Social Security
Planning

3 Ways to Raise Your Social Security Benefit

by Elaine Floyd, CFP®

Wondering how to maximize your Social Security benefits? It's not as difficult as you may believe. Here are three options almost anyone dan 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—specially—among high-earners.

A boomer who has earned the Social Security maximum throughout his career and who turns his full retirement age (66) in 2018 will receive a monthly benefit of approximately $2,900. 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 benefitis to do nothing. In 1975 Congress authorized the automatic cost-of-living adjustment (COLA) based on the annual increase in the CPI-W from the third quarter of one year to 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, the higher the COLA increase will be.

Let's take someone with a roughly average benefit of $1,300. If we apply a 2.6% COLA to this benefit (2.6% is the number used in the Social Security Trustees' intermediate projections) then the benefit goes up to $1,333, a $33 dollar increase. A maximum earner with a PIA of $2,800 would get a benefit increase of $73 ($2,800 x 0.026 = $72.8). If that same maximum earner were to delay his benefit to age 70, he'd get an increase of $96 ($2,800 x 1.32 x 0.026 = $96). 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.

Social Security's primary insurance amount (PIA) is based on an average of the 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. How will these higher earnings affect your Social Security benefit? Let's use the example of a person born in 1956 who started working in 1978 and earned the Social Security maximum all his life. When he turns 62 in 2018, his PIA is calculated to be approximately $2,900. This is based on earnings from 1983 through 2017.

What if he decides to work an extra year and earns the Social Security maximum of $128,400 in 2017? Now the 1983 indexed earnings of $108,456 will drop off and be replaced by the 2018 earnings of $128,400. His earnings record will now include the years 1984 through 2017 and raise his average indexed monthly earnings, raising his PIA by about $10 dollars.

What if he works another year at maximum earnings? His PIA will go up another few dollars. Incidentally, if his earnings in 2018 had been less than they had been in 1983, it would not cause his 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.

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If you project those benefits over time, the difference between applying at 62 and applying at 70 expands enormously.

Benefit Estimate for Maximum Earner, age 62, in 2018

	Stops working at 62, claims benefit at 62	Stops working 70, claims benefit at 70
Starting benefit montly	$2,146	$4,011
Benefit at age 90, with 2% COLAs	$4,404	$6,703
Cumulative benefits at age 90 with 2% COLAS	$1,094,751	$1,322,549

So you can feel free to shift to part-time work without jeopardizing your Social Security benefit, understanding that if you are under full retirement age (FRA), $1 in benefits will be withheld for every $2 you earn over $17,040 in 2018. Again, we're talking small amounts, but they grow larger when you multiply them out and apply COLAs and delayed retirement credits. This brings us to the third way to increase a Social Security benefit.

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 the maximum earner who turns 62 in 2018. The PIA formula shows his PIA to be about $2,927. If he were to take his benefit this year, he would receive about 73% of $2,927, or $2,146 per month. If he waits until full retirement age (66 and two months for his cohort) he'll receive the full $2,927. 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 about 129% of $2,927, or $3,785.

Adding up all the monthly benefits, by age 90, he will have received a total of $746,973 if he files at 62, or $953,943 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. The Social Security Trustees project annual COLAs of 2.6% in 2018 and beyond. In our example, using an average COLA of 2.6% means that total benefits at 90 would be $1,094,751 if our boomer claims at 62, or $1,532,526 if he claims at 70. The monthly benefit at age 90 would be $4,404 if he had claimed at 62, vs. $7,767 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 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. What if he keeps working at maximum salary until age 66? Now his PIA goes up to $2,954. If he keeps working until age 70, it rises to $3,039. (These estimates assume the Social Security wage base rises by 4% per year.)

With 8% annual delayed credits, this boosts his age-70 benefit to $4,011. By age 90, COLAs will have increased his (or his widow's) benefit to $6,703.

So, if you are a 62-year-old maximum 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.

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.

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