Avoid these 4 traps when claiming Social Security

Robert Powell | Special to USA TODAY

Published 6:00 a.m. ET Feb. 19, 2020 | **Updated 11:01 a.m. ET Feb. 19, 2020**

If you're among the millions of Americans who plan to apply for retirement, spouse or disability benefits from Social Security this year it might be wise to review all that could go wrong.

What could go wrong, you wonder? After all, you simply go online to apply, or call Social Security at 1-800-772-1213 (TTY 1-800-325-0778) or visit your local Social Security office.

Simple enough?

If only. Here are the major traps awaiting you:

Customer service representatives are not advisers:

You might think that the Social Security Administration customer service representative you're speaking with is going to help you determine the best filing strategy. Not so, says Heather Schreiber, founder of HLS Retirement Consulting.

The Social Security Policy Operations Manual System (POMS, for short) specifically states that customer service representatives may "provide enough information so that claimants can make informed decisions, but do not give advice."

“So, it pays to be well-informed of your options when making this important claiming decision,” says Schreiber.

For example, she says, many claimants are unaware that if they have not yet filed for their retirement benefit and suffer the loss of a spouse, they may leverage their own retirement benefit with the survivors benefit by claiming the smaller one first and later claiming the larger one. “Absent the right information, they may assume that they should just file for both benefits simultaneously and take the higher payment,” says Schreiber.

Retroactive benefits or not?

The Social Security Administration might offer you a lump sum payment, or what is otherwise known as retroactive benefits. In fact, the Social Security Administration will pay up to six months of retroactive benefits in a lump sum for benefits claimed after full retirement age (FRA), the catch being that your monthly benefit will be reduced.

Now, this offer is common when talking with a Social Security customer service representative in person or on the phone, according to Jim Blankenship, author of "A Social Security Owner's Manual" and a certified financial planner with Blankenship Financial Planning.

But Blankenship learned recently of a claimant who – after applying for Social Security online shortly before his 70th birthday — received a phone call from Social Security informing him about his retroactive benefit. It’s worth noting, says Blankenship, the claimant had delayed his benefit to increase his younger spouse's future survivor benefit.

Social Security: Here’s what Trump’s proposed budget could mean for your benefits

If you make these key moves: A higher Social Security benefit could be yours

“The claimant was told he could get a lump sum benefit equal to six months of retroactive benefits, amounting to approximately $25,000 if he didn't mind his monthly benefit being reduced by about $135 per month,” says Blankenship. “For lots of folks, this seems like a bonus.

“And heck, giving up $135 a month for a $25,000 check? Why not? Of course, short-changing the longer-term benefit by that amount would take about 15 years to make up… and the reduction of benefits long-term in favor of a short-term bonus could be detrimental.”

Not knowing how work affects your benefits:

For claimants who elect to file for benefits prior to their FRA and continue to work, they must be aware of a special earnings limitation, says Schreiber.

For example, suppose John plans to file for benefits this year at age 62, while also expecting to earn $30,000. The 2020 earnings limitation is $18,240 for an individual who is under his FRA for the entire year. This means that this filer has $11,760 of excess earnings and the Social Security

Administration will withhold 50% of this excess, or $5,880, before sending the remaining monthly benefits to John.

“Often filers are unaware of this rule and discover after the fact that they are subject to paying back benefits already received,” says Schreiber. “It is important to note that any benefits previously withheld due to excess earnings will be restored once the claimant reaches his/her FRA in the form of higher monthly benefits to account for the withheld benefits."

Also important to note, says Schreiber, is that the earnings limitation only applies to the earned income of the claimant and not that of the spouse, and the earnings limitation no longer applies once the claimant reaches FRA.

Being unprepared for how taxes could affect you:

Most consumers understand that their earnings are likely subject to Social Security taxes when earned but may be less knowledgeable that some of their annual benefits could be subject to federal income taxes when withdrawn, says Schreiber.

When determining whether a portion of your benefit is taxable, you must first look at your provisional income, the sum of your adjusted gross income plus 50% of your Social Security benefits plus tax-free interest.

“Understand that all sources of taxable income are considered, including earnings, taxable IRA distributions and capital gains,” says Schreiber.

If you are married filing jointly, for example, and your provisional income is less than $32,000, your benefits are not subject to income taxes, she says.

However, if your provisional income is between $32,000-$44,000, as much as 50% of your benefit could be taxable and above $44,000, as much as 85% of your benefit could be taxable.

“So, it is important to consider all sources of income in retirement when making your claiming age decision so that you are better prepared to collect the amount of net income you need,” says Schreiber.

Robert Powell is the editor of TheStreet’s Retirement Daily and contributes regularly to USA TODAY. Got questions about money? Email Bob at rpowell@allthingsretirement.com.