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Social Security Myths

That Can Hurt Your Retirement

Everybody loves a good story. Tall tales and outlandish stories, in particular, seem to capture the imagination and get repeated over and over, creating popular urban legends.

However, when myths about important matters of finance get spread around, they can end up causing harm.

For example, there are many myths that have been created around the handling of Social Security. The trouble with these myths is that they can trick otherwise highly intelligent people into making mistakes that can actively harm their retirement plan.

The best way to avoid letting these myths harm your finances in retirement is to know them so you can recognize them for the bad pieces of advice that they are.

So, what are these myths?

Here is a list of the top social security myths, which was adapted from the original list by thinkadvisor.com:

1 Myth: You Should Focus on Your 401(k) over Social Security

A lot of people tend to over-focus on their 401(k) plans to the detriment of other retirement income sources. While your 401(k) plan is important, odds are that you've made more consistent contributions to your Social Security for much longer.

After all, Social Security contributions begin with your first paycheck from your first job… and get taken from every other paycheck you ever receive. 401(k) contributions, on the other hand, are optional, with many people suspending their contributions to it at some point.

Overall, Social Security tends to be the largest, most important financial aspect of retirement for most Americans, so it should stay a key part of your financial planning. Even if you have made significant contributions to your 401(k), it's still important to pay attention to your Social Security benefits in retirement.

2 | Myth: If You Have a Public Pension, You Can't Receive Social Security

For some reason, a lot of people seem to think that teachers, firefighters, police officers, and government employees who receive publically-funded pensions are not eligible for Social Security. This is patently incorrect.

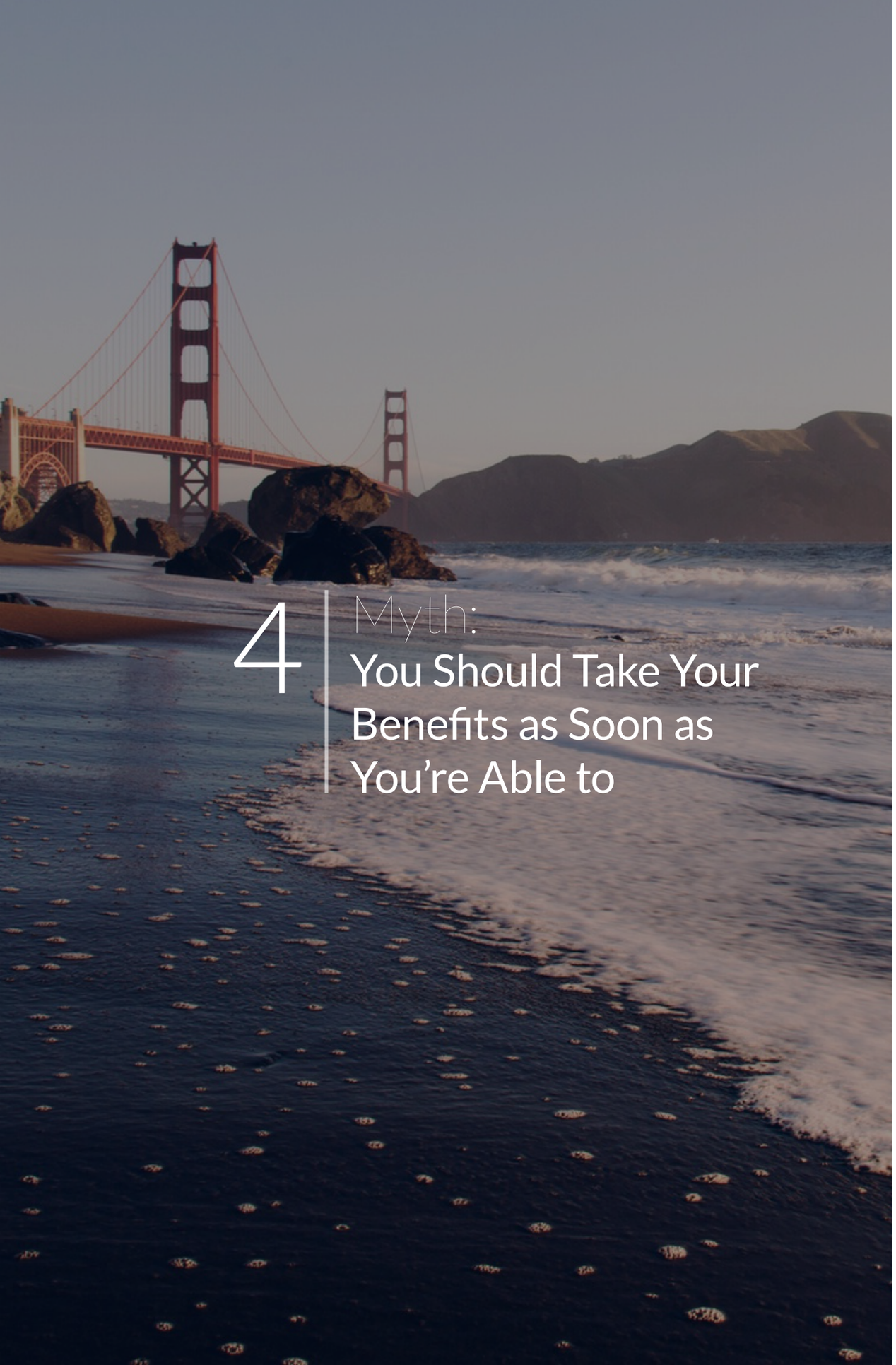
As pointed out in a thinkadvisor.com article on the subject, "the confusion stems from two overlapping and interlocking laws—the windfall elimination provision (WEP) and the government pension offset (GPO)." These laws may reduce the amount of Social Security benefit a government employee can claim, but may not eliminate them entirely.

