SOCIAL SECURITY SIMPLIFIED

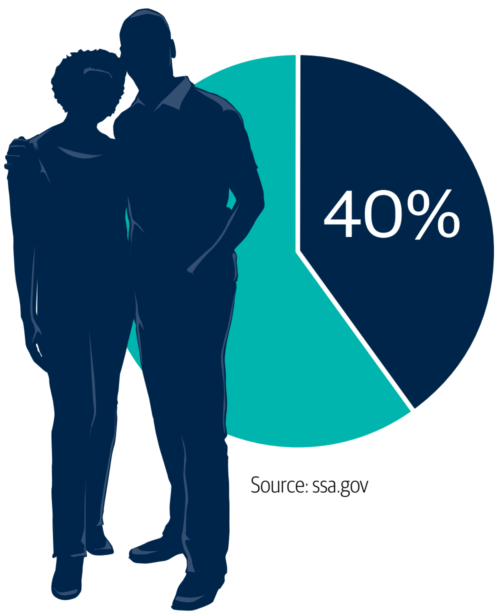
SELECT THE RIGHT OPTIONS TO HELP MAXIMIZE YOUR INCOME.

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 may be concerned that your money may not last for your entire lifetime. That's why Social Security may be a bigger piece of your retirement puzzle than you previously thought.

Social Security benefits act as a buffer against inflation and the risks involved with investing and living into old age. 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 typically adjusted for inflation and also provides benefits for spouses and survivors.

As you plan for retirement, it's essential to recognize the role Social Security benefits play in your future income and how you can maximize your benefits by making informed financial decisions that are right for your personal situation.

The Amount Social Security Replaces for Average Wage Earner in Retirement



Source: ssa.gov

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CONTENTS

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. 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 presents risks, such as market volatility, taxes and inflation, which can negatively impact your retirement savings and income. In fact, the risk of outliving your money is one of the major fears affecting people nearing retirement.[1] And even with that concern, many people claim Social Security early, which can permanently reduce their benefits for life.

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.

Regardless of why you are 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. In truth, the decisions you make about your benefits will serve you best if you approach them in the same way as 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 what exactly factors into timing?

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

After FRA – Individuals who delay retirement earn 8 percent in Delayed Retirement Credits 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 32 percent—8 percent each year for four years of delayed payments from FRA of 66 to age 70.

Before FRA – Age 62 is the earliest an individual can start taking retirement benefits. However, someone who begins taking benefits four years early can expect his or her PIA to be reduced by 25 percent for life (assuming an FRA of 66 today).

WHEN YOU'LL REACH FULL RETIREMENT AGE

YEAR OF BIRTH:	FRA:
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960+	67

HOW YOUR BENEFIT IS CALCULATED

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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 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 are no earnings.

Cost-of-living adjustments often automatically increase your benefit each year based on an inflation percentage determined by the Social Security Administration. In 2016, there was no cost-of-living increase.

