Social Security simplified

Choose the best options to help yourself retire right.

29-5355

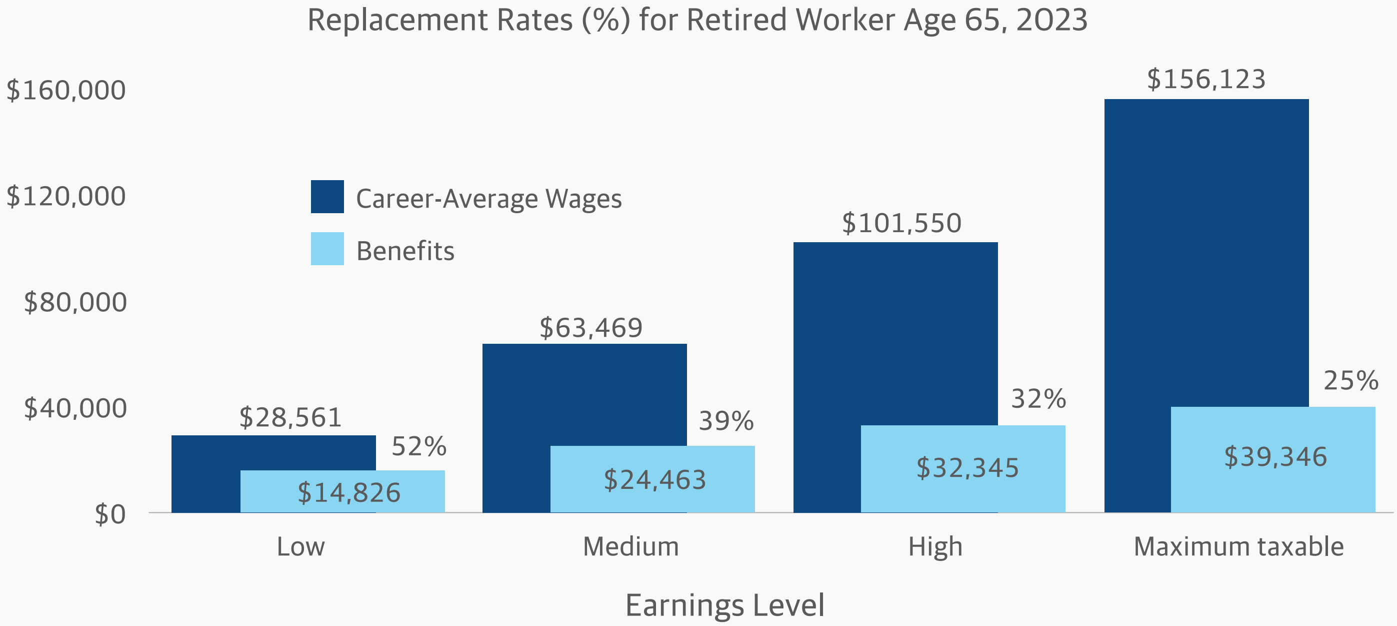
What role will Social Security benefits play in your retirement?

If you're like most people, you are probably looking forward to retiring and living as long and as comfortably as possible. As you plan for retirement, however, you might be concerned that your money won't last for your entire lifetime. That's why Social Security could be a bigger piece of your retirement puzzle than you thought.

Social Security benefits act as a buffer against inflation and the risks involved with investing and living longer. Along with pensions and income annuities, Social Security is a source of guaranteed, stable income that lasts a lifetime — no matter how long you live. And the benefit is adjusted with inflation while also providing benefits for spouses and survivors.

As you plan for retirement, recognizing the role Social Security benefits play in your future income is key. And maximizing those benefits by making informed financial decisions can make all the difference in your later years.

HOW DO BENEFITS COMPARE TO EARNINGS?



