

Social Security COLA: How and When It Can Affect Your Benefits



By Mike Lynch

Every October, the Social Security Administration announces the cost-of-living adjustment (COLA) for the upcoming year. While many are aware of COLA, they may not fully understand its impact on their benefits and retirement planning.

What We'll Cover:

- What's COLA
- COLA at various ages
- How COLA fits in with your retirement income

First, What's COLA?

We're all familiar with the impact inflation can have on our finances.

COLA is an increase made to Social Security benefits to counteract the effects of inflation and rising prices in the economy. That means COLA can help you buy more of the things you want in retirement and maintain your standard of living.



COLA is often thought of as an income bump by people on Social Security, but it's helpful to know how COLA can affect your Social Security benefits even before retirement.

COLAs are calculated by comparing average prices from the third quarter of this year to the same time last year. The percentage increase determines the COLA, which is then used to adjust Social Security benefits for inflation. For 2025, the COLA is set at 2.5%. Here's how that could affect average benefits:

Estimated Average Monthly Social Security Benefits Payable in January 2025:¹

Beneficiary	Before 2.5% COLA	After 2.5% COLA
Retired worker	\$1,927	\$1,976

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Second, COLA at Different Ages

- **COLA: Before 62**

Before you turn 62, you don't need to stress too much about COLA since it doesn't impact your Social Security benefits yet. However, as you get closer to what Social Security calls your "full retirement age" (usually around 67), it's smart to start paying more attention to how COLA might affect your future benefits.

- **COLA: 62 through Full Retirement Age***

Age 62 is key for Social Security. It's when you can start claiming benefits. But if you claim before your full retirement age, your monthly payments will be permanently reduced. So, the earlier you claim, the less you'll get each month for life. Full retirement age is when you can claim your full, unreduced benefits.

At 62, COLA adjustments also start applying to your benefits. Even if you delay claiming Social Security, these adjustments will increase your benefits from age 62 onward. This means if you wait to claim, you'll



eventually receive a higher amount due to these annual adjustments.

**Full Retirement Age (FRA) is the age at which you are entitled to 100% of your Social Security benefits. The FRA varies depending on the year you were born, ranging from 65 to 67. Go to ssa.gov to find out your FRA.*

- **COLA: After Full Retirement Age**

Once you reach full retirement age, your benefits keep growing each year with the COLA rate. If you wait to claim your benefits, you'll see the effects of COLA from age 62

until you decide to claim. By waiting until age 70, your monthly benefit could be higher thanks to both COLA and delayed retirement credits. These credits are extra amounts added to your benefits for each year you wait past full retirement age, up to age 70.

For example, if your full retirement-age benefit at 67 is **\$2,000**, but you wait until 70 to claim, your benefit amount would be **\$2,480**, but with that you also receive 8 years of compounded COLAs (let's say 2.5%) which takes your total COLA-adjusted benefit to **\$2,906**.

Example: How Social Security COLA Could Affect Benefits at Various Ages

Age	2024 Benefit Amount	Annual COLA Adjustment*	Cumulative COLA Adjustment	Total COLA Adjusted Benefit
62	\$1,400	\$35	\$35	\$1,435
63	\$1,500	\$37	\$72	\$1,573
64	\$1,600	\$40	\$112	\$1,713
65	\$1,732	\$43	\$156	\$1,888
66	\$1,866	\$47	\$202	\$2,068
67	\$2,000	\$50	\$252	\$2,252
68	\$2,160	\$54	\$306	\$2,466
69	\$2,320	\$58	\$364	\$2,684
70	\$2,480	\$62	\$426	\$2,906

In this table, the hypothetical benefit at Full Retirement Age (FRA) is \$2,000. The bar chart shows that if you file early, your benefit is reduced, but if you wait longer, your benefit increases. The Annual COLA Adjustment column reflects a 2.5% increase to the 2024 benefit amounts. The Cumulative COLA column shows how these adjustments add up over the years. The Total COLA Adjusted Benefit column illustrates the overall impact of COLA over time. For example, you might compare taking a \$1,400 benefit at age 62 versus waiting until age 70 to receive a COLA-adjusted benefit of \$2,906.

**Assumptions: 2.5% COLA every year and benefit amount at FRA at 67 is \$2,000. Visit ssa.gov to see your benefit amount.*

Third, How COLA Fits in With Your Retirement Income

The average 67-year-old retiree gets about \$22,600 a year from Social Security, but most retirees need around \$75,020 to live comfortably.² This leaves a big gap that many need to fill for a comfortable retirement.

Since we can't control Social Security and COLA, it's important to talk with your financial professional about what you can manage. Whether it's through brokerage accounts, 401(k)s, or other investments, you and your financial professional

should find the most effective ways to boost your retirement savings.

As people are living longer, it's crucial to understand the factors that can impact your retirement income. Knowing how COLA affects your benefits at different ages is key.

Next Step

Talk to your financial professional about your retirement plan and how Social Security and COLA fit into it.



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Mike educates financial professionals and their clients on a variety of financial topics. He translates the expertise of our various partnering experts—such as psychologists, physiologists, and practice-management specialists—into practical, actionable ideas and tools to make sense of a rapidly evolving financial and demographic landscape.

¹ Social Security Administration, ssa.gov, 2024

² This Is the Average Income for Retirees in America, The Motley Fool, 5/2024

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