Social Security

How Social Security fits into overall retirement planning

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With more than 3 million people set to retire this year, one significant component of retirees' cash flow is top of mind: Social Security. Yet the staggering options of how and when to claim benefits can be overwhelming.

"That creates a need in the private sector for someone to look at those options and determine what makes sense based on personal circumstances," says Roy H. Kramer, CPA, CDFA, CDS, NSSA, a member of Tax Services at Brown Smith Wallace.

Kramer, a certified National Social Security Advisor, says it's important to review Social Security benefits in the context of overall retirement funds, and with a qualified independent adviser.

Smart Business spoke with Kramer about myths and mistakes people make when it comes to Social Security benefits.

Should Social Security be included as part of an overall retirement strategy?

It's an important component of your entire financial planning and retirement structure. A lot of people think it's not going to be around for their retirement, so they don't factor in Social Security, which is a mistake.

The federal government has projected that 100 percent of current benefits are funded through the year 2033, and then at 75 percent for subsequent years. So we know Social Security has sufficient resources to pay benefits through 2033 and retirement planning should reflect that. Clearly, there also will be some discussion about what to do post-2033 because that reduction would be devastating to retirees who worked so hard and paid into Social Security their whole lives.

What's the first step to figuring out when to take benefits?

Go to www.ssa.gov and set up an account. It's the only way to access Social Security statements that previously were mailed. There may be mistakes, and correcting them can be a time-consuming process made more difficult if years have passed and documentation may not be readily available.

A common error may be a Social Security number improperly transcribed when a person is married, and years can go by before it's caught. Most people don't keep copies of W-2 forms and tax returns after the statue of limitations has expired. So it's important to review the information on the website to ensure there are no glaring errors.

What are some often overlooked strategies?

One option, which has been available since 2000, is called file and suspend. If you are married, typically one spouse is a high-income earner and applies for benefits at the retirement age of 66. But he or she suspends receipt of those benefits until age 70. That provides what is called a delayed retirement credit, which increases the benefit by 8 percent a year for a total of 32 percent more at age 70. Applying for benefits allows the other spouse to claim spousal benefits of half of the applicant's Social Security benefit, without reducing the first filer's benefit amount. So the family can collect Social Security earlier while increasing the benefit received at age 70.

There's also a rule that allows you to collect benefits on an ex-spouse if your benefits are less. You have to be at least 62, been married at least 10 years and not currently married. You can apply for spousal benefits if the ex-spouse is eligible for benefits, regardless of whether he or she has applied. Overall, Social Security benefit decisions are more effective when considered in conjunction with tax planning.

How are benefits determined?

It's an indexed average of the 35 highest-earning years of work history. But in order to qualify for Social Security, you must have paid into the system for at least 40 quarters.

When deciding whether to take early retirement at age 62, collecting benefits at the established retirement age of 66 — for those born in 1954 or later — or waiting until age 70, you have to consider your personal situation.

One couple with both spouses in poor health needed the money and filed at age 62. The thought of them living to the average age expectancy of 84 for a woman and 81 for a man was not a realistic possibility.

But if you can afford it and have a family history of longevity, you can wait until 70 and enjoy that 32 percent increase in benefits for a long time. ●