Source: Social Security Administration. 2023c. "Replacement Rates For Hypothetical Retired Workers." Actuarial Note #2023.9. Baltimore, MD: Social Security Administration, Office of the Chief Actuary. https://www.ssa.gov/OACT/NOTES/ran9/index.html

Time your decision for maximum benefits

In the past, people planned to live for 15 to 20 years in retirement. Today's retirees need to plan on living for 30 years or more. One out of four 65-year-old men of average health will live to age 93, and one out of four 65-year-old women will live to age 96. The longevity of Americans keeps improving. In eight out of 10 cases, couples are likely to have long lives and could maximize Social Security benefits by delaying claims.[1] A longer retirement means more time to spend with family and friends and perhaps the ability to travel to the places you've always dreamed about. Living longer, though, also increases risks, like market volatility, taxes, and inflation, which can negatively impact your retirement savings and income. Social Security increases with inflation and is a great hedge against rising costs.

It's not uncommon for people to take an emotional approach to claiming Social Security benefits, but it could be unwise. You may feel you've worked long and hard for your benefits, and you're entitled to take them as soon as possible. You may even be worried that Social Security will run out or Congress will pass new laws impacting your retirement income. Or you may just be ready to stop working. But claiming Social Security early can be a costly move. Based on life expectancy, claiming at age 62 offers only a 7 to 9 percent chance of receiving the highest cumulative Social Security benefits.[2]

Regardless of why you're planning to retire, keep in mind that your decisions about when to retire and when to collect Social Security benefits are not one and the same. The truth is the decisions you make about your benefits will serve you best if you approach them the way you do other financial decisions: by looking at the facts and your overall retirement plan.

Timing your Social Security benefits may be the most important retirement decision you can make, but how exactly do you do that?

Let's begin with the basic types of benefits for retired workers who have contributed for at least 10 years to the Social Security system. Retired workers have three options for deciding when to collect benefits: at, after, or before Full Retirement Age (FRA).

You can decide to apply for distribution of benefits:

At FRA – People who begin taking benefits at Full Retirement Age receive 100% of their Social Security benefits, or Primary Insurance Amount (PIA).

After FRA – People who delay retirement earn 8% in Delayed Retirement Credits (DRCs) for each year they choose to delay — up until age 70. This means that by waiting until age 70, some retirees may be able to increase their PIA by as much as 24% — 8% each year for three years of delayed payments from FRA of 67 to age 70.

Before FRA – Age 62 is the earliest someone can start taking retirement benefits. However, if they start taking benefits five years early, they can expect their PIA to be reduced by 30% for life (assuming an FRA of 67).

When you'll reach full retirement age:

Birth Year	FRA
1943-1954	66
1955	66 + 2 mos.
1956	66 + 4 mos.
1957	66 + 6 mos.
1958	66 + 8 mos.
1959	66 + 10 mos.
1960+	67

HOW YOUR BENEFIT IS CALCULATED

While eligibility for benefits is based on 40 credits, or 10 years of working, benefits are calculated based on the average of your top 35 wage-earning years. The amount you receive at full retirement age is known as your Primary Insurance Amount (PIA). If you did not work for 35 years, zero is entered into your equation for each year there were no earnings.

Cost-of-living adjustments often automatically increase your benefit each year (beginning at age 62 and regardless of whether you are claiming) and are based on an inflation percentage determined by the Social Security Administration. For 2024, the cost-of-living increase was 3.2%.

There is a maximum amount of Social Security income you can receive each year. In 2023, the maximum benefit at FRA is $3,822 per month. Delaying your benefit after your FRA will increase this amount.

The right time for retirement

Monthly benefit amounts depend on the age you decide to start receiving benefits. The following chart shows the difference in monthly benefits for a retired worker who has $1,000 PIA at full retirement age (FRA) of 67 and the impact timing has on the amount of benefits received.

Monthly Benefit Amount	Age You Choose to Start Receiving Benefits
$700	62
$750	63
$800	64
$866	65
$933	66
$1,000	67
$1,080	68
$1,160	69
$1,240	70

FIVE KEY FACTORS TO CONSIDER WHEN CLAIMING YOUR BENEFITS

Delaying your retirement to age 70 may seem like your best option, since you can maximize your Social Security benefit amount. However, you should consider other factors in timing your benefits. Before you claim Social Security benefits, look at these five key factors:

Your savings and investments

Your health and longevity

Your current and future earnings

Your taxable income

Your family situation

Your savings and investments

Americans are living longer, relying on savings and investments and collecting Social Security benefits for longer periods than at any other time in history.

