Relying Soley on Social Security? Please Don't.

Five steps to prepare you for a reduction in social security benefits

If you think you can rely on Social Security to support you during retirement, you should make other plans.

According to the Social Security Administration, trust funds that supply the program might run out of money as early as 2035. That's in 15 years.

This situation brings a lot of uncertainty to current and future retirees who neglected to make independent financial plans to supplement Social Security payments. Fortunately, retirees-to-be can take steps to help themselves.

Why is Social Security running out of money? Several factors led to the funds' depletion. Currently, the Social Security Administration doles out more money than it gets from interest and tax payments. If this trend continues, it runs out of money at some point in the future. The 2035 projection is based on current Social Security benefits, taxes and interest rates. Any changes to those factors could lengthen or shorten the program's life.

Just because the SSA depletes its funds doesn't necessarily mean that retirees lose all their benefits. The agency says that present taxes fund 75% of benefits. Retirees might see a substantial reduction but not a complete loss of all benefits.

You can take several steps to prepare for reduced Social Security payments.

1. Claim Benefits Later

You can receive larger benefits by delaying retirement. The current age of retirement to get what's called full benefits is 66. (You can get lower benefits starting at 62.) But waiting to receive benefits beyond 66 brings you an even larger check. Delaying retirement by one year from 66 means about an 8% increase in benefits. Delaying two years means a 16% increase. Those who wait until 70 get 32% more in benefits.

Even if you can retire early at 62, don't apply for benefits until later. Those who take early retirement only receive 75% of the standard benefit if they had waited until 66.

2. Know How to Work the System

Social Security benefits are so complex that few people understand how the system works. There are several rules that can prevent some beneficiaries from receiving full payment.

Many of these pitfalls have to do with marriage. Ex-spouses can only receive full spousal benefits if they were married for at least 10 years and don't remarry before they turn 65. Any couple married even one day less than 10 years does not receive full spousal benefits. Those who get remarried lose those benefits, too. If a retiree waited until 65 to get re-married, he or she could collect Social Security income based on the previous spouse's benefits.

3. Reduce Household Spending

The less money you spend, the less you need. This doesn't necessarily mean that retirees have a reduced quality of life. There are numerous ways to reduce expenses without suffering.

Shop around for cheaper health and car insurance. People over 60 need help paying for medication, doctor visits and medical emergencies. Insurance costs are usually higher for the elderly but shopping around can still help you save hundreds of dollars a year. Lower car insurance can also help you save. If you had the same insurance policy for several years, you might save a considerable amount of money by switching to another company or reapplying for a policy through your current provider.

Another option: Move into a smaller home. Retirees find that they don't need large homes because they no longer have children living under their roofs. Moving into an apartment, condo or small house could help you save money every month. Smaller living spaces are easier to maintain in your old age, too.

4. Earn Money During Retirement

Just because you retire doesn't mean that you have to stop making money.

According to a Gallup Poll, up to 19% of retirees earn extra money from rental properties. If you already own more than one property, then you could rent one for extra cash. If you aren't a second homeowner, you could use your savings to purchase and rent apartments or houses. That way, you turn your savings into a steady source of income instead of just letting it sit in the bank earning meager interest.

You can also earn money through consulting. You don't have to completely re-enter the workforce to make extra money. Retirees who have years of experience in certain industries can generate income by offering their services on a part-time or freelance basis. That way, you get to decide how much to work so you can enjoy retirement without going broke.

5. Save and Get Good Advice

The more you save now, the more money you have when you retire. Whether you saved for decades, years, months or weeks, every dollar helps. Even if Washington comes up with a way to keep Social Security afloat well into the future, it still isn't enough for most retirees to live on. Your savings and income-yielding investments can keep you from having to reduce your standard of living after retirement. The uncertainty of the program's survival after 2035 is all the more reason to save as much as possible.

Since investment and Social Security involves so many factors, it makes sense for people to meet with financial advisors. Meeting with an advisor can help you make realistic plans for the future. Just knowing what to expect can help you prepare.