

3 Ways to Raise Your Social Security Benefit

Keith W. Duncan

Instructor

Financial Educators MT

1601 2nd Ave N; Ste. 632 /

1301 Elm St; Ste. B

Great Falls / Helena, MT 59401/ 59601

406.727.8151

kduncan632@gmail.com

<http://www.financialeducatorsmt.com/>



By Elaine Floyd, CFP

Wondering how to maximize your Social Security benefits? 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 turns full retirement age (66) in 2014 will receive a monthly benefit of \$2,642. 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 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 COLA for 2014 will be 1.5%, 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.

The average Social Security benefit in 2013 was \$1,275. After the 1.5% COLA, it is \$1,294, an increase of \$19 per month. That's the average. A maximum earner who turned 66 in 2013 would get a benefit increase of \$29 ($\$2,533 \times 0.015 = \29). If that same maximum earner were to delay his benefit to age 70, he'd get an increase of \$50 ($\$2,533 \times 1.32 \times 0.015 = \50). These may not seem like large amounts, but if you multiply them out and compound them over many years, they add up.

This brings us to the second way you can increase your Social Security benefit.

Earn more

Many about-to-retire boomers asks 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 their 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 1952 who started working in 1974 and earned the Social Security maximum all his life. When he turns 62 in 2014, his PIA is calculated to be \$2,642. This is based on earnings from 1979 through 2013.

What if he decides to work an extra year and earns the Social Security maximum of \$117,000 in 2014? Now the 1979 indexed earnings of \$88,416 will drop off and be replaced by the 2014 earnings of \$117,000. His earnings record will now include the years 1980 through 2014 and raise his average indexed monthly earnings. This will cause his PIA to increase by \$10 to \$2,652.

What if he works another year at maximum earnings? His PIA will go up another few dollars. (Incidentally, if his earnings in 2014 had been less than \$88,416, 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. 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 \$15,480 in 2014.)

Again, we're talking small amounts, but they grow larger when you multiply them out and apply COLAs and delayed retirement credits...which brings us to the third way to increase your 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 2014. The PIA formula shows his PIA to be \$2,642. If he were to take his benefit this year, he would receive 75% of \$2,642, or \$1,981 per month. If he waits until 66, he'll receive the full \$2,642. And if he delays to age 70, the benefit will increase by 8% annual delayed credits between 66 and 70, giving him a benefit of 132% of \$2,642, or \$3,487.

Adding up all the monthly benefits, by age 90, he will have received a total of \$665,616 if he files at 62, or \$836,880 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.

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Now let's add COLAs. The Social Security Trustees project annual COLAs of about 2% over the next five years, and 2.8% beyond that. In our example, using an average COLA of 2% means that total benefits at age 90 would be \$922,402 if our boomer claims at 62, or \$1,264,236 if he claims at 70. The monthly benefit at age 90 would be \$3,450 if he had claimed at 62, vs. \$6,072 if he had claimed at 70. (Because he may be long gone by then, the likelihood is that it will be his widow who'll be receiving the age-90 benefit. 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. The \$2,642 PIA estimate assumes our boomer stopped working at the end of 2013. What if he keeps working at maximum salary until age 66? Now his PIA goes up to \$2,693. If he keeps working until age 70, it rises to \$2,746. (These estimates assume the Social Security wage base rises by 3% per year.)

But when he actually gets to age 70, the \$2,746 PIA will have increased by 2% annual COLAs to \$3,217. Multiply this by 1.32 to account for the 8% annual delayed credits from age 66 to 70, and you get an age-70 benefit of \$4,247. This will boost his cumulative benefits by age 90 to \$1,314,002 and his widow's monthly income to \$6,311—compared with \$1,264,236 and \$6,072, respectively, if he had claimed at 70 but stopped working at 62.

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. This will give you a benefit of \$4,247 per month at age 70, compared with a benefit of \$2,322 at age 70 if you had claimed at 62 (this is the \$1,981 early filing benefit plus eight years of 2% COLAs).

By age 90, this maximization strategy will give you cumulative benefits of \$1,314,002 vs. \$922,402 if you claim at 62, and monthly income of \$6,311 vs. \$3,450.

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.

These estimates do not include additional amounts that may be received through the coordination of spousal benefits. A high-earning married couple could get an extra \$63,408 (not counting COLAs) by having one spouse file and suspend at 66 while the other spouse files a restricted application for the spousal benefit and receives \$1,321 per month (50% of \$2,642) from age 66 to 70.

These amounts also do not include taxes. Most retirees will pay income taxes on 85% of their benefits. But we're talking here about how to get the most dollars out of the system. Since the government never takes 100% of our money, boomers who maximize Social Security benefits will end up ahead, even after paying the necessary taxes.

What if you have already filed?

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

Benefit Estimate for Maximum Earner, Age 62, in 2014

	Stops working at 62, claims benefit at 62	Stops working at 70, claims benefit at 70
Starting benefit, monthly	\$1,981	\$4,247
Benefit at age 90, with 2% COLAs	\$3,450	\$6,311
Cumulative benefits at age 90 with 2% COLAs	\$992,402	\$1,314,002

Source: Horseshmouth

If it has been more than 12 months since you've filed, or if you don't want to go to the trouble of withdrawing and repaying, 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 client 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 66 and voluntarily from 66 to 70—they will

end up with nearly the same benefit as if they had initially waited until age 70 to file.

There may be more ways to increase your Social Security income if you also qualify for spousal benefits, divorced-spouse benefits, or survivor benefits. For customized help, visit a financial advisor who has the calculation tools necessary to analyze Social Security claiming strategies that consider your individual situation.

As director of retirement and life planning for Horseshmouth, Elaine Floyd helps advisors better serve their clients by understanding the practical and technical aspects of retirement income planning. A former wirehouse broker, she earned her CFP designation in 1986.