If your retirement plan shows that you have enough money to stop working, you may be able to retire, use savings and investments in the short term, and wait to collect Social Security benefits at or after your FRA. On the other hand, if you haven't saved enough money and need to retire before FRA, taking Social Security benefits early may help you cover some expenses rather than incurring debt or liquidating your assets.

Your health and longevity

If you are in good health and have reason to be optimistic about your life expectancy, it may make sense to continue working and delay taking Social Security to maximize the benefits you'll receive later. If you're in poor health or think you'll have a shorter life expectancy, delaying benefits might not make sense.

It can be helpful to calculate your "crossover" age. That's the age when the total benefit amount you'd receive after FRA exceeds the total you'd receive if you took benefits before FRA. If your FRA is 67 and you begin taking your benefits at age 62, your crossover age is approximately 82. What this means is that — all things being equal — you will collect more in total benefits if you live past 82 and wait to collect Social Security until your FRA. The Social Security Administration has several calculators on www.ssa.gov to help you estimate your benefits. It's important to keep in mind that any consideration of "crossover" age should be balanced with the significance of the longevity protection of Social Security benefits. The value of this income that you can't outlive is increasing with average life expectancy.

Your current and future earnings

If you're thinking of claiming Social Security early and plan to keep working, you need to be aware of the earnings rule. Before your FRA, you are restricted on the amount of income you can earn; if you go over, your benefits will be reduced.[3]

For 2024, here are the limits:

- **If you file before your FRA:** You can earn up to $22,320 per year before your benefit is reduced. If you exceed the limit, your Social Security benefits will be reduced by $1 for every $2 you earn.
- **In the year you attain FRA:** Before reaching FRA, you can earn up to $59,520 before your benefits are affected. If you exceed the limit, your benefits will be reduced $1 for every $3 you earn.
- **At FRA or older:** The earnings reduction rule no longer applies, and there is no limit on the amount of income you can earn.

Your taxable income

Depending on your combined income, up to 85% of your Social Security benefits will be taxed. The Social Security Administration calculates combined income by taking your Adjusted Gross Income (AGI) — which includes your earnings, pensions, dividends, and taxable interest — and then adds interest on tax-exempt bonds and half of your Social Security benefits.[3] If the total exceeds the established thresholds (current thresholds are noted below), a percentage of your Social Security benefit will be taxable.

Your Adjusted Gross Income + Nontaxable Interest + 1/2 of Your Social Security Benefits
= Your "Combined Income"

Even at the highest taxable percentage, Social Security benefits compare favorably with other retirement income sources, such as distributions from traditional 401(k) plans or Individual Retirement Accounts (IRAs), for which 100% of the distributions are taxable.

Combined Income (single / married)	Percentage of Social Security Benefits That Are Taxable
$0 – $25,000 / $0 – $32,000	0% of Social Security benefits taxed
$25,001 – $34,000 / $32,001 – $44,000	Up to 50% of Social Security benefits taxed
$34,001+ / $44,001+	50 – 85% of Social Security benefits taxed

By delaying receipt of your Social Security benefits to FRA or age 70, you'll have a higher level of Social Security benefits to meet your needs, allowing you to withdraw less money from other taxable retirement income sources. Even if you do need to withdraw taxable funds and pay higher taxes during the FRA–70 gap, this approach could reduce your overall income tax liability in the long run.

Your family situation

MARRIED COUPLES

Nearly half of married people aged 65 can expect one spouse to outlive the other by 10 or more years.[4] For three out of four couples, one spouse will survive the other by five or more years. How and when one spouse decides to take Social Security benefits can affect the other spouse's lifetime benefits. The timing decision of the higher-earning spouse will carry on through the lives of both spouses.

Chances of One Member of 65-Year-Old Couple Outliving the Other

Dies in same year	3%
5 years or more	74%
10 years or more	48%
15 years or more	28%
20 years or more	14%

Source: LIMRA

Before making a decision, be mindful of certain considerations regarding spousal benefit options:

- The retired worker must have filed for his or her own benefits before a spouse is eligible to receive the spousal benefits.
- Spouses are eligible to receive the greater of their own benefit or one-half of their spouse's PIA (spouse's benefit at Full Retirement Age) – if their spouse has filed.

