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5 Ways to Boost Your Social Security Benefit

Social Security may be one of the most valuable assets available to Wyoming retirees. The total payout across retirement can well exceed $1 million. Unfortunately, some retirees rush to claim their Social Security benefit without considering the tradeoffs. This guide will help you understand how Social Security works and show you 5 ways to potentially boost one of your most valuable assets of all--your future Social Security cash flow.

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SOCIAL SECURITY 101: HOW IT WORKS

How to Become Eligible

You must be fully insured to reap the full benefits of Social Security. To become fully insured, you must earn 40 credits. In 2020 you receive one credit for every $1,410 earned and the most credits you can earn in one year is four. So, to become fully insured you need to earn four credits per year for 10 years. Once you're fully insured you're insured for life and eligible for your Social Security retirement benefit.

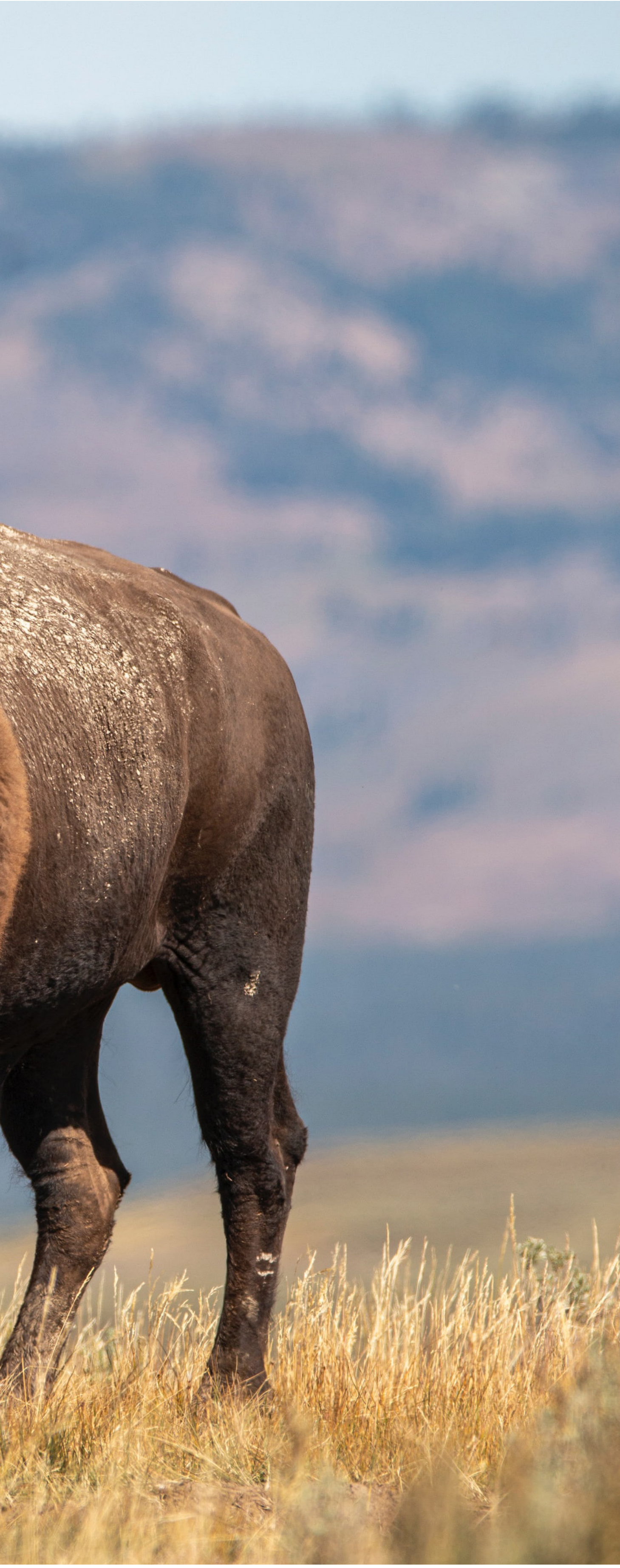
How Much is My Monthly Benefit?

Your monthly benefit is primarily based on two factors:

- How long you've worked
- How much you've earned

Social Security looks at your 35 highest earning years up to age 60 to determine your benefit. Once you turn 60, one earning year can potentially replace a lower earnings year within your 35 earlier years (more on this later).

