"HOW DOES COLA AND DRC'S AFFECT MY SOCIAL SECURITY BENEFIT?"

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Every October, the Social Security Administration announces what their COLA (Cost of Living Adjustment) will be for the following year. All COLA increases are then applied to Social Security benefits the following January. But what if you are past age 62 but not yet collecting a Social Security benefit? Will you still get credit for the COLA or do you have to be collecting a Social Security benefit in order to receive an increase in benefits due to COLA?

If you are already collecting a Social Security benefit then your benefit will increase by the COLA amount in January. If you have not started collecting your Social Security benefits, then the annual Social Security COLA adjustment will instead increase your PIA Primary Insurance Amount). Your PIA is your estimated Social Security benefit at your FRA ("Full Retirement Age"). This adjustment due to COLA will provide you with a greater Social Security benefit once you eventually file for benefits.

For example, let's say your current estimated PIA is $3,231. If SS has a COLA adjustment of say 8% in January, then your PIA will be increased by 8% ($3,231 X 1.08 = $3,489). This increase in PIA due to COLA will provide you with a larger Social Security benefit whether you decide to collect now or delay the start of benefits. The key point to note is that you do not need to be collecting Social Security benefits to capture the increase in benefits due to COLA if you are between the ages of 62-70.

In addition to COLA, the longer you delay the start of your benefits the larger you Social Security benefit will be due to Delayed Retirement Credits (DRC's). Specifically, by delaying the start of Social Security benefits from say FRA to age 70, your benefits will increase by 8% per year due to DRC's.

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Below is an example to illustrate this point:

Let's assume an individual is age 66 and his FRA (full retirement age) is also 66. Let's also assume his Social Security benefit at FRA is $1,800 but he has decided to wait until age 70 to claim his Social Security retirement benefits. Over the four years, from age 66-70, let's assume that COLA adjustments increase his PIA from $1,800 to $2,000. If he then claims his benefits at 70, his DRCs would also be applied to his updated PIA, raising his benefit rate to $2,640 (i.e. $2,000 X 1.32= $2,640).

Clearly, COLA and DRC's must be taken into account when deciding the optimal time to file for Social Security benefits. However, they are not the only factors to consider when determining what your "optimal" filing strategy should be. Other factors include spousal and ex-spousal benefits, survivor benefits, child and child-in-care benefits, time value of money, life expectancy assumptions, break-even analysis and the taxation of Social Security benefits, among others. The best way to identify your optimal filing strategy is to have a comprehensive, customized Social Security analysis done by a Social Security specialist. This will ensure that you have taken all relevant factors into consideration in determining your optimal Social Security filing strategy.

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