When you file for benefits, you will be deemed to be filing for all available benefits unless you were born before January 2, 1954. You'll automatically get the higher of either your own benefit or your spousal benefit, if available at the time. The benefit you receive will be reduced if you're claiming early. The amount that one-half of the spouse's benefit exceeds your own benefit is called the spousal benefit portion. This portion has its own reduction factor based on when spousal benefits begin.

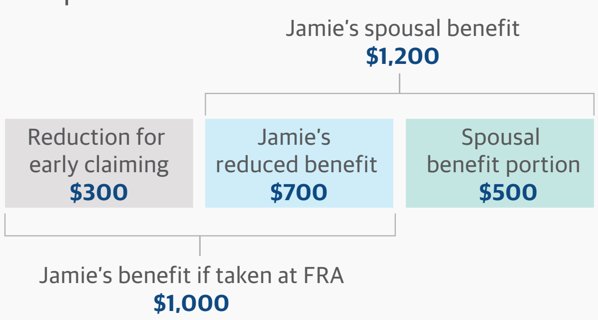
EXAMPLE

- Seth and Jamie are 62 years old.
- Seth's PIA is $3,000.
- Jamie's PIA is $1,000.
- Jamie starts her benefit at age 62 and receives $700 ($1,000–30%*).
- Seth waits until age 70 and receives 8% per year ($3,720) DRCs.

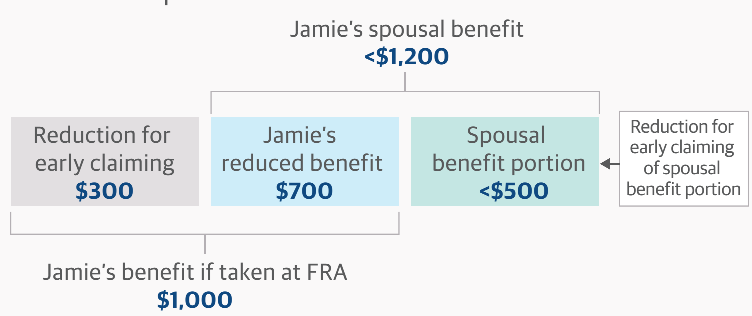
- When Seth files for his benefit, Jamie can file for her spousal benefit portion in addition to her own benefit, since 50% of his PIA is more than her own benefit.
- This is determined by subtracting her PIA from half of Seth's PIA ($1,500–$1,000 = $500).

- Since she is taking this benefit at or after her FRA, it has no reduction factor. The spousal benefit portion is added to her own benefit of $700 to obtain her total benefit of $1,200.
- The reduction that she took on her own benefit for taking it at 62 is a permanent reduction.

If spousal benefit is taken **on or after** FRA



If spousal benefit is taken **before** FRA



*5/9 of 1% for each of the first 36 months before FRA plus 5/12 of 1% for each month in excess of 36.

DIVORCED INDIVIDUALS

A divorced spouse may claim a spousal benefit if all of the following are true:

• Was married for at least 10 years

• Has been divorced for at least two years

• Is currently unmarried

However, unlike traditional spousal benefits, the former spouse does not have to file for retirement—they only need to be eligible for benefits (i.e., age 62).

SURVIVING SPOUSES

The Bipartisan Budget Act of 2015 did not affect options available for surviving spouses. Upon the death of one spouse who has not filed for benefits yet, the surviving spouse at FRA or after is entitled to a survivor benefit equal to 100% of the deceased spouse's benefits on the date they pass away. If a worker starts taking retirement benefits early, for example at age 62, and then dies, this can change the surviving spouse's best strategy.

Surviving spouses also can take advantage of these strategies:

- The spouse of a deceased worker can take a survivor benefit as early as age 60 (reduced for early retirement) and delay taking his or her own benefit until age 70. His or her benefit will have increased from earning DRCs.
- Another option allows a surviving spouse with low retiree benefits to take their own (reduced) benefit at 62 and then switch to 100% survivor benefit at FRA (i.e., age 67).

(Both strategies above would require a restricted application, since you're initially filing for only one of the benefits available.)