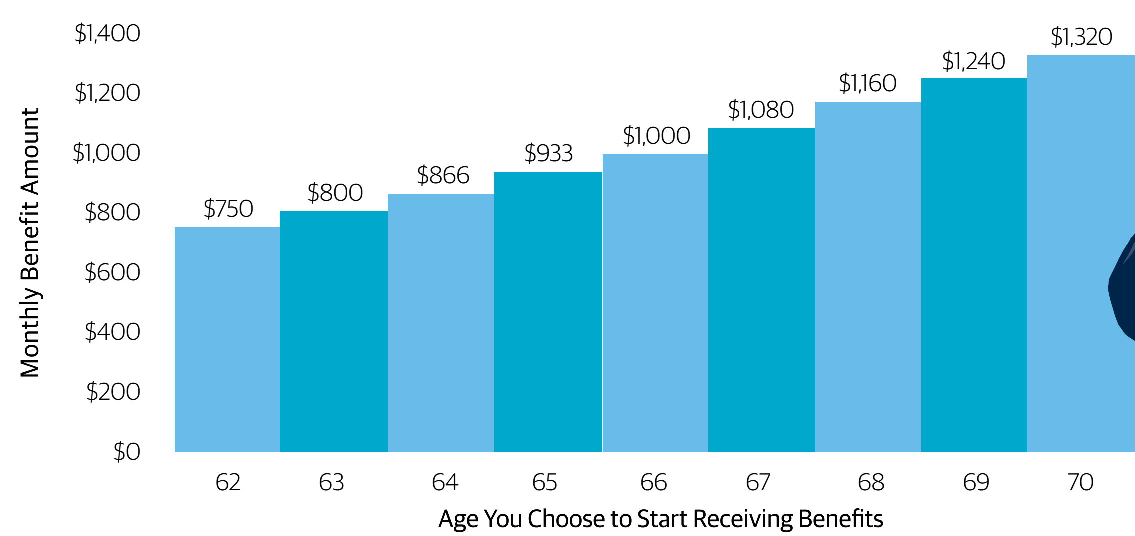
There is a maximum amount of Social Security income you can receive each year. In 2016, the maximum benefit at FRA was $2,639 per month. Delaying your benefit after your FRA will increase this amount.

THE RIGHT TIME FOR RETIREMENT

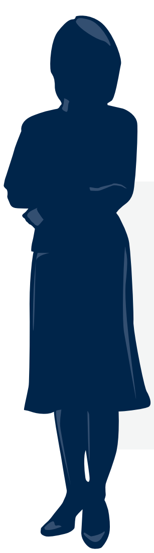
The following chart shows the difference in monthly benefits for a retired worker who has $1,000 in benefits at the FRA of 66 and the impact timing has on his or her PIA.

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 66.



FIVE KEY FACTORS TO CONSIDER WHEN CLAIMING YOUR BENEFITS



Delaying your retirement to age 70 may seem like your best option, as you can maximize the amount of benefits you'll receive from Social Security. However, you should weigh additional factors in timing your benefits. Before you claim Social Security benefits, consider these five key factors:

Savings and investments

Health and longevity

Current and future earnings

Taxable income

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 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 have not 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 may not make sense.

It can be helpful to calculate your "crossover" age, or the age at which the total amount of benefits you would receive after FRA exceeds the total benefits you would receive if you took benefits before FRA. If your FRA is 66 and you begin taking your benefits at age 62, your crossover age is approximately 78. What this means is that—all things being equal—you will collect more in total benefits if you live beyond 78 and wait to collect Social Security until your FRA. The Social Security Administration has several calculators on its website at www.ssa.gov to help you estimate your benefits.

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.

For 2016, here are the limits:

- If you file before your FRA: You can earn up to $15,720 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.[2]
- In the year you attain FRA: You can earn up to $41,880 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, 0 percent, 50 percent or 85 percent of your Social Security benefits will be taxed. The Social Security Administration calculates combined income by taking your Modified Adjusted Gross Income (MAGI)—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 noted below), a percentage of your Social Security benefit will be taxable.

Your Modified Adjusted Gross Income + Nontaxable Interest + 1/2 of Your Social Security Benefits

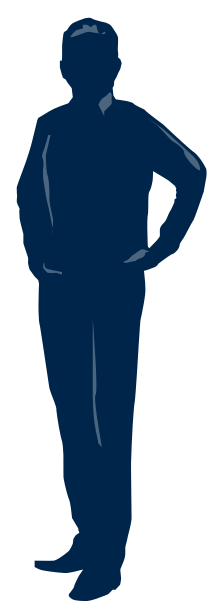
= Your "Combined Income"

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), of which 100 percent 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	50% of Social Security benefits taxed
$34,001+ / $44,001+	85% of Social Security benefits taxed

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

Even at the highest taxable percentage, Social Security benefits compare favorably with other retirement income sources.



YOUR FAMILY STATUS

MARRIED COUPLES

Nearly half of married people who are age 65 can expect one spouse to outlive the other by 10 or more years.[4] For three 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.

