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 2026, the OASDI tax is imposed only on annual wages up to $184,500, whereas there is no limit on the wages subject to the Medicare tax. Therefore, if you are an employee, filing single, earning $225,000, you will pay the following Social Security and Medicare tax:†

6.2% on first	$184,500	=	$11,439.00
1.45% on:	$225,000	=	$3,262.50
0.90% on:	$25,000	=	$225.00
Total Social Security and Medicare tax			$14,926.50

Source: Social Security Administration, 2025

Self-employed individuals. In 2026, 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 $184,500. 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.

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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 claim benefits" 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, 2025

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 benefits 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, 2025

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 can't work because they have a medical condition that's expected to last at least 1 year or result in death. 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.

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[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 claim benefits

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 2026 and want to claim benefits 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, 2025

* 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, 2025

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 eligible benefits.

In 2026, a worker between the age of 62 and his or her full retirement age can earn no more than $24,480 without affecting his or her Social Security benefit. Social Security will deduct $1 from benefits for every $2 earned in excess of $24,480. If a worker attains full retirement age in the calendar year, there is a special earnings test. In 2026, a worker who reaches his or her full retirement age in the calendar year can earn no more than $65,160 without affecting his or her Social Security benefit. Social Security will deduct $1 from benefits for every $3 earned in excess of $65,160. 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.

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.

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, 2025

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

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Enhancing your retirement benefits

If your provisional 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 are taxable.

Your alternatives all center around the sources of your income and your income needs. Income limited to Social Security and taxable distributions from your retirement accounts provide virtually no flexibility for tax savings. However, if you have diversified income sources or can access retirement accounts income tax-free, you may 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.

Talk to a Wells Fargo Professional

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