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SOCIAL SECURITY PAYMENTS ARE GOING UP. 3 SMART WAYS TO SPEND THE EXTRA CASH.

By: Elizabeth O'Brien - October 14, 2022

Social Security recipients will get a 8.7% raise next year, thanks to the biggest annual adjustment to benefits in more than 40 years. Higher-income beneficiaries should consider a strategic approach to use this additional cash, financial advisors say.

The 8.7% cost-of-living adjustment (COLA) will add an extra $144.10 to the average retiree benefit of $1,656 a month, and most older adults will need every penny to cope with the soaring cost of essentials like food, rent and fuel.

But affluent retirees will have more wiggle room to deploy their raise tactically, and they'll also receive more than the average COLA. A couple with a high-earning history that each qualifies for Social Security based on their own work record and waits until age 70 to claim can earn the maximum benefit of about $100,000 a year between them, which, with the 2023 COLA, will mean an extra $8,700 a year for the household.

Before you consider spending or investing that money, pay down any higher-interest debt, said John Graves, founder and managing partner of G&H Financial Group in North Canton, Ohio. Investors can generally earn around 7% in the markets over the long-term, so use that number as your marker; pay down any debt with a higher rate, whether from a home equity loan, credit cards or another obligation, he advised.

Once that's out of the way, here are some ideas for your COLA:

Increase Your Charitable Giving

Retirees who are 72 and older must take required minimum distributions (RMDs) from their tax-deferred retirement accounts and pay income taxes on those withdrawals. The COLA represents additional income that will combine with RMDs to increase retirees' tax bill.

One way to lower your taxes is to increase charitable giving via a qualified charitable distribution or QCD. A QCD is a direct transfer of funds from your individual retirement account to a qualified charity. QCDs can satisfy part or all of your RMD for the year, as long as certain rules are met, and can be a "win-win" for philanthropically-inclined retirees and their causes, said Dan Sudit, partner at Crewe Advisors in Salt Lake City.

Invest in Treasuries

The yield on the 2-year Treasury note is around 4.51% right now, higher than the 10-year Treasury, which yields about 4.06%. When shorter-term government securities yield more than longer-term bonds it's known as an inverted yield curve, a pattern that typically forebodes a recession.

One option for retirees would be to take about two years' worth of the extra COLA and invest in individual, two-year Treasury notes, Graves said.

A higher-earning couple collecting one primary insurance amount and a spousal benefit could receive about $5,250 a month in Social Security, Graves estimated. The COLA would add an additional $456.75 a month, or $5,481 a year. Twice that is nearly $11,000, and that's a good chunk to take from your cash allocation, buy Treasury notes, and let the COLA replenish the depleted cash, he said.

Dollar-Cost Average into Stocks

There's an old saying that fortunes are built in bear markets, but they aren't fully realized until bull markets. Retirees could use their COLA to dollar-cost average into stocks. It's been a rough year for equities, with the S&P 500 down about 24%, but that means some good names are on sale, says Graves.

Think of the traditional recessionary favorites with inelastic demand, such as the healthcare and consumer staples sectors, he said. Many tech companies have fallen steeply in price, but it's important to take a long-term outlook and consider where a company will be in five to 10 years, he noted.

"Where will Walmart be in five years?" Graves said. "Still in every small town in America."

John Graves, founder of G&H Financial Group, specializes in retirement planning and working with clients pre- and post-retirement who desire to preserve their money for when they need it most. John prides himself on building and maintaining long-lasting relationships with clients and their families.

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