Social Security also looks at how much you've earned. Generally, the more money you earn, the higher your benefit will be, up to the taxable wage base. In 2020, the taxable wage base is $137,700. Earning more than this will not result in



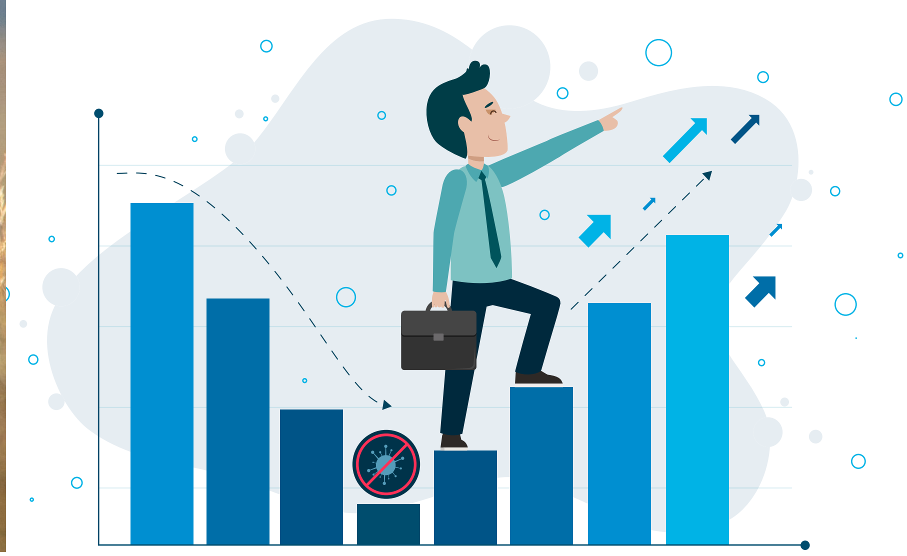
additional Social Security taxes, and as a result, your final monthly benefit will be limited as well. In 2020, the maximum monthly benefit for an earner claiming their benefit at age 70 is $3,790.

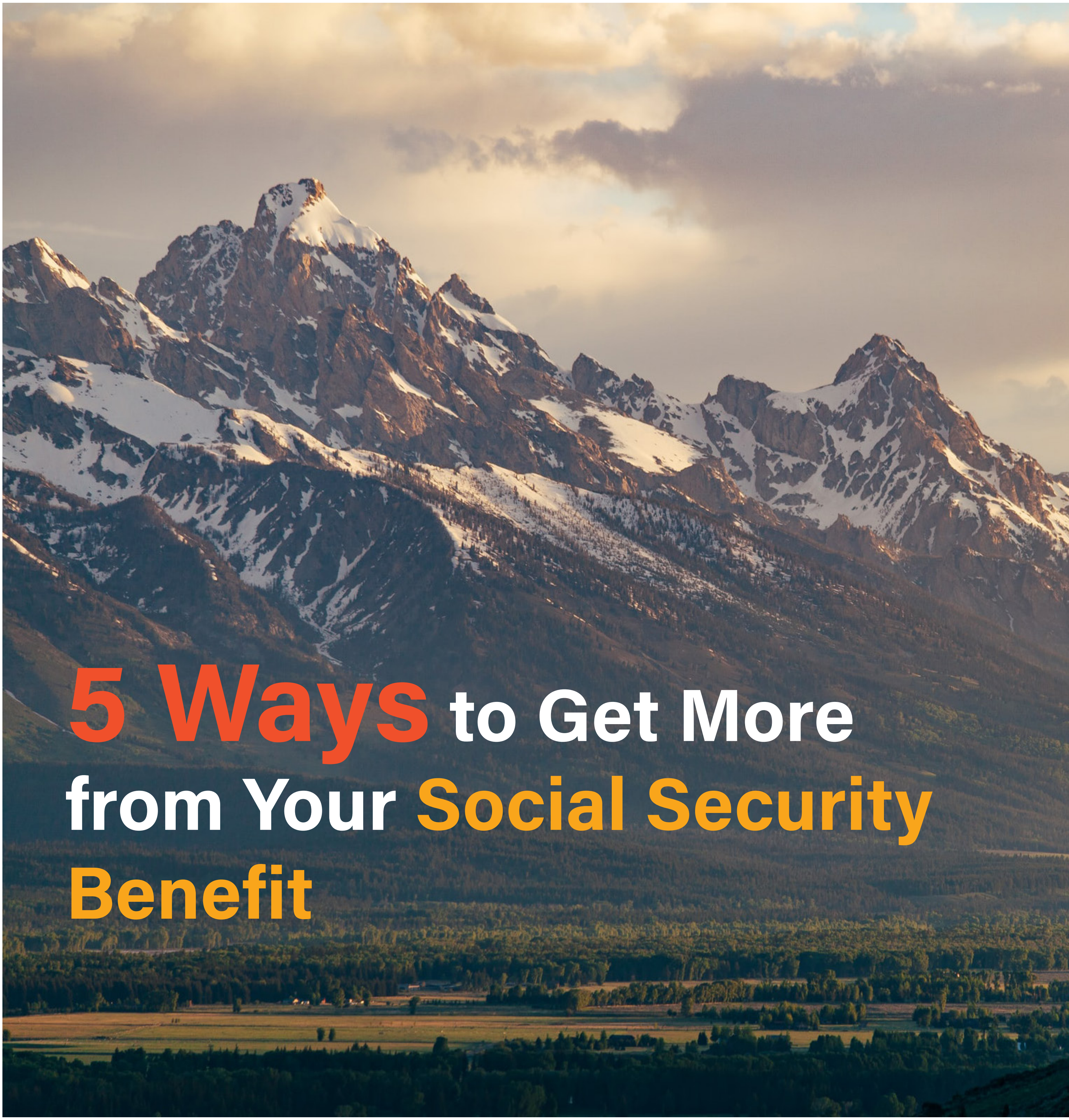
What Are the Other Benefits of Social Security?

