WELLS FARGO Wealth & Investment Management

Social Security and your retirement

Important information for investors' planning

Social Security will not — and was never designed to — provide all of the income you'll need to live comfortably during retirement. At best, your income from Social Security will supplement that from other sources.

To factor Social Security into your retirement plan, you should know how you can enhance your benefits and how much income you may need from other sources to be financially comfortable during retirement — especially if a portion of your benefits is subject to taxation.

How Social Security works

The basic concept of Social Security is that during their working years, all employees, employers, and self-employed individuals pay Social Security taxes, which are used to finance the program.

Employers and employees. In general, every employer and employee is subject to the Social Security tax. This tax really consists of two taxes: old age, survivor, and disability insurance (OASDI); and Medicare health insurance.*

An additional Medicare tax of 0.9% is imposed on wages and compensation that exceed $200,000 for single individuals and $250,000 for married couples. This tax also applies to self-employed individuals.

The maximum annual wages subject to the tax differs dramatically for each of the two taxes. In 2025, the OASDI tax is imposed only on annual wages up to $176,100, whereas there is no limit on the wages subject to the Medicare tax. Therefore, if you are an employee earning $225,000, you will pay the following Social Security tax:†

6.2% on first:	$176,100	=	$10,918.20
1.45% on:	225,000	=	3,262.50
0.90% on:	25,000	=	225.00
Total Social Security tax			**$14,405.70**

Source: Social Security Administration, 2024

Self-employed individuals. In 2025, the combined Social Security tax rate for self-employed individuals is 15.3% (12.4% OASDI and 2.9% Medicare) on net earnings from self-employment up to $176,100. Any amounts in excess of this threshold are only subject to the Medicare tax of either 2.9% or 3.8%, depending on earnings. Self-employed individuals can take an income tax deduction to partially offset the part of their Social Security tax burden that is normally borne by employers.

* For additional information about Medicare, ask your financial professional for a complimentary copy of our Medicare: Understanding the program report.
† The employee tax is matched by the employer. The maximum OASDI wage base is subject to annual adjustments based on changes in wage levels. Congress may periodically adjust the tax rate. Check with your tax advisor for further updates.

Social Security benefits

The OASDI program helps protect workers and their dependents from such financial losses like death and disability.

Retirement benefits. You must earn at least 40 Social Security credits to qualify for Social Security retirement benefits. You earn credits when you work and pay Social Security taxes. Your retirement benefit is based on your covered earnings during your 35 best working years and subject to automatic adjustments for cost-of-living increases. If you choose to start receiving your benefit at the age of 62, your benefit will be reduced. If you choose to receive your benefit starting at your full retirement age (see “Deciding When to Retire” on page 4), you will receive your full monthly benefit. If you choose to start receiving your benefit after your full retirement age, your benefit will increase until you reach 70. Your benefit will increase 8% for each full year you delay receiving benefits beyond full retirement age.[3]

Spouse’s benefit. This benefit is available to a nonworking spouse or lower-earning spouse if the working spouse is drawing Social Security benefits and the nonworking spouse applies for benefits:

Application	Benefit
1. At full retirement age	Full benefit[1]
2. At age 62 to full retirement age	Reduced benefit
3. While caring for an unmarried child younger than the age of 16 or disabled before the age of 22	Full benefit[2]

Source: Social Security Administration, 2024

Divorced spouse's benefit. This benefit is available to nonworking divorced spouses or lower-earning spouses if the working spouse is drawing Social Security benefits and the marriage lasted for at least 10 years. If the ex-spouse is not collecting Social Security benefit yet, then you can draw divorced spouse benefits if you have been divorced for at least 2 years.

Child’s benefit. This benefit is available to a retired or disabled worker’s unmarried child. The child must be one of the following:

- Younger than age 18.
- Between ages 18 and 19 and a full-time secondary school student.
- Older than age 18 and disabled. The child’s disability must have existed continuously since before age 22.

[1] Full benefit equals approximately 50% of the worker’s retirement benefit (delayed credits do not apply). See “Deciding When to Retire” on page 4 for more information about full retirement age and reduction of benefits due to early filing.
[2] Subject to family maximum benefit.
[3] Delayed credits are earned monthly at a rate of two-thirds of 1% (1/150).

Survivors' benefits

Widow(er)'s benefit. The benefit depends on the widow(er)'s age when he or she applies for benefits:

Application	Benefit
1. At age 60 to full retirement age	Reduced benefit
2. At full retirement age	Full benefit[4]
3. At age 50 to 60 and disabled	71.5% of full benefit
4. While caring for an unmarried child younger than the age of 16 or disabled before the age of 22	75% of full benefit[2]

Source: Social Security Administration, 2024

Surviving ex-spouses widow(er)'s benefit. If a surviving divorced spouse was married to the deceased for at least 10 years, and the survivor is not remarried[5], he or she may draw survivor benefits.

Child's benefit. Available for each child who is younger than the age of 18, older than the age of 18 and who become disabled before the age of 22, or younger than the age of 19 and attending secondary school.[2]

Parent's benefit. Provides for a surviving parent aged 62 or older who was receiving more than half of his or her support from the deceased child.

Disability benefits

Qualified worker — totally disabled. Benefit available to worker younger than full retirement age who has been, or is expected to be, disabled for at least 12 months. After a waiting period of five months from the onset of the disability, benefits begin as if the worker had reached full retirement age. When eligible, the worker and his or her dependents receive benefits that would otherwise be payable at full retirement age.[2]

Computing your benefits

Computing Social Security benefits is fairly complicated, and you should acquire specific numbers from your local Social Security office. Call the Social Security Administration at **1-800-772-1213** or visit ssa.gov.

[2] Subject to family maximum benefit.
[4] Full benefit equals approximately 100% of worker's retirement benefit.
[5] Exception to remarriage rule, if remarried after age 60.

Deciding when to retire

Full retirement age (i.e., age at which you can receive full Social Security benefits) is 67 for those born in 1960 or later, although it could be between 66 and 67 if you were born between 1954 – 1959. However, you can begin receiving Social Security retirement benefits at a reduced rate as early as age 62.

In general, if you elect to take benefits before full retirement age, your monthly benefit will be reduced by five-ninths of 1% (1/180) for each of the first 36 months you receive benefits before full retirement age. A reduction of five-twelfths of 1% (1/240) applies for each additional month.

For example, assume you turn age 62 in 2025 and want to retire this year. Your local Social Security office has advised you that you will receive $1,000 per month if you start receiving benefits at age 67 (your full retirement age). Because you are retiring 60 months early, your benefit will be reduced by $300 [(36 x 1/180 x $1,000) + (24 x 1/240 x $1,000)] and your monthly benefit will be $700 ($1,000 – $300).*

As a rule, if you elect to take reduced retirement benefits before full retirement age, you will continue to receive a reduced benefit. If you wait until your full retirement age to begin receiving benefits, you will receive unreduced retirement benefits.

The following table shows how full retirement age gradually increases based on your birth year.

Birth year	Full-retirement age
1943 to 1954	66 years
1955	66 years + 2 months
1956	66 years + 4 months
1957	66 years + 6 months
1958	66 years + 8 months
1959	66 years + 10 months
1960 or later	67 years

Source: Social Security Administration, 2024

* This hypothetical example is designed to illustrate the effect of certain planning strategies based on stated assumptions. The strategy described may or may not be suitable for your particular situation. Before implementing any strategy, consult your tax and legal advisors. No guarantee of specific results is made; past performance is no guarantee of future results.

The following table indicates early retirement's effect on Social Security benefits if your full retirement age is 67.

Age when benefits begin	Percentage of worker's benefit at age 67
62	70%
63	75%
64	80%
65	86.66%
66	93.33%
67	100%
68	108%
69	116%
70	124%

Source: Social Security Administration, 2024

Will your earnings pass the retirement test?

You may have to stop working or give up some of your earned income to receive Social Security retirement benefits. If you are younger than full retirement age, you must meet certain requirements outlined in the Social Security Administration's retirement earnings test to receive your full benefits.

In 2025, a worker between the age of 62 and his or her full retirement age can earn no more than $23,400 without affecting his or her Social Security benefit. Social Security will deduct $1 from benefits for every $2 earned in excess of $23,400. If a worker attains full retirement age in the calendar year, there is a special earnings test. In 2025, a worker who reaches his or her full retirement age in the calendar year can earn no more than $62,160 without affecting his or her Social Security benefit. Social Security will deduct $1 from benefits for every $3 earned in excess of $62,160. The earnings test only applies to earned income like wages or self-employment income. This limit is indexed for inflation.

However, in the first year you retire, the Social Security Administration will let you limit the deduction from your benefits. Here's how: If your earnings exceed the earnings limit but you receive those earnings in only a few months of the year, you can receive a monthly benefit for each of the months in which your earnings were not more than one-twelfth of the annual earnings limits and no substantial services in self-employment were performed.

You should note that in the month in which you reach full retirement age and every month thereafter, Social Security will not deduct any of your benefits, even if you are still working and regardless of what you earn.

Taxation of Social Security benefits

Computing your benefits

A quick way to find out if any of your benefits may be taxable is to determine your provisional income; also called your combined income. Provisional income is determined by adding one-half of your Social Security benefits to all your other income, including any tax-exempt interest. Next, compare this total to the base amounts below. If your total is more than the base amount for your filing status, then some of your benefits may be taxable. The three base amounts are:

Percentage of your Social Security benefits that are taxable	Single, Head of Household, Qualifying widow(er), or Married filing separately[6]	Married, Filing Jointly
0%	under $25,000	under $32,000
Up to 50%	between $25,000 and $34,000	between $32,000 and $44,000
Up to 85%	exceeding $34,000	exceeding $44,000

Source: Social Security Administration, 2024

For more on this topic, visit irs.gov.

Consult with your tax advisor or CPA to determine if your Social Security benefits are taxable.

Additional IRS Resources:

- **Tax Tip 2020-76** — Don't forget, Social Security benefits may be taxable
- **Publication 915** — Social Security and Equivalent Railroad Retirement Benefits
- **Tax Topic 423** — Social Security and Equivalent Railroad Retirement Benefits

Enhancing your retirement benefits

If your income exceeds existing taxation thresholds, there may be little you can do to shield your Social Security benefits from taxation. However, depending on how far above the thresholds your income falls, you may have some control over how much of your benefits is taxable.

Your alternatives all center around the sources of your income and your income needs. The more diversified your income sources, the more choices you may have. Income limited to Social Security and your pension provides virtually no flexibility for tax savings. If you have investments that generate income, however, you have more potential options.

[6] The listed base amounts apply for married filing separately (MFS) taxpayers that have lived apart from spouse for all of the tax year. If MFS and have lived with spouse for part of tax year, the base amount is $0 and up to 85% of Social Security benefit may be taxable.

You can count on us

Check with your financial professional to discuss structuring a portfolio that may help you keep as much of your Social Security benefits and other income as possible. Your financial professional can work with you and your tax advisor to tailor an investment program to help meet your retirement needs.

Consider restructuring your investment portfolio

Remember, to determine the portion of your benefits that will be subject to taxes, you must calculate your provisional income, including federal-tax-free interest from municipal bonds. If you reduce your provisional income, you may be able to reduce the amount of your benefits that will be taxed. To do this, you may want to consider tax-deferred investments. Tax-deferred income is not included in provisional income as long as it remains deferred. Some investments that generate tax-deferred income include annuities and certain life insurance policies.

Investors who convert part or all of their investment dollars into tax-deferred investments may find that the reduction in their cash flow does not produce the expected tax savings. This is particularly true for investors whose incomes substantially exceed the thresholds.

This strategy is not for everyone. Your tax savings must be large enough to justify any transaction costs that may result from the investment restructuring. And, perhaps more important, you must be able to live without a portion of the cash flow that your income-paying investments now provide.

Talk to a Wells Fargo Professional

We welcome the opportunity to work with you to help you achieve your financial goals. Let us know if there are any other topics or services of interest to you.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can cause a bond's price to fall. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity. Yields and market value will fluctuate so that your investment, if sold prior to maturity, may be worth more or less than its original cost.

Income from municipal securities is generally free from federal taxes and state taxes for residents of the issuing state. While the interest income is tax-free, capital gains, if any, will be subject to taxes. Income for some investors may be subject to the federal Alternative Minimum Tax (AMT).

This publication is designed to provide accurate and authoritative information regarding the subject matter covered.

Insurance products are offered through nonbank insurance agency affiliates of Wells Fargo & Company and are underwritten by unaffiliated insurance companies.

There are many types of distribution options available to an investor when taking money from an annuity. These options include a lump sum, partial withdrawals, systematic withdrawals and annuitization. All withdrawals of earnings will be fully taxable and if taken before the age of 59 ½ may be subject to a 10% IRS penalty. For variable contracts, please see the prospectus for complete information on distribution options with annuities.

Wells Fargo's view is that investment decisions should be based on investment merit, not solely on tax considerations. However, the effects of taxes are a critical factor in achieving a desired after-tax return on your investment.

The information provided is based on internal and external sources that are considered reliable; however, the accuracy of the information is not guaranteed.

Wells Fargo & Company and its affiliates do not provide tax or legal advice. Please consult your tax and legal advisors to determine how this information may apply to your own situation. Whether any planned tax result is realized by you depends on the specific facts of your own situation at the time your tax return is filed. Tax laws or regulations are subject to change at any time and can have a substantial impact on an actual client situation.

Wells Fargo Wealth & Investment Management (WIM) provides financial products and services through various bank and brokerage affiliates of Wells Fargo & Company. Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company.