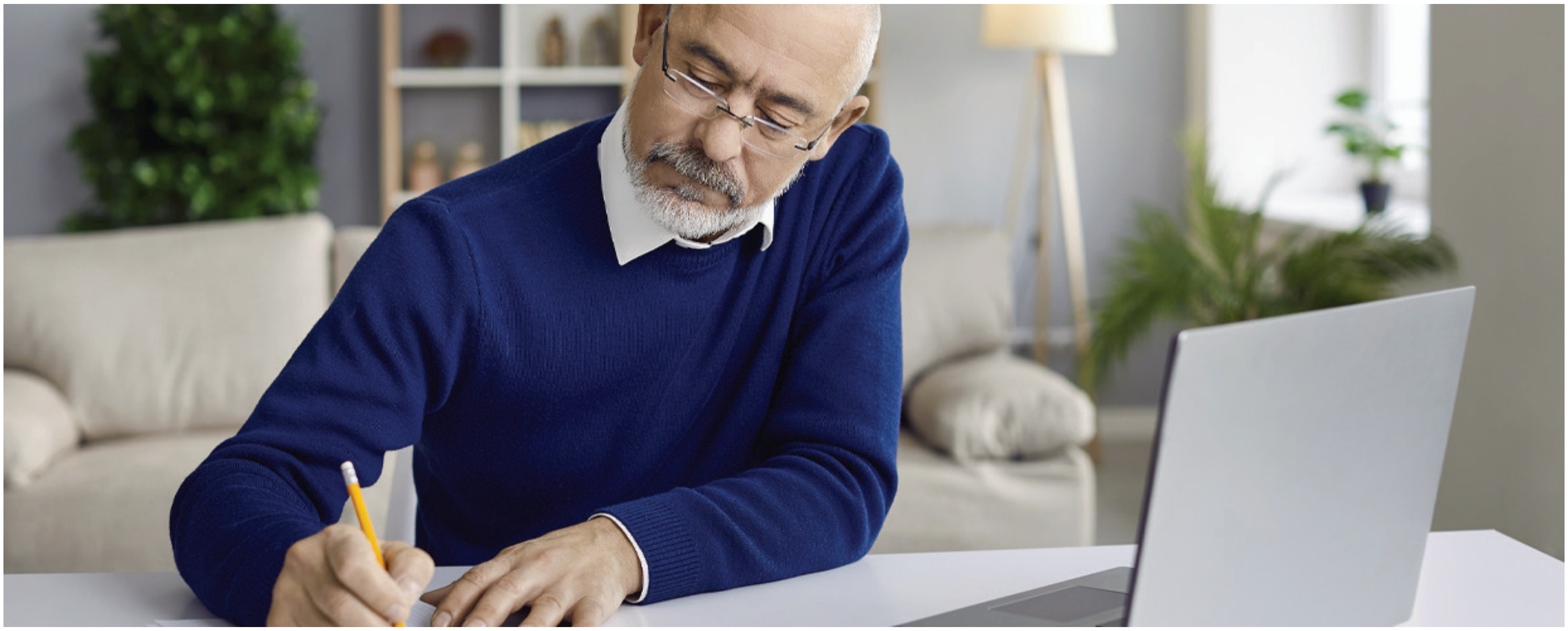

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3 Ways to Raise Your Social Security Benefit

By Elaine Floyd, CFP®

Wondering how to maximize your Social Security income? It's not as difficult as you may believe. Here are three options almost anyone can do.

Not so long ago, baby boomers viewed Social Security as a retirement program for old folks. High-earning boomers felt that Social Security didn't apply to them because the monthly checks were small and they believed the system wouldn't be around when they retired.

Now the tide has shifted. Nearly all boomers have embraced Social Security, and they're on a mission to get the most out of the system. Maximizing Social Security has become a national obsession, even—especially—among high-earners.

A boomer who has earned the Social Security maximum throughout his career and who claims at full retirement age (67 for those born after 1959) will receive a monthly benefit of approximately $3,600. If he plays his cards right, he could receive even more.

One of the most frequently asked questions by boomers is: "How can I increase my Social Security benefit?" There are three ways to do it.

COST-OF-LIVING ADJUSTMENTS

The easiest way to increase your Social Security benefit is to do nothing. In 1975 Congress authorized automatic cost-of-living adjustments (COLA) based on the annual increase in the CPI-W from the fourth quarter of one year through the third quarter of the following year.

The annual COLA is applied beginning with December benefits, which are payable in January. Most of the news reports that come out each year when the COLA is announced talk about the high cost of living and whether the COLA increase is enough for seniors on fixed incomes. What is not so well publicized is how the COLA can impact a person's Social Security benefit over time. The higher the benefit is, the higher the COLA increase will be.

Let's take someone with a primary insurance amount (PIA) of $3,000 per month and a full retirement age (FRA) of 67. If he claims his benefit at 62, he'll receive a monthly benefit of $2,100 ($3,000 x .70). A 2% COLA applied to this amount would cause his monthly benefit to rise by $42. But if he claims his benefit at 70 and is receiving $3,720 per month ($3,000 x 1.24), a 2% COLA would cause his benefit to jump by $74.40, a difference of $32.40 per month. These may not seem like large amounts, but if you multiply them out and compound them over many years, they add up.

EARN MORE

The second way to raise the Social Security benefit is by earning more. Many about-to-retire boomers ask how their benefit will be affected if they continue to work or, conversely, if they retire early.

