The First Thing You Should Do With Your Social Security Check

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/ By Paul Sisolak (http://www.gobankingrates.com/author/paulsisolak/) / June 2, 2015

Social Security is often seen as pretty simple and straightforward: Kick back, relax and collect that check, right?

But for new retirees, even those who have been diligent about retirement planning, it might come as a surprise that the process of collecting Social Security is actually fairly complex (http://www.gobankingrates.com/personal-finance/26-unsettling-truths-social-security/).

It's a pressing issue for more and more people: An estimated 10,000 baby boomers retire every day. According to Social Security Administration statistics, nearly 60 million people received $863 billion in benefits last year.

This doesn't mean your retirement must be spent working harder than you did at the job you just left, crunching numbers all day and night. You just need to get your finances in order, develop a plan and prepare crunching numbers all day and night. You just need to get your finances in order, develop a plan and prepare some paperwork — and the earlier you take those first steps, the more relaxing and rewarding your retirement will be.

Read: Retiring in 2015? Follow This Monthly Financial Checklist (http://www.gobankingrates.com/personal-finance/monthly-checklist-successfully-retire-2015/)

7 Ways to Maximize Your Social Security Benefits

In a recent interview with USA Today, author and economics professor Laurence Kotlikoff explained that Social Security should be treated like any major investment.

"It's really critical for almost all of us to get this 100 percent right," he said. "Simply taking benefits at the earliest possible moment without any strategizing can cost almost everybody a lot of money. People don't understand that there is more than one benefit available to them, and there are different strategies for taking their different benefits."

Fix your Social Security strategy by taking these steps to budget, allocate and manage your benefits.

1. Figure out how much you're paying into Social Security

Millennials, Gen X-ers and boomers: How well do you really know what portion of your income goes into Social Security?

Figure out exactly what you're paying — it is your money, after all. According to U.S. News & World Report, you've been contributing 6.2 percent of your income into the system, and double that if you're self-employed. Additionally, your Social Security payments are calculated based on your 35 highest-earning years spent working; if you haven't worked for an aggregate of 35 years, zeros will be factored into the average and your payout will be lower.

2. Figure out how much of your benefits are taxable

You can determine how much of your Social Security benefits will be taxed depending on what you earn — as your income goes up, so does the amount of Social Security that's taxable.

For individual filers, if your combined income (adjusted gross income, nontaxable interest and half of your Social Security benefits) is below $25,000, you won't be taxed, reports Stan Hinden at the AARP. If your income is between $25,000 and $34,000, up to half of your benefits could be subject to tax. For income that's above $34,000, up to 85 percent of your income is taxable.

To keep track of your benefits and know how much to report on your tax return next year, obtain a copy of the SSA-1099 — the Social Security benefits statement. According to the SSA, it should be mailed to you in January of each year for use on your taxes.

3. Re-examine your budget

Some experts contend that retirees will need at least 70 percent of their pre-retirement annual income to live comfortably in retirement — but if you have bills and debts to pay, that percentage goes up.

In fact, your Social Security check could very well not be enough to cover all your expenses, so it's time to take another look at your budget to see what works and what doesn't.

"Look at your Social Security income versus your budget. If your income exceeds your budget, then you are in a good place, especially if you have retirement savings," said Anthony Kirlew, founder of FiscallySound.com (http://www.fiscallysound.com/). "If your income is less than your budget, then you need to look at all of your financial resources that you can supplement your Social Security income with, such as 401(k)s, life insurance cash value or other investments."

Thankfully, there are plenty of other ways to avoid relying on your Social Security benefits (http://www.gobankingrates.com/personal-finance/42-ways-save-retirement/).

4. Plan to monitor your payment amounts

Once you begin receiving your benefits, confirm the exact amount owed to you to prevent overpayment of benefits.

"If there is some type of overpayment, you want to make sure you report it as soon as possible," said John Fowler, a certified financial planner and wealth manager at McElhenny Sheffield Capital Management (http://mscm.net/). "Eventually, the Social Security administration will catch it, and the longer you wait to report it, the longer they will have to reduce your future payouts to recoup the overage."

