you are younger than full retirement age and earn more than certain amounts. If you are younger than full retirement age and have claimed your benefits, and your earned income exceeds the threshold, the Social Security Administration can require you repay some of the benefits.* At full retirement age, however, you can earn as much as you want while taking benefits.

5 Ignoring taxes

Social Security benefits are subject to taxation. Up to 85% of your benefits can be taxed at your marginal tax bracket. Look at all of your income sources when determining where to draw income from in retirement, and in what order. Factor in when you take Social Security to reduce the amount of taxes you pay over your retirement years. Talk to your tax advisor to discuss your situation.

6 Forgetting your spouse

Couples who consider their Social Security benefits individually may miss out on opportunities to claim a spousal benefit. Depending on the age differential and benefit amounts between spouses, you may be able to claim a spousal benefit while letting your benefit continue to grow or vice-versa. Overlooking this spousal benefit opportunity can leave thousands of dollars on the table.

*Early claimers are subject to an income threshold that can temporarily cause them to forfeit some benefits.



7 Forgetting your former spouse

You may receive benefits on your ex-spouse's record if you are divorced but your marriage lasted 10 years or longer. To apply for benefits on your former spouse's record, you must be unmarried, you must be age 62 or older, your ex-spouse must be entitled to Social Security retirement or disability benefits, and the benefit you are entitled to receive must be less than the benefit you would receive based on your ex-spouse's work.

8 Underestimating potential survivor benefits

If you are a widow or widower, you can claim a survivor benefit based on your deceased spouse's earnings record. At your full retirement age or later, the benefit is worth 100% of the benefit amount your spouse was receiving at the time of his or her death, or what he or she would have been eligible to receive if he or she hadn't yet claimed his or her benefit. This underscores why it is important to maximize the benefit of the highest earner.

SET YOUR STRATEGY

Social Security benefits can play an important role in your retirement income strategy, but they are just one piece of a large puzzle. Talk to a financial professional who can help you explore a variety of approaches and help you understand how they fit into the big picture, so you can make an informed decision.

Contact a Commerce Trust advisor to discuss your retirement plan and explore your Social Security options.

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