Social Security is not without its flaws, contradictions and complexities, but it still provides significant financial benefits.

A guaranteed income stream. Social Security can be looked at as an insurance tool. It's insurance against 1) not having any money in retirement and 2) running out of money before you die. Social Security provides monthly income guaranteed for the earner, and typically their spouse as well, for the rest of their lives.

An increased income stream (if you're patient). Your Social Security benefit is not locked in place.





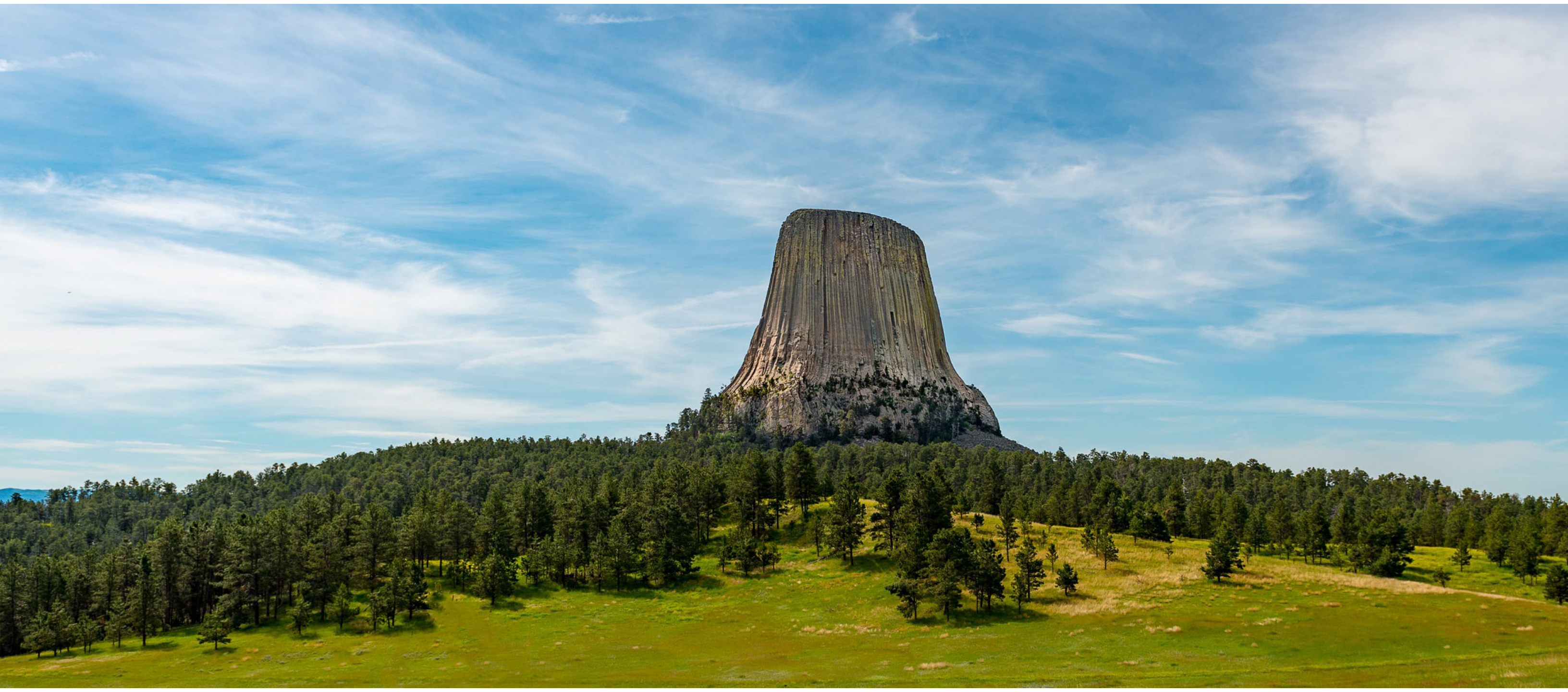
5 Ways to Get More from Your Social Security Benefit