If this happens, your payments could be affected in a few ways, Fowler said. "In some instances, they may provide a waiver and 'fix the glitch' going forward. However, in most cases, they may recoup the overage by reducing your future payments until they get the overage amount back," he said. Confirming your records is as easy as downloading your Social Security statement online.

Related: 10 Retirement Savings Myths That Won't Go Away (http://www.gobankingrates.com/personal-finance/10-retirement-savings-myths-wont-away/)

5. Figure out when you'll get paid each month

For 2015, Social Security benefits are paid to recipients on Wednesdays, once a month, according to your birthday:

- **Second Wednesday of the month:** birth dates between the 1st and the 10th
- **Third Wednesday of the month:** birth dates between the 11th and the 20th
- **Fourth Wednesday of the month:** birth dates between the 21st and the 31st

If you receive both Social Security benefits and Supplemental Security Income (SSI), you'll typically get your money on the third of the month, unless this day falls on the weekend — this is also the case for people who received or applied to receive Social Security before May 1997.

6. Determine if you need to delay your benefits

One of the best ways to make the most out of Social Security is to deny it for as long as possible. You can begin collecting Social Security at age 62, but if you put off claiming benefits till 70 (http://www.gobankingrates.com/personal-finance/make-sure-retirement-savings-last-long/), your lifetime monthly benefit will be 76 percent larger, according to a 2013 report by Merrill Edge. In fact, for every year you delay claiming Social Security up till age 70, your benefits will grow by 8 percent.

7. Know your spouse's claiming options

Along with Valentine's Day and your anniversary, your spouse should absolutely be involved in the day you decide to claim Social Security. This is because married couples have two choices: They can claim Social Security based on their own income and work record, or they can receive payments worth up to 50 percent of the higher earner's benefits. If one spouse dies, the other will receive an amount based on the higher earner's benefits, according to U.S. News.

"The higher earner should base his benefits decision on the age he would be when the second spouse dies," William Reichenstein, a Baylor University professor, told the site. "What would probably be the best strategy is for him to wait until he turns 70, because after the death of the first spouse, the survivor keeps the higher benefits."

This even applies to people who have divorced, as long as the marriage lasted at least a decade.

Related: 26 Unsettling Truths About Social Security (http://www.gobankingrates.com/personal-finance/26-unsettling-truths-social-security/)

How You'll Benefit

Following the above steps can work to your advantage in a few ways:

- **You'll stay on target.** Knowing how much income is deducted for Social Security, how much is taxed, how much you stand to earn and when you'll earn it gives you insight into how to move your finances in the right direction.
- **You'll boost your financial literacy.** It's important for seniors to get on top of their budgets and costs of living in retirement. Do this, and you'll be better equipped to leverage your Social Security benefits between spending and saving. "You should consider depositing the Social Security payments into your investment account to allow the funds to grow until you need them in the future," said Melinda Kibler, a certified financial planner at Palisades Hudson Financial Group.
- **You'll be prepared.** Knowing what to expect from Social Security as far in advance as you can aids you in mapping out a bright, lucrative future for yourself in retirement.

Fenando Orvananos • 3 months ago

I am 68 and have not taken any money from my Social Security, I am still working and contributing my fees to Social Security, my questios is , if I stop working and not make withdrawals, they will still grow at 8% a year until I am 70 ?

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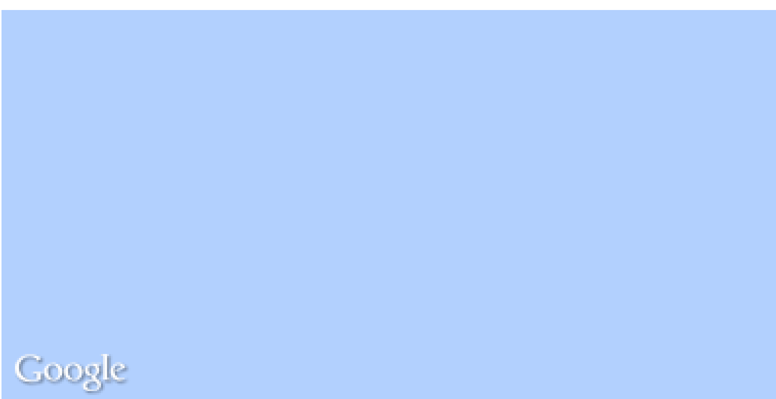

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