Please remember that the "earnings rule" will apply to any benefits received before the surviving spouse reaches FRA. If you were born between 1957 and 1961, you may have an earlier FRA specific to survivor benefits.

The Retirement Income Benefit Limit (RIB-LIM) and its implications

RIB-LIM is the term used by the Social Security Administration for the process used to calculate survivor benefits for widows/widowers and surviving divorced spouses who qualify for benefits based on the record of a worker who drew early reduced Social Security retirement benefits prior to their death.

In this case, the widow/widower's survivor benefit behaves differently than it does if the higher earner waited until FRA or after — the maximum benefit may be reached before the stated widow/widower's FRA. It is also possible for the widow/widower to receive up to 82.5% of the deceased's PIA, even though the deceased received less than that prior to their death.

Implications:

1. In general, if the higher wage earner takes their benefit before age 64 and 8 months and dies before the lower earner reaches FRA, the lower earner's survivor benefit maximizes soon after they reach age 62. It will not follow the normal rules of maximizing at the survivor's FRA. The survivor should call the Social Security Administration for details on exactly when it maximizes.*
2. If the higher wage earner expects to take their benefit before age 64 and 8 months, the survivor will get the same benefit as if the higher wage earner filed at 62. This is because the formula contains an 82.5% limitation for a widow/widower's benefit. If there's a need to take the higher earner's benefit early, no higher benefit is obtained for the survivor unless the higher wage earner can wait until after age 64 and 8 months. This is a peculiarity of this law.**

EXAMPLE

- Seth's PIA is $3000. His FRA is 67.
- Jamie's PIA is $1,000. Her FRA is 67.
- Seth decides to take his benefit at 62. His benefit will be 70% of his PIA since he will have a 30% reduction in his benefit for taking it early.
- Seth dies soon after. How does RIB-LIM affect Jamie? Due to the RIB-LIM, her survivor benefit maxes around age 62 and 8 months and is 82.5% of Seth's PIA, an amount higher than his benefit. Waiting beyond that age does not increase her benefit.

*The RIB-LIM Survivor Benefit = MIN (Widow's Income Benefit, MAX (Deceased's Benefit at Death, 82.5% of deceased's PIA))

Where:
Deceased's Benefit at Death = (Deceased's PIA) * (deceased's reduction factor if taken prior to deceased's FRA)
Widow's Income Benefit = (Deceased's PIA) * (Widow's reduction factor if taken prior to Widow's FRA)
PIA = Primary Insurance Amount = Benefit at full retirement age

**Since Seth's benefit is less than 82.5% of his PIA, the formula becomes simpler.
RIB-LIM Survivor Benefit = MIN (Widow's Income Benefit, 82.5%)
Jamie's survivor benefit maximizes when her Widow's Income Benefit = 82.5% of deceased PIA. Waiting past this age gives her no higher benefit.

Solve for max:
Let X=number of months prior to 67 when benefit maximizes. (The reduction in her benefit for taking it early is a straight line between 71.5% at 60 and 100% at 67).
Widow's Income Benefit = 1-((100-71.5)/(7 years*12months*100)) X =.825 X=51.5

Delay benefits and bridge the income gap

You've read about how you can increase your monthly benefit by delaying Social Security to age 70. Consequently, it might be smart to delay taking benefits even if it means that you have to make withdrawals from your retirement savings in your 60s. By waiting to take Social Security benefits, you earn 8% more every year in DRCs, ultimately increasing your benefits for life. There are few sources of retirement income guaranteed to grow at 8% with cost-of-living adjustments that will generate a benefit for your lifetime.

Strategies for bridging the income gap between ages 62 and age 70 often include using other retirement assets, such as your 401(k)s and Roth IRAs, or working part time and holding off on major discretionary purchases. Consider the availability of other assets to pay for expenses during your delay in collecting Social Security benefits. You need enough assets to fund your income gap while also providing a reserve for discretionary and emergency expenses throughout retirement. A financial professional can take you through the options available based on your situation.

Let's look at one last example that shows the impact of timing on the sustainability of a couple's assets and their ability to make their money last a lifetime. Seth and Jamie are 61, and they are evaluating whether they can retire at 62. Their goal is to live on $85,000 per year in retirement. They have approximately $900,000 in retirement assets to help fund the delay period.

