Earn, Baby, Earn: The Key to Maximizing Your Social Security

The government's formula rewards workers who keep earning income for at least 35 years.

The average American enters the full-time workforce between ages 20 and 25,[1] spends 40 to 52 years working for a living,[2] and retires around 64.[3] Those numbers likely won't surprise you much. But for workers eager to maximize their Social Security check during their retirement years, here's a less-familiar number that's often overlooked: 35.

Thirty-five is the number of earned-income years that the Social Security system uses to help calculate the maximum size of your retirement check.[4] While many workers may dream of early retirement, simple arithmetic may help decide whether or not it's feasible. That's because the fewer years you earn income—even if you're highly compensated—the smaller your Social Security check.

Key Points

- Keep the number 35 in mind. That's the number of earned-income years that the Social Security system uses to help calculate the maximum size of your retirement check.
- Simple arithmetic shows that fewer years of earned income leads to a smaller Social Security benefit—a fact that could impact plans for early retirement.
- Even if you've worked 35 years or longer, Social Security will discard your lowest-paid earning years. You can still boost your benefits by working a little longer to replace lower-income years with higher-income years.

Social Security Math

To calculate your retirement benefit, the Social Security Administration uses a three-step process:

1) They take your 35 best-paid years, adjust each year's earnings for inflation, add up the adjusted total, and divide it by 420 months (the monthly equivalent of 35 years) to produce what they call your *average indexed monthly earnings* (also known as your "AIME"). If you worked less than 35 years (say, 15 years), your total inflation-adjusted earnings are still divided by the monthly equivalent of 35 years—not, as you might have assumed, by the monthly equivalent of 15 years.
2) Once your average monthly wage is established, the number is poured into a complex formula to determine your *primary insurance amount* (or PIA in Social Security jargon). This is the monthly benefit you'd be entitled to receive if you claim it at your full retirement age. That's 67 for anyone born in 1960 or later, or somewhere between 66 and 67 if born before 1960 (**FIGURE 1**).
3) Finally, Social Security either reduces or enlarges your PIA depending on the timing of your retirement decision. Workers can claim Social Security benefits as early as age 62. But they'll be penalized with reduced lifetime benefits for claiming before full retirement age vs. waiting for larger benefits after full retirement age, up to age 70.

FIGURE 1: Social Security Full-Retirement Age

If you were born in:	Your full-retirement age is:
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Source: SSA.gov

The decision whether to retire early or late plays a large role in the ultimate size of your Social Security benefit. But the number of income-producing years you have leading up to retirement matters even more.

Length of Time in the Workforce

Obviously, the decision whether to retire early or late plays a large role in the ultimate size of your monthly Social Security benefit. But the number of income-producing years you have leading up to retirement matters even more. If you work more than 35 years, the formula will use the 35 highest-earning years; if you work fewer than 35 years, the formula will count non-earning years as zero.

Here are two simplified examples:

Ed: Works at Least 35 Years

Ed enters the workforce in 1984 at age 22. After 40 years of steady raises, he decides to retire in 2024 at age 62. To calculate his AIME, Social Security will add up each of his 35-highest grossing earnings, discarding the first five years of relatively low pay (1984-1989). Ed's AIME comes out to $5,321 per month (**FIGURE 2**).

FIGURE 2: Ed (Earns Income for 35 Years)

- 1989 Salary (Age 27): $19,089
- 1989 Salary After Inflation Adjustment: $60,588

(35 consecutive years of inflation-adjusted earnings) ...

- 2023 Ending Salary (Age 62): $69,455
- Total 35-year inflation-adjusted earnings: $2,235,012
- Total earnings divided by 420 months: $5,321 (AIME)

Joni: Works Only 25 Years

Joni also enters the workforce in 1984 at age 22, has the same starting salary, and earns the same raises. But instead of working until age 62, she works for only 25 years and opts for early retirement at age 47.

Since Joni put in fewer than 35 years of work, the AIME formula doesn't discard any of her lower earnings amounts. When Joni's adjusted yearly earnings are added up, her average monthly wage—her AIME—amounts to only $3,685 per month.

FIGURE 3: Joni (Earns Income for 25 Years)

- 1984 Salary (Age 22): $15,086
- 1984 Salary After Inflation Adjustment: $59,647

(25 consecutive years of inflation-adjusted earnings) ...