Even when Social Security benefits are reduced because of a public pension, you should still look for ways to optimize your payments, as they can add up to tens of thousands of dollars over the course of your retirement.

3 Myth: A Few Canned Strategies for Social Security will fit all Needs

Every person's financial situation will be unique. From the aforementioned public pensions, to disability benefits, to lifetime income, to 401(k) contributions, to marital status, to personal savings on-hand at the time you retire, there are thousands of factors that can influence your Social Security payments. As such, following some oversimplified rules of thumb from the SSA.gov website (while sometimes useful), will rarely provide you the best optimization of your benefits.

Customization is key to getting the most out of your Social Security benefits. Even the advice you find here might need adjustment based on your personal situation.



4 Myth: You Should Take Your Benefits as Soon as You're Able to

The sooner you start getting paid, the better, right? With the nervousness surrounding the liquidity of the Social Security system, many people think that it's better to take their money as soon as possible or else risk losing it.

However, there is a case to be made for delaying SSI payments.

First, the Social Security system is far from being unable to fund itself. This may be an issue in the far-off future, but not for now.

Second, deferring payments can actually increase the total amount of money you receive from Social Security during your retirement, increasing funds and helping you live a more comfortable lifestyle.

As always, you should consult with an expert to see what's best for your situation.

5 Myth: Social Security Income Won't Affect My other Revenue Streams or Retirement Portfolio

Social Security is a guaranteed stream of income during retirement, so it naturally affects your other revenue streams.

For example, you could use your SSI to help fund your stock portfolio, increasing your revenue earned from there. Also, your Social Security affects the tax efficiency of your portfolio withdrawal strategies.

Including your Social Security income in your financial planning is important to creating a complete retirement plan that accurately represents your risk and income management strategy.

6 Myth: The SSA Will Tell You the Best Ways to Take Your Social Security Benefits

While an Administration agent will gladly tell you the rules about your SSI benefits, they are actively prohibited from giving you advice as a financial or retirement planning advisor would.

So, at best, an SSA advisor will tell you what is patently forbidden. To get advice for maximizing your payments, you should seek out a financial advisor, not an SSA agent.

7 | Myth: I Don't Need Social Security Planning Services

Social Security income is becoming a larger and larger part of many people's retirement portfolio. As a major source of income during retirement, it's almost always worthwhile to find ways to optimize your SSI payments with the help of a retirement planning expert.

8 Myth: Social Security Won't Be Around When I'm Going to Collect

This myth is, as with myth #4, based largely on the fears surrounding the solvency of Social Security. If you're still young, say in your mid -20's or -30's, this might be a legitimate concern. However, if you're already near the age of retirement, then this fear is largely unfounded.

9 Myth: I'm Rich, So I Don't Need to Care about Social Security Planning

If you're rich, there's a natural tendency to assume that you don't need to use any kind of extraneous income beyond your already-significant holdings and investments.

However, odds are that you achieved your high net worth by not wasting money, and not passing up opportunities for practically free money. If you're wealthy, your Social Security claims are worth a lot, so even though you might not need the income, it's worth your time to claim it and optimize your payments as best as possible.

Knowing the major myths behind Social Security is just the first step in maximizing your payments in retirement. For more information, you should consult with an experienced financial planner to go over your Social Security payment options.

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