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The Big 10 & Retirement

When I mention “The Big Ten”, images of a hard fought football or basketball game between in-state rivals Michigan and Michigan State likely come to mind. In many cases, that view would be correct, but that is not what I am referring to in this newsletter. The Big Ten of this newsletter article are the ten questions everyone should be able to answer about Social Security before they retire. What would happen if you had to pass a test about Social Security before you were allowed to retire? Would you be able to pass that test?

For most Americans, Social Security is the cornerstone of their retirement program. It is a simple concept. You pay taxes while you work, and when you retire, you receive payments for the rest of your life. But, how many people really know and understand the rules and regulations that encompass Social Security? GOBankingRates developed a quiz to see how much you know about the program. I invite you to take the Social Security quiz here and find out if you are really ready for retirement. The answers follow the questions. No peeking before you answer the questions!



1.) When Is the Best Time to File for Social Security?

- a) As early as possible (currently, age 62)
- b) At “full retirement age” (currently, age 66 to 67, depending on your birth year)
- c) As late as possible (currently, age 70)
- d) It depends

2.) When Will Social Security Stop Paying Benefits?

- a) In 2020
- b) In 2035
- c) Never

3.) How Should I Maximize Income in Retirement?

- a) “File and suspend”
- b) Delay filing for retirement benefits
- c) Continue working in retirement
- d) None of the above

4.) When Can I File for Social Security?

- a) Age 62, but only if retired
- b) Age 62, but only if still working
- c) Age 62, 67 or 70
- d) Any age from 62 to 70

5.) Can My Spouse Earn Social Security Benefits If He or She Never Worked?

- a) Yes, even if I didn’t qualify for Social Security
- b) Yes, but only if I qualified for Social Security
- c) No, unless I qualified for Social Security
- d) (b) and (c) only

6.) Can Upcoming Changes to Social Security Affect Me?

- a) No, once you file, your benefit is not subject to change
- b) Yes, if I have already filed and there is an inflation adjustment
- c) Yes, if I am still working I might be subject to more tax
- d) Both (b) and (c)

7.) Does My Social Security Payment Get Adjusted Annually?

- a) Yes, if there’s a cost-of-living adjustment
- b) Yes, if the Social Security Trust Fund earns additional income
- c) No, my payments are fixed for life

8.) Will I Get Paid Back the Same Amount in Retirement That I Put in While Working?

- a) No, you will receive more
- b) Yes, what you pay in is what you receive back
- c) No, you will receive less
- d) It depends on how long you live

9.) Can My Benefits Be Reduced After I File?

- a) Yes, if you continue working and are younger than the full Social Security retirement age
- b) Yes, if the Social Security Trust Fund becomes insolvent
- c) No, your payments are guaranteed
- d) Both (a) and (b)

10.) Are My Social Security Benefits Taxable?

- a) Never
- b) Always
- c) Yes, but only if you earn above a certain amount

The following are answers to the above questions.

1.) Answer: d) It depends

There are numerous reasons to claim Social Security early. For starters, you get your money sooner rather than later. If you don't plan on living a long life, you might be ahead of the game by taking your money sooner. If you're married, you can make a plan where one spouse claims early and the other claims later. The earliest you can claim your Social Security benefits is age 62. However, if you can wait, your benefit will increase by as much as 8 percent every year that you delay, up to age 70.

2.) Answer: c) Never

This is a bit of a trick question, but the idea that Social Security one day will stop paying anything at all is one of the biggest Social Security myths out there. True, the Board of Trustees of the Social Security Trust Fund project that funds will be depleted in 2035. However, there will still be millions of workers paying Social Security taxes to fund the program. Without any changes, the Trustees project that Social Security will still pay 75 percent of its benefits — even if the trust fund goes to zero in 2035.

3.) Answer: d) None of the above

Under "file and suspend," also called "deemed filing," the Social Security Administration allowed workers to file for a retirement benefit and then immediately suspend it, earning a spousal benefit while their own retirement benefit grew every year. That loophole was closed in 2015, so (a) is no longer an option. Under option (b) filing later, you're guaranteed to receive a higher payment for the rest of your life — but you won't receive it until age 70. Working in retirement can be an option, but it can also reduce your Social Security payments or make them taxable, so it's not a sure answer either.

4.) Answer: d) Any age from 62 to 70

Age 62 is the earliest that anyone can file for Social Security. Currently, between age 66 and 67 is "full retirement age," when the standard benefit is paid. Age 70 is the latest age that a worker can file. However, you are permitted to file anytime between age 62 and 70, whether you are working or not — although your benefit might be affected if you're not retired.

5.) Answer: d) (b) and (c) only

A spousal benefit is meant for the spouse of a working taxpayer. A spouse's benefit is up to 50 percent of the primary taxpayer's benefits, so if you don't qualify for retirement benefits, your spouse doesn't qualify for spousal benefits.

6.) Answer: d) Both (b) and (c)

Your benefit payments can always increase due to the cost-of-living adjustment tied to inflation, making (a) false and (b) true. However, if you're still working, you might be subject to more tax if the Social Security tax base is increased. In 2018, for example, you'll pay Social Security taxes on earnings up to \$128,700, up from \$127,200 in 2017.

7.) Answer: a) Yes, if there's a cost-of-living adjustment

The Social Security Trust Fund isn't a mutual fund, where you get paid more if the fund has a good year; nor do you benefit if more workers flood the market and pay more in Social Security taxes. However, you will benefit from occasional cost-of-living adjustments, based on the rate of inflation. For 2018, for example, benefits will rise 2 percent.

8.) Answer: d) It depends on how long you live — but a) is usually also true

Take a look at this sample calculation: If you earn \$50,000 a year for 30 years, you'll be paying \$3,100 per year in Social Security taxes, or \$93,000 overall. At that level of career earnings, you'll qualify for a Social Security benefit of \$1,846.74 per month if you start taking benefits at age 66 years and 2 months. After just over 50 months, you'll have received back more than you put into Social Security — \$94,183.74.

9.) Answer: d) Both (a) and (b)

If you work after you file and have not yet reached full retirement age, Social Security will dock your payments by \$1 for every \$2 you earn above the threshold level, which is \$16,920 as of 2017. If the Social Security fund becomes insolvent, your benefits won't go to zero. But because there will be less money to pay benefits, your benefit is likely to be reduced.

10.) Answer: c) Yes, but only if you earn above a certain amount

The good news is that no matter how much you earn, you won't pay tax on more than 85 percent of your Social Security payments. The bad news is that if you earn more than \$34,000 as an individual, or more than \$44,000 as a couple filing jointly, you will pay tax on 85 percent of your Social Security benefits. To pay no tax at all, you'll have to earn less than \$25,000 or \$32,000, respectively.

So how did you do on the quiz? Don't feel bad if you did not do well. Social Security is a very complex government program and few people really understand the nuances of it. However, if you did not do well, this should be a wake-up call. You really need to understand what is going on "underneath the hood" to make an intelligent choice on when to start collecting your benefits. I do have a fantastic software program to help clients make those choices. I hope that you had a wonderful Thanksgiving and that you will have a Joyous Holiday Season. Holiday chestnuts will go out to clients by the end of this month. Take good care!!!