- 2009 Ending Salary (Age 47 – Early Retirement): $64,352
- Total 25-year inflation-adjusted earnings: $1,547,640
- Total earnings divided by 420 months: $3,685 (AIME)

An Additional Boost from Your AIME

The benefits of maximizing one's AIME may seem obvious enough: work longer, earn more income, and watch your AIME grow. But the advantages of having a healthy AIME don't stop there. When Social Security feeds your AIME into its primary insurance amount (PIA) formula—a math exercise only a nerd could love—it's actually easy to see how having a higher AIME might offer a marginal boost to your benefit entitlement. Here's how:

For 2024, the PIA formula divides the AIME into three additive parts:

- 90% of the first $1,174 of your average monthly wage, plus
- 32% of any amount over $1,174 up to $7,078, plus
- 15% of any amount over $7,078.

The sum of these three calculations is a worker's PIA. When applied to Ed's $5,321 AIME, as shown in Case A, the math works out to a primary insurance amount of $2,383.60 (**FIGURE 4**). Notably, Ed's AIME in Case A fell short of $7,078, which meant his AIME wasn't quite high enough to exceed the threshold that could have gained him an extra marginal benefit (i.e., 15% of any amount over $7,078).

FIGURE 4 illustrates how a hypothetical $3,000 increase in Ed's average monthly earnings (Case B) would boost Ed's final PIA from $2,383.60 to $3,132.30:

> The more you earn each year, up to the annual Social Security taxable earnings limit, the bigger your final monthly benefit payment, depending on the age at which you decide to retire.

FIGURE 4: Primary Insurance Amount: Two AIME Scenarios for Ed

Case	AIME	1st Threshold	2nd Threshold	PIA Formula Applied to AIME
Ed (Case A)	$5,321	$1,174	$7,078	90% of 1174 + 32% of (5321-1174) = $2,383.60
Ed (Case B)	$8,321 ------------ (+$3,000)	$1,174	$7,078	90% of 1174 + 32% of (7078-1174) + 15% of (8321-7078) = $3,132.30

The Social Security PIA formula rounds the final calculation down to the next lowest dime (i.e., $2,383.64 becomes $2,383.60). The "threshold" amounts of $1,174 and $7,078 are the amounts applicable to beneficiaries in their first year of Social Security eligibility (age 62) in 2024. Different threshold amounts apply to persons turning 62 in earlier years. The Social Security website refers to these thresholds as "bend points." Sources: SSA.gov/oact/COLA/bendpoints.html, Hartford Funds.

Bottom Line: Work Longer, Earn More Money

It may seem like an oversimplification, but the key to maximizing your Social Security check boils down to three strategies:

- **Boost your income:** The more you earn each year (up to the annual Social Security taxable earnings limit), the bigger your final monthly benefit payment, depending on the age at which you decide to retire. Higher earnings will help you maximize the PIA calculation threshold to help grow your potential benefit.
- **Work for more than 35 years:** If you enjoy working and your health allows, keep doing it. Knowing that Social Security takes your 35 highest-grossing years into account to calculate your average monthly earnings, you can boost your benefits by working a little longer to replace the lower-income years with higher-income years.
- **Delay claiming benefits:** If possible, try to wait until at least your full retirement age before claiming so you can avoid the penalty applied to those who claim early (e.g., between age 62 and full-retirement age). Delaying benefits up to age 70 will enhance your lifetime benefit even more.

Finally, everyone who earns income should consider setting up a *mySocialSecurity* account at ssa.gov (or the agency's newer address: login.gov) so you can track whether the government's record of your earnings history accurately matches your own. A wealth of additional tools can also be found at the site, including calculators for figuring out your average monthly indexed earnings, primary insurance amount, and many other helpful features.

It's always a good idea to speak with a financial professional or retirement specialist who can help you analyze your income history and refine your retirement goals.

Your financial professional can help you create a Social Security maximizing strategy that works for you and your family.

[1] LinkedIn.com, "Perfect Age for Starting a Full-Time Career," 1/13/22.

[2] Smartasset.com, "How Many Years Do You Have to Work to Retire?," 5/2/23.

[3] Annuity.org, 50+ Essential Retirement Statistics for 2024, 7/30/24.

[4] ssa.gov, Social Security Benefit Amounts.

For illustrative and educational purposes only. The hypothetical situations described above are dramatized scenarios for pre-retirees and Social Security beneficiaries to consider, if they choose, during their own decision-making process and should not be construed as advice. The circumstances and strategies described herein may not reflect an actual client's experience. The individuals described in the above scenarios are fictitious and any resemblance between them and actual individuals is coincidental.

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