Your PIA is based on an average of your highest 35 years of earnings. If you don't have 35 years of earnings, your total earnings will still be divided by 35 years to come up with the average. Working longer will allow you to replace those years of zero earnings with positive earnings and bring up the average.

If you already have 35 years of earnings, you can still improve your earnings record if you earn enough to cause an earlier, lower year of earnings to drop off.

Incidentally, if you keep working but at a lower salary—say you switch to part-time work—it will not cause your PIA to go down. Once the PIA has been calculated at age 62, higher earnings may cause it to go up, but low earnings will not cause it to go down. Note, however, that the benefit estimate shown on your statement assumes you will continue to work until claiming age. If you retire early, your benefit may turn out to be lower than you expect.

DELAY THE START OF BENEFITS

Most boomers are aware of the rules that provide for a reduced benefit if they apply at 62 and a higher benefit if they file at 70. Indeed, the amounts are shown right on the annual Social Security statement. But the difference between the age-62 amount and the age-70 amount doesn't seem very large at first glance, especially when the carrot of immediate free money is dangling in your face.

But if you project those benefits out over a lifetime, incorporating annual COLAs, and even additional earnings—understanding that if the primary breadwinner in your family dies, his higher benefit will continue as long as the surviving spouse is alive—the difference between applying at 62 and applying at 70 expands enormously.

Let's take the case of a high earner whose PIA is $3,000 and whose FRA is 67. If he were to take his benefit at 62, he would receive 70% of $3,000, or $2,100 per month. If he waits until full retirement age he'll receive the full $3,000. And if he delays to age 70, the benefit will increase by 8% annual delayed credits between full retirement age and 70, giving him a benefit of 124% of $3,000, or $3,720.

Adding up all the monthly benefits, by age 90, he will have received a total of $730,800 if he files at 62, or $937,440 if he files at 70. If he doesn't make it to 90, his surviving spouse will continue to receive his benefit as her survivor benefit. These amounts do not include COLAs or additional earnings.

Now let's add COLAs. Using an average COLA of 2% means that total benefits at 90 would be $961,488 if our boomer claims at 62, or $1,328,567 if he claims at

70. The monthly benefit at age 90 would be $3,691 if he had claimed at 62, vs. $6,616 if he had claimed at 70. (If he doesn't make it to age 90, this higher benefit will be paid to his spouse.)

That means wives, because they generally live longer, should make the decision about when the husband claims his benefit. Women tend to focus more on monthly income than cumulative benefits. Show any woman what her age-90 benefit will be under the two claiming scenarios and the choice will be clear.

Now let's include additional earnings. If he keeps working at maximum salary until age 70, his PIA goes up to about $3,100. With 8% annual delayed credits and 2% COLAs, this boosts his age-70 benefit to $4,601. By age 90, COLAs will have increased his (or his widow's) benefit to $6,836 and total lifetime benefits to $1,372,853.

So, if you are a 62-year-old high earner and you want to get the absolute maximum Social Security benefit, you might: (1) keep working at maximum salary to age 70, and (2) claim your Social Security benefit at age 70.

REAL LIFE APPLICATIONS

Obviously, these show the extremes, from stopping work and claiming benefits at 62 to stopping work and claiming benefits at 70. In real life, the stop-work age and the claim-benefits age could be different. You might stop working at 62 and file for benefits at 70. This would give you more benefits than if you had filed at 62, but less than if you had kept working until age 70.

Social Security strategies must naturally be integrated into your overall retirement plan. But if you're looking to get the most out of the system, remember this: Work till 70, claim at 70.

WHAT IF YOU HAVE ALREADY FILED?

How can you increase your benefit if you have already filed for Social Security? If it's been less than 12 months since you filed, you can withdraw your application and repay benefits and start over later.

If it has been more than 12 months since you filed, or if you don't want to go to the trouble of withdrawing and repaying, if you are under full retirement age you can simply go to work at a high enough salary that all of your benefits will be withheld (roughly $60,000 or more). When you turn full retirement age, the benefit will be recomputed to add back in the actuarial reduction for those months in which a benefit was withheld. At this time you can voluntarily suspend your benefit to earn the 8% annual delayed credits on the amount of the benefit at the time of suspension.

There have been cases where a person filed for Social Security at 62, received just one or two checks, and then went back to work. Because the benefit will be suspended—automatically from 62 to FRA and voluntarily from FRA to 70—they will end up with nearly the same benefit as if they had initially waited until age 70 to file.

Benefit Estimate for a High Earner with a PIA of $3,000 and FRA of 67

Stops working at 62, claims benefit at 62	Stops working at 70, claims benefit at 70
Starting benefit, monthly	
$2,100	**$4,601**
Benefit at age 90, with 2% COLAs	
$3,691	**$6,836**
Cumulative benefits at age 90 with 2% COLAs	
$961,488	**$1,372,853**

There may be more ways to increase your Social Security income if you also qualify for spousal benefits, divorced-spouse benefits, or survivor benefits. It's also important to recognize that, while we've outlined some general rules of thumb in this article, there's no guarantee the advice here works well within the context of your overall financial plan and greater retirement goals.

For customized help, visit a financial advisor who has the calculation tools necessary to analyze Social Security claiming strategies that consider your individual situation.

Elaine Floyd, CFP® is Director of Retirement and Life Planning for Horsesmouth, LLC, where she helps people understand the practical and technical aspects of retirement income planning.