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How important is Social Security to your retirement plans?

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Social Security recipients will receive a 1.7% cost-of-living increase to their benefits in 2013, but many are wondering if that will be enough if prices for essentials like food and gas continue to rise. Meanwhile, individuals approaching retirement age are faced with other questions about social security, such as how large a part it should play in a retirement strategy and when is the optimal time to start taking benefits.

In general, the longer you expect to live after retirement, the better off you are deferring the start of your payments.

What You Should Know:

1. How are benefits increases decided?
Cost-of-living adjustments are determined using a formula that considers various data, including the Consumer Price Index, the government's key inflation measurement. Some things worth noting:

- In September 2012, the month before the 2013 cost-of-living adjustments were announced, the CPI stood at 2%, meaning prices had already gone up 0.3% more than benefits will next year.
- While "core CPI" remained flat through October, when energy and food prices for the month were factored in, the rate rose to 2.2%.
- The cost-of-living-adjustment formula does not account for cost increases particular to seniors such as Medicare Part B premiums, which will be $5 per month higher in 2013. This was announced in November.

2. When you file for benefits can make a difference.
Eligibility for most people begins at age 62, but many continue to work well beyond that age. Until you reach Full Retirement Age – between ages 65 and 67, based on your year of birth – wages or self-employment income can greatly reduce or even eliminate your benefits. Therefore:

- You could receive a larger benefit amount by waiting and continuing to work until you reach FRA. ▸

- Health and family history should also be considered. In general, the longer you expect to live after retirement, the better off you are deferring the start of your payments.
- Family members can potentially collect benefits based on your earnings. Taking your benefits early while allowing other family members to receive benefits could be more advantageous than deferring them.

3. Non-wage income can help bridge the gap. If you have other elements in place to fund retirement, there are planning strategies that could help you maximize your Social Security benefits within your lifetime.

- A carefully calibrated portfolio of fixed income and dividend-yielding equity investments could help you defer Social Security until later, ultimately leading to larger annual and lifetime benefits.
- Using personal savings early in retirement allows you to take advantage of delayed retirement credits for deferring Social Security beyond your FRA – an option that might remain attractive in the anticipated low-interest-earning environment for money markets and other savings vehicles.

What You Should Do Now:

Social Security should be just part of a broader retirement income plan that you make with your Financial Advisor. Armed with the knowledge of your current financial and personal situation, he or she can help you understand exactly how much you'll need to maintain the life you want in retirement, and how Social Security can work with your other investments to get you there. ■