

# A Social Security guide: What it is, how it's calculated and when to claim it

How and when you claim Social Security can have a big impact on your retirement income.



## Choices you make before you start collecting can have a big impact on how much you'll get over your lifetime.

You're probably saving for retirement by contributing to a 401(k) or Individual Retirement Account. Maybe you even have some other investments or savings earmarked for your life after your career. Those are all good things, because when you get to retirement, it's basically up to you to make that money last — and if you plan to live a long time (and who doesn't?), that can be a frightening proposition.

Luckily, you're likely also going to get a check every month in retirement. It won't be affected by the ups and downs of the markets and it will keep coming no matter how long you live. We're talking about your Social Security benefit. You've probably heard of the program, but maybe you haven't spent a lot of time figuring out exactly what it means for you. Our Social Security Guide can help.

Simply put, Social Security is a federal social insurance program that you and your employer pay into via a payroll tax during your working years; it then pays benefits out to you when you retire. But it's not as simple as sitting around and waiting for the checks to come in. You have some key decisions to make before you start collecting, and the choices you make can have a big impact on how much you'll get out of Social Security over your lifetime.

## Will social security even be around when I retiree?

You may have read some scary headlines that claim Social Security will be gone by the time you retire. While it certainly has some potential issues, the reality is it's probably going to be there for you — at least in some form. As it now stands, Social Security will be able to pay full retirement benefits until 2034. At that point, unless the government raises the Social Security tax, it will have to cut back. But even then, Social Security expects to be able to pay about 80% of promised benefits.



# HOW IS MY BENEFIT CALCULATED?

Believe it or not, it's complicated.

First, during your working years, most people must earn 40 Social Security credits. Depending on how much income you earn, you can receive up to four credits for each year you work. Then your benefits are based on the average of how much money you made during your highest-paid 35 years of work. (If you didn't work for 35 years, 0 is entered into your equation for each year there are no earnings.)

Your earnings are adjusted for inflation and then used to calculate something Social Security refers to as the average indexed monthly earning (AIME). That number is then applied to a formula that's used to calculate your primary insurance amount (PIA), or the amount you'll receive from Social Security.

HERE'S HOW YOUR PIA IS CALCULATED FOR 2024	HERE'S THE CALCULATION USING AN AIME OF \$7,500
90 percent of the first \$1,174 of your AIME	<b>\$1,056.60/month</b> ( $\$1,174 \times .9$ )
32 percent of the next \$5,904	<b>\$1,889.28/month</b> ( $\$5,904 \times .32$ )
15 percent for anything over \$7,078	<b>\$63.30/month</b> (Remaining AIME is \$422 ( $\$7,500 - \$7,078$ ) $\times .15$ )
<b>Add it all up to get your monthly benefit</b>	<b>\$3,009.18/month</b> ( $\$1,056.60 + \$1,889.28 + \$63.30$ )

Your wages aren't the only factor: Cost-of-living adjustments can increase your benefit each year based on an inflation percentage. It's not a sure thing though – in 2016 there was no increase. Bear in mind, too, that there is a maximum amount of Social Security income you can receive. The monthly maximum benefit for those who reached full retirement age (FRA) in 2024 is \$3,822. (Your FRA is determined by the year you were born.) But that maximum limit would go up or down depending on if you claimed your Social Security benefits earlier or later than FRA.

(See more on the formula from the Social Security Administration.)



## DID YOU KNOW

For 2024 the maximum monthly benefit for those who reached full retirement age (FRA) in 2024 is \$3,822.

# How do I know when to claim Social Security?

You can claim Social Security as early as 62, but you may want to wait. That's because when you claim at 62, you get less money than if you delayed collecting benefits – and that's a lower check that will come for the rest of your life.

As demonstrated above, your benefit is calculated based on your FRA, which is 66 for people born in or before 1954. It gradually increases to 67 for people born 1960 or later. Here's how timing when you take your benefit will impact how much you get:

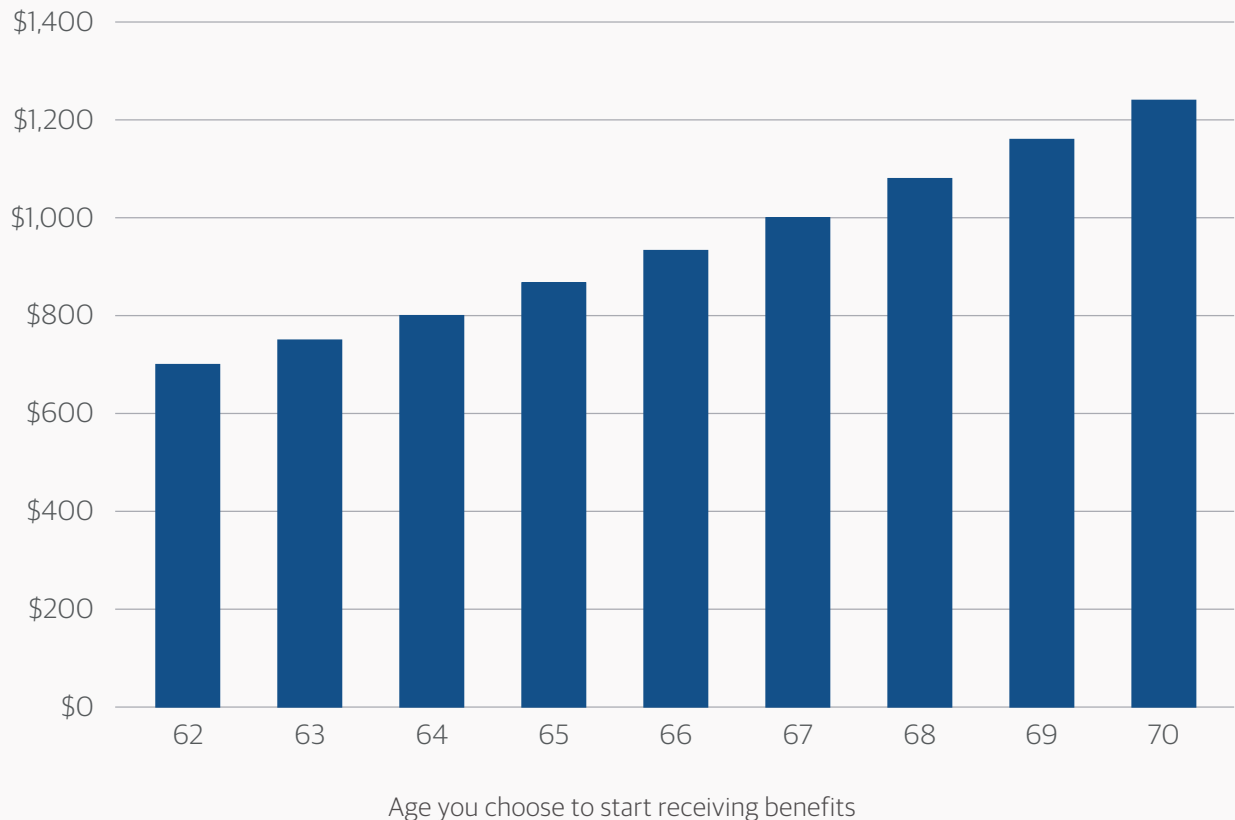
**At FRA:** If you begin taking benefits at full retirement age, you will get 100 percent of your Social Security benefit, or Primary Insurance Amount (PIA).

**After FRA:** If you delay taking your benefit, you can earn 8 percent in delayed retirement credits for each year you 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 percent – 8 percent each year for three years of delayed payments from FRA of 67 to 70.

**Before FRA:** While you can claim at age 62, you can expect to have your benefit reduced by up to 30 percent for life, assuming an FRA of 67 today.

## DIFFERENCE IN MONTHLY BENEFITS

Monthly benefit amounts differ based on the age you decide to start receiving benefits. This example assumes a benefit of \$1,000 at a full retirement age of 67.





## What other factors should affect my decision?

On paper, it seems like delaying collecting your benefits until age of 70 is a no-brainer, if you can swing it. After all, it means you'll get a much bigger check every month. However, there are other factors to consider before making your final decision.

### Savings and investments

Social Security is just one part of your retirement plan. If you have enough money to stop working, you might be able to retire and then use savings and investments to bridge the gap before collecting Social Security at or after your FRA. However, if you haven't saved enough to live comfortably prior to your FRA, it may be better to collect Social Security benefits than go into debt, or sell investments or other things that you own.

### Whether you plan to keep working

If you're thinking of claiming Social Security early but plan to keep working, you need to be aware of the earnings rule.

Up until you turn FRA, you are restricted on the amount of income you can earn before your benefits will be impacted. If you earn more than the set limits (which can change each year), your benefits will be reduced.

### Health and longevity

Simply put, if you're in good health and happy to be working, it may make sense financially to delay retirement so that you can increase the amount you'll receive later. This might not be an option for everyone though, so it can be helpful to calculate your "crossover" age, which is the age at which the total amount of benefits you would receive after FRA exceeds the total you would receive if you took benefits before FRA.

An example: If your FRA is 67 and you begin taking benefits at 62, your crossover age is approximately 82. What this means is that you stand to collect more in total benefits if you live beyond 82 and wait to collect Social Security until your FRA. The Social Security Administration has calculators to help you estimate your benefits.



## HOW YOUR BENEFITS ARE TAXED

Depending on your income, you may pay tax on 0, 50 or 85 percent of your Social Security benefits. The amount you pay depends on your combined income — which comes from taking your adjusted gross income (which includes earnings, pensions, dividends and taxable interest) and then adds interest on tax-exempt bonds and half your Social Security Benefits.

COMBINED INCOME (SINGLE/MARRIED)	% OF SOCIAL SECURITY BENEFITS THAT ARE TAXABLE
\$0 - \$25,000 / \$0 - \$32,000	0% of benefits taxed
\$25,001 - \$34,000 / \$32,001 - \$44,000	Up to 50% of benefits taxed
\$34,001 + / \$44,001 +	50% - 85% of benefits taxed

### When your spouse takes benefits

How and when a spouse decides to take Social Security benefits can affect the other spouse's lifetime benefits. There are two main considerations regarding spousal benefits:

- Spouses are eligible to receive the greater of their own benefit, or one-half of their spouse's full retirement age benefit
- The retired worker must have filed for his or her own benefits before a spouse is eligible to receive the spousal benefits

The filing strategies can be complex. The goal is to obtain the highest benefit possible for the longest duration possible, after considering all relevant factors. Those who delay benefits not only increase their monthly benefit but may also increase the benefit for their surviving spouse.

### Bottom line

It's easy to go down a complex rabbit hole of scenarios when it comes to making decisions about collecting Social Security benefits. But very simply put, when deciding on the right time to take your benefit, remember the following guiding principles:

- 1 You can take your benefit before, at or after FRA.
- 2 You can earn a larger benefit if you delay taking it.
- 3 You will get a smaller benefit if you take it early.
- 4 You can maximize your benefit by coordinating with your family.

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**Let's talk.** Retirement is a big step. Equally big is deciding when to start collecting Social Security. But you don't have to tackle it yourself. Your financial professional can help you figure out how to maximize the benefits you've worked hard for.



Northwestern Mutual is helping to speed up the search for a cure to childhood cancer and to support families battling the disease. [Learn more about how we're helping at NMFoundation.com.](https://www.nmfoundation.com)



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### William Joseph Newman

Wealth Management Advisor

Latham, NY

[thenetworktest@northwesternmutual.com](mailto:thenetworktest@northwesternmutual.com)

518.459.4665

View my disclosures at [www.katherineforresterschneewind.nm.com](http://www.katherineforresterschneewind.nm.com)



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Latham, NY

[thenetworktest@northwesternmutual.com](mailto:thenetworktest@northwesternmutual.com)

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