We went through two different scenarios, each of which uses the couple's other retirement assets, such as 401(k)s and Roth IRAs, to bridge their income gap. In both scenarios, Seth passes away at age 85.

POSSIBLE RETIREMENT SCENARIOS

Scenario 1

Both Seth and Jamie retire at 62 and take early Social Security benefits.

Scenario 2

Both retire at 62 but delay taking Social Security until age 70.

In both scenarios, the couple has enough assets to supplement their income until age 70; however, all of their assets are liquidated before Jamie's death, leaving a permanent gap between income needs and benefits received from Social Security. When benefits have been delayed to age 70, the gap is much smaller due to the earned DRCs, which increase their Social Security benefits.

	Scenario 1	Scenario 2
Social Security income at 70*	$45,647	$77,488
Age when all assets are liquidated	Age 88	Age 90
Percentage of need covered by Social Security after assets are depleted	30%	53%

*Accounts for COLA @ 2.15% and DRCs.

Remember that at the death of one spouse, the surviving spouse will be limited to only one individual's benefits. However, if the couple delays taking Social Security until age 70, they have assured that the surviving spouse will receive the highest remaining benefits.

Changing your mind

What if you decide to claim benefits only to find that your situation has changed? If you choose to receive early Social Security benefits before your FRA and change your mind later, you can withdraw your application. This can be done only within 12 months of starting benefits, and you would have to pay back the amount you've already received, interest-free. You can then restart your benefits at a later date, and at a larger amount, based on your (older) age.

What it all means

When it comes to planning for your retirement, Social Security should be just one part of your retirement income strategy — although an important one. Your main goal in retirement income planning should be to develop a plan that will make your money last as long as you do. According to a recent survey, only 42% of retirees were able to retire when they had planned.[5] For other people, unexpected job losses, health concerns, changes in pensions and investments, and other factors dictated the timing of retirement and applying for Social Security benefits.

When you're deciding on the right time to file for Social Security benefits, remember that you can:

- Take your benefit before FRA, at FRA, or after FRA.
- Earn a larger benefit if you delay taking it.
- Get a smaller benefit if you take it early.
- Coordinate your benefit within the family.

Protect your and your family's benefits by making informed decisions. One of the first steps you can take in preparing for retirement is to meet with your financial professional about your Social Security benefits. A financial professional can prepare different scenarios based on your situation so that you're able to make the most informed decisions regarding your retirement.

To better prepare you and your financial professional for conversations about your retirement and income needs, be ready to discuss the following:

- Your lifestyle goals and detailed budget for retirement
- Your current savings, investments, and earnings to help achieve your goals
- Your health and expected longevity
- Your current and past marital status
- Your continued earning power and interest in working after age 62, until or after FRA or until age 70

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[1] EBRI Retirement Confidence Survey, 2022

[2] LIMRA: The Retirement income Reference Book, fourth edition

[3] If your benefits are withheld because of the earnings test, at FRA, your benefits will increase for any month you didn't get benefits or received reduced benefits. Additionally, your earnings during this time may also increase your monthly benefits, as benefits are recalculated using these new earnings amounts.

[4] LIMRA Research: "Are Couples Really Addressing the Longevity Risks?"

[5] LIMRA Research: "Half of Retirees Do So Before They Had Planned — Often Not By Choice"

[6] Northwestern Mutual continues to have the highest financial strength ratings awarded to any U.S. life insurer by all four of the major rating agencies: A.M. Best Company, A++ (highest), August 2023; Fitch Ratings, AAA (highest), August 2023; Moody's Investors Service, Aaa (highest), June 2023; S&P Global Ratings, AA+ (second highest), May 2023. Third-party ratings are subject to change. Ratings are for The Northwestern Mutual Life Insurance Company and Northwestern Long Term Care Insurance Company.

[7] Ranking for **Northwestern Mutual Investment Services, LLC**. Measured by 2020 Revenue. Sources: *Financial Advisor* and *InvestmentNews*, April 2021, *Financial Planning*, August 2021.

[8] Loyalty is based on Northwestern Mutual client data.

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