Before you begin to evaluate your options, be mindful of certain considerations regarding spousal benefit options:

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

Married couples should consider all available options when timing benefits. Some of the most common strategies include standard spousal benefits; file and suspend; and claim now, claim more later.

Under the Bipartisan Budget Act of 2015, certain filing strategies may no longer be available to you based on your age and marital status. We have identified the legislative impacts to each strategy below. If you aren't sure which strategies apply to you, contact a Northwestern Mutual financial professional for a consultation.

Standard Spousal Benefit

With the passage of the Bipartisan Budget Act of 2015, the "deemed filing" rule always applies. Unless you were age 62 before December 31, 2015, when you file for benefits, you will be deemed to be filing for all available benefits. You will automatically get the higher benefit of either your own benefit or your spousal benefit. The benefit you receive will be reduced if you are claiming early.

Let's look at an example. Seth and Jamie are both 66 and want to retire. They want to decide whether Jamie should claim her own Social Security benefit or claim her spousal benefits. Jamie's benefit at FRA is $1,000, and Seth's is $2,500. Jamie is eligible for either her benefit of $1,000 or 50 percent of Seth's benefit, $1,250. In this case, Jamie is better off taking Seth's spousal benefits, which will net them $250 more per month than if she claimed only her own benefit.

We'll take the same example and evaluate the best approach if one spouse has not yet reached FRA. Jamie is 62 and Seth is 66 (FRA), and both would like to retire. Seth has applied for his benefit. By applying for her spousal benefit, Jamie will automatically receive the greater of her benefit, less 25 percent ($750) for early retirement, or Seth's benefit also reduced for applying early (35 percent of Seth's benefit). By applying for her spousal benefits, Jamie is able to collect $125 more per month than if she would have claimed her own benefit alone.

SPOUSAL BENEFIT WHEN ONE SPOUSE HAS NOT REACHED FRA
Seth, 66, benefit at FRA **$2,500**
Jamie, 62, benefit at FRA **$1,000**
Jamie's benefit at 62 **$1,000 - 25% = $750**
Jamie's spousal benefits at 62 = $2500 * 35% = $875

File and Suspend

This filing strategy will be available only for a limited time, as it was affected by the Bipartisan Budget Act of 2015. After April 30, 2016, if you choose to file and suspend, your spouse or other dependents will no longer be able to collect off the suspended benefit.

To use this strategy, the person filing and suspending needs to be at FRA and needs to have filed and suspended his or her benefit by April 30, 2016.

This strategy has the higher-earning spouse applying for benefits at FRA and then immediately suspending receipt of these benefits until age 70. Under this strategy, the lower-earning spouse is able to receive a spousal benefit, and the higher-earning spouse receives delayed retirement credits (DRCs)—resulting in a much larger benefit for the higher-earning spouse at age 70.

To see how this scenario works, we'll take a look at another couple, Mike and Christine. Mike is 62, and Christine is 66. Christine wants to wait until age 70 to receive her benefit to take advantage of DRCs. By filing and suspending her benefits immediately, Christine allows Mike to claim spousal benefits. The most Mike can receive through the spousal benefit is 50 percent of Christine's PIA, or $1,225. However, since he has not reached FRA, the spousal benefits will be reduced to 35 percent or $857. With the file and suspend strategy, the couple receives $784 more in benefits per month than if Christine would have applied at the same time as Mike.

FILE AND SUSPEND

Christine, benefit at FRA =	$2,450
Mike, benefit at FRA =	$1,000
Mike's spousal benefit at 62 =	$857

If both had applied at the same time with Mike at age 62 and Christine at age 66:

Mike:	$857
Christine:	$2,450
Total benefits:	$3,307

If Christine files and suspends at 66 (claiming at age 70) and Mike claims at 62:

Mike:	$857
Christine:	$3,234
Total benefits:	$4,091

*This strategy will be eliminated on April 30, 2016.

Claim Now, Claim More Later

(ALSO REFERRED TO AS