Depending on when you claim your benefit, you could receive substantially more income. In most cases, at age 67 you're at your "full retirement age," meaning you're eligible for your full benefit, but waiting until age 70 could mean an increase to your benefit.

Spousal benefits. The earning spouse is not the only one entitled to benefits. The other spouse can also receive benefits, either based on their own earnings or the earnings of the working spouse. A spouse opting into the spousal benefit receives 50% of the working spouse's benefit. Once the earner passes away, the other spouse receives the earner's full benefit.

Increasing with inflation. Your Social Security benefit increases with inflation as well, meaning your Social Security dollars don't lose purchasing power over time (compared to tucking cash under your mattress). This is called the COLA (Cost of Living Adjustment).

Now with the nuts and bolts of Social Security out of the way, let's discuss some strategies to increase your benefit. While most of us are aware of the benefits of Social Security, I find that fewer people know how to get the most income from it.



1. Earn More Money

As mentioned above, your potential Social Security benefit is determined by your earnings up the taxable wage base ($137,700 in 2020). This means that each dollar you earn over $137,700 won't be subject to any additional Social Security taxes nor will your benefit increase any further. However, this also means if you earn, say, $75,000 per year, earning more can increase your Social Security benefit.

Determining how much your Social Security benefit will increase requires some assumptions and tricky calculations, but it's important to realize the impact even small increases can make over time. Suppose you're able to negotiate a pay increase which raises your monthly benefit by $150 per month. If your full retirement age is 67 and you live until age 92, this translates to an additional $1,800 per year, or $45,000 over the rest of your retirement.

2. Wait Until Age 70 Before Claiming Your Benefit

According to recent findings in the University of Michigan's Health and Retirement Study, 79 percent of American's claim their Social Security benefit between the ages of 62 and 64. This means the vast majority of Americans don't even wait until their full retirement age to claim their benefit, resulting in a permanently lower benefit.

The temptation to claim one's benefit early is understandable. Once eligible for Social Security, you've likely worked 35 years or more and you're eager to claim what's yours. But waiting can make a huge positive impact on your overall benefit. Not only will you receive a higher benefit by waiting until your full retirement age (67 for most), but your benefit can increase even further if you wait until age 70...to the tune of a 32% increase overall! This means if your full retirement benefit is $2,500, your benefit at age 70 could be $3,300...a monthly increase of $800.

This translates to an annual increase of $9,600 per year, or an additional $240,000 over the rest of your retirement (assuming a retirement time span of 25 years)!

I acknowledge that waiting until age 70 isn't for everyone. Your family or health circumstances may warrant a different choice. But most retirees should strongly consider waiting until age 70 to claim. It makes a lot of financial sense to do so.

3. Consider Your Spousal Benefit vs. Earner Benefit

Anyone considering claiming their Social Security benefit has two options. They can claim their earner benefit (the benefit they've earned based on their own taxable wages over time), or they can claim their spousal benefit (which is ½ of the household's earner's benefit). In many cases, a couple can download their latest Social Security statement online and see whether it makes sense to claim their earner benefit or their spousal benefit. But this decision isn't always clear-cut.

For example, consider a husband and wife couple. The husband has historically been the primary earner in the family. He's worked at the same job for most of his career and received wage increases over that time. His wife worked at a bank from age 21 to 25, but most of her earning years are at zero since after age 25 her time was spent at home raising their children.

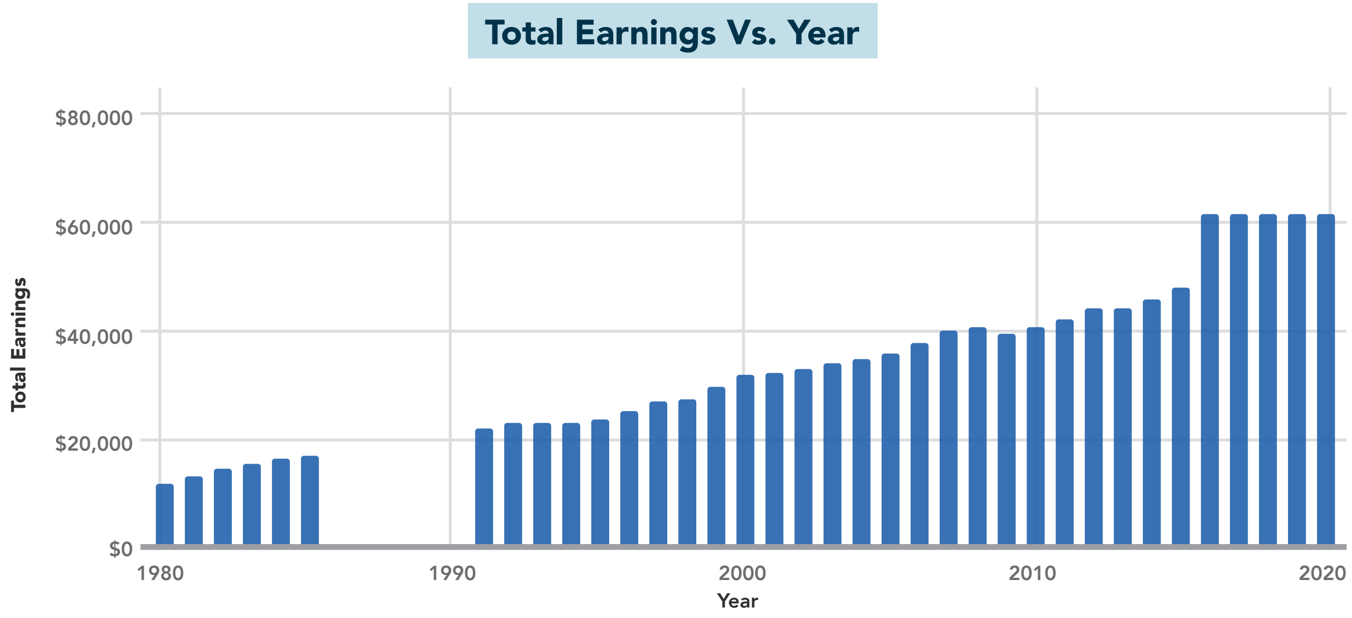
Suppose at age 50, the kids are out of the house and the wife starts to work professionally. The wife, in this case, could have an additional 17 years of earnings by the time she claims her benefit. Depending on how her earnings compare to her husband's, it's not impossible for her Social Security benefit to exceed half of her spouse's benefit, making it more lucrative for her to work and claim her own earner benefit rather than simply claiming her spousal benefit.

It's worth the effort to think through the pros and cons of earning your own benefit rather than simply claiming the spousal benefit by default.

4. Follow the "Thrive at 35" Rule

How exactly does the Social Security Administration determine what your monthly benefit will be? The answer is complex, but one of the key factors is how many years you work. Social Security looks at your 35 highest earning years to help determine your final monthly benefit. I call this the "thrive at 35" rule. If you've only worked 30 years, working another 5 can make a big impact on your benefit. Otherwise those missing 5 years of earnings are considered $0 earning years.

Also, note that it's your highest 35 years. This means that if you've worked 40 years and if during years 36 to 40 you earned more than years 1 through 35, those later, higher earning years can replace some of your lower earning years.



An example of a worker's 40 year earning history (with zero earnings in years 1986 through 1990). The higher earning years over age 60 (between 2016 and 2020 in this example) can replace the $0 earning years, raising this person's Social Security benefit.

I don't know about you, but in my case I had some years where I didn't earn much money at all (especially as a new college graduate) and even a year or two of unemployment. Replacing a low or $0 earning year with one where you've earned much more can make a big difference to your overall Social Security benefit.

5. Work With a Fee-Only, Financial Advisor

Some or all of these strategies may work for you, but they can be difficult to figure out. Working with a fee-only financial advisor who is also a fiduciary can help you receive the Social Security benefit you deserve and ensure your needs are put first.

Here's why you should consider working with Hale Financial Solutions:

1. We help every client understand how to increase retirement income and reduce taxes.
2. We specialize in serving Wyoming residents over the age of 50.
3. We are fee-only, meaning we don't earn a commission by selling financial products.
4. We are a fiduciary, meaning we always put your needs first.

Don't make common mistakes that will permanently limit the Social Security income you've earned. Call Hale Financial Solutions today to help boost your retirement income for years to come.

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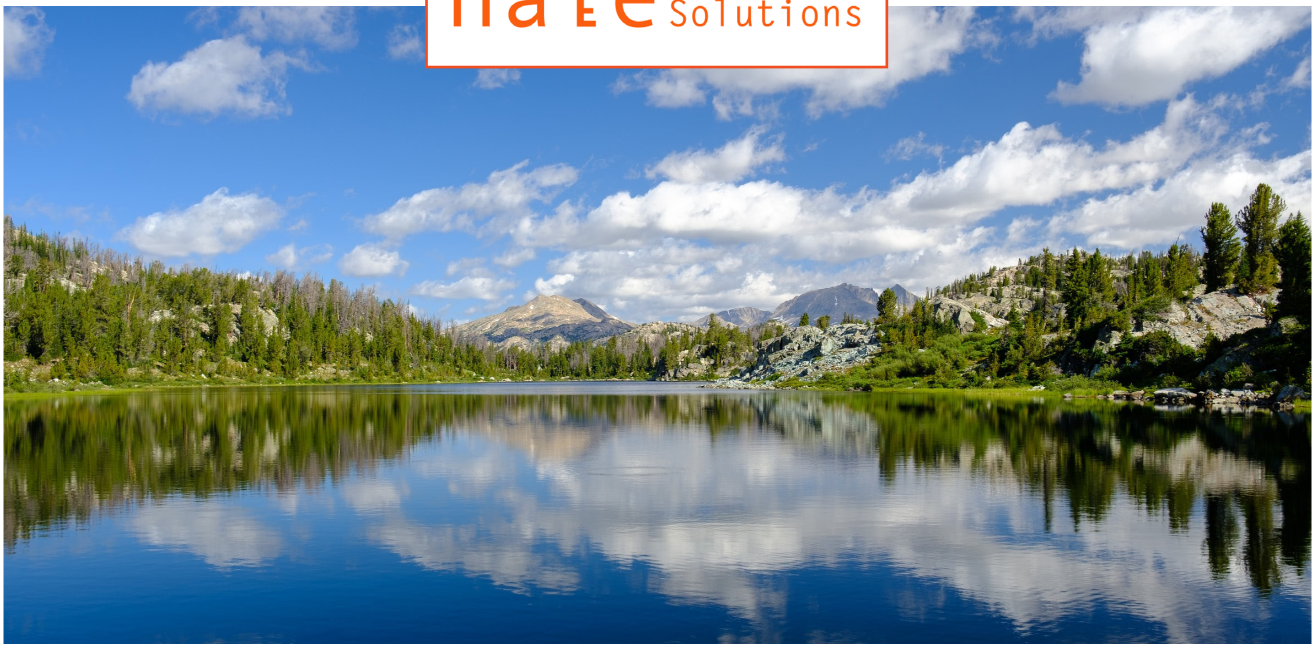

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