10 Social Security Mistakes to Avoid

Your Social Security claiming decision can dramatically affect the benefit payment you will receive in retirement. If you sign up too soon or don't work long enough, your Social Security payment is reduced. Here's how you may be decreasing your retirement payout:

1. Not working for 35 years - The 35 years in which you earn the most are used to calculate your Social Security benefit. If you don't work for at least 35 years, zeros are averaged into your benefit amount and result in lower payments.

2. Failing to maximize your earnings - Most people pay 6.2 percent of each paycheck into the Social Security system up to $117,000, and employers contribute a matching amount. If you can boost your income by getting a raise or a more lucrative job, you will pay more taxes into the system and get a bigger payout in retirement. However, once you hit the tax cap of $117,000 in 2014, you will no longer pay Social Security taxes on that income and that portion of your salary won't be factored into your retirement benefit.

3. Signing up as soon as possible - It's tempting to start your Social Security payments as soon as you are eligible at age 62, but your sign-up decision should not be made lightly. Monthly payments are permanently reduced if you sign up at age 62, which will affect your retirement finances for the rest of your life.

4. Forgetting your full retirement age - Just as you know your birthday, you should know the age at which you are first eligible for unreduced Social Security benefits. Your full retirement age varies depending on your birth year, but it is typically 66 or 67.

5. Not considering delaying claiming - You can increase your monthly payments by waiting to claim your Social Security benefit until age 70. While not everyone will come out ahead by waiting until age 70 to sign up, it's worth carefully considering how long you expect to live when choosing the optimal date to claim benefits.

6. Failing to coordinate with your spouse - Spouses are entitled to up to 50 percent of the higher earner's Social Security payments and should make their Social Security sign-up decisions jointly. After turning full retirement age, married individuals can boost their lifetime benefit by claiming spousal payments and later switching to their own payments, which will then be higher due to delayed claiming. Divorced spouses are also eligible if the marriage lasted at least 10 years.

7. Forgetting to factor in survivor's payments - When one member of a married couple dies, the surviving spouse gets Social Security payments equal to the higher earner's benefit. Married individuals can boost the amount their spouse will receive by delaying the start of Social Security payments as long as possible up until age 70

8. Earning too much after you sign up - If you are younger than your full retirement age and earn more than $15,480 in 2014, you will lose $1 in benefit payments for every $2 you earn above the limit. The year of your full retirement age, the earnings limit increases to $41,400, after which every $3 earned above the limit results in one benefit dollar being withheld. After you reach full retirement age, you can earn any amount without penalty, and your payment will be increased to give you credit for any withheld earnings.

9. Paying tax on your Social Security benefit - If your adjusted gross income, nontaxable interest and half of your Social Security benefit totals more than $34,000 ($44,000 for couples), up to 85 percent of your Social Security benefits could be taxable. If those income sources add up to between $25,000 and $34,000 ($32,000 and $44,000 for couples), up to half of your benefit may be taxable. Keeping your taxable retirement income below those thresholds could allow you to avoid paying tax on your Social Security benefit.

10. Not checking your benefit statement - While paper Social Security statements are periodically mailed to workers, you can check to see if your annual earnings and taxes paid into Social Security are recorded correctly at any time by creating an online account at socialsecurity.gov/myaccount. Both the paper and online statements will also give you an estimate of how much you will receive in retirement