With Social Security, Timing is Everything

Maximize benefits by knowing your options and planning accordingly

MILWAUKEE, March 1, 2016 /PRNewswire/ -- According to government data, today's 65 year old will likely live to 85 on average. The uptick in longevity and the possibility of a longer retirement can create added financial pressure. For many Americans, Social Security is a key component of retirement funding. Knowing how to navigate its intricacies, especially changes under the Bipartisan Budget Act of 2015 taking effect on May 1, 2016, is essential to maximizing the benefit and building a sound financial strategy for retirement.

"A 30 year retirement is becoming a reality for some," saidRebekah Barsch, vice president, planning, Northwestern Mutual. "While there's wonderful upside to enjoying more years with loved ones, it should also be a priority to ensure that your retirement plan provides sufficient income for as long as necessary -- particularly considering rising costs and ongoing economic uncertainty."

Similar to pensions and income annuities, Social Security provides a source of guaranteed, stable income for the duration of one's lifetime as well as a benefit for spouses and survivors. However, there are numerous guidelines to consider, and according to Barsch, when it comes to Social Security, timing is everything.

"Our 2015 Planning and Progress Study revealed that the the majority of Americans expect to begin taking Social Security between the ages of 65-67, but that may not necessarily be the best path depending on other financial and life circumstances," noted Barsch.

As a first step, she recommends becoming familiar with the various Social Security benefits types, distribution schedules, and benefit calculations. One example is determining your cross over age – the age at which the total amount of benefits you would receive after your full retirement age (FRA) exceeds the total benefits you would receive if you took benefits before FRA.

Once you have an understanding of how Social Security generally operates, Barsch suggests working with a financial advisor to assess how the following factors may impact your decision regarding when to begin taking Social Security:

Savings and investments – Depending on how well-funded your retirement plan is, you may want to consider using your savings in the short-term and waiting to collect Social Security benefits at or after FRA. Conversely, if you do not feel like your savings are sufficient, you may want to claim benefits early to avoid incurring debt.
Health and longevity – For those in good health and optimistic about life expectancy, it may make sense to continue working and delay taking Social Security to maximize the benefits later.
Taxable income – Social Security benefits are taxed in accordance with your combined income. However, even at the highest taxable percentage, they compare favorably with distributions from IRAs, 401ks or other retirement sources. By delaying receipt of Social Security benefits to FRA or age 70, you will have a higher level to meet your needs, allowing you to withdraw less from retirement sources that are taxed more substantially.
Current and future and earnings – Planning to claim Social Security early and continue working? The "earnings rule" sets guidelines around how much income you can earn before your FRA without risking a benefits reduction.
Family status – Social Security has a number of specific rules that apply to current, surviving, and divorced spouses. It is important to consult with a knowledgeable advisor for the most recent guidelines stemming from the passage of the Bipartisan Budget Act of 2015.

For more information go to Social Security Simplified.

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For further information: Jean Towell, 1-800-323-7033, mediarelations@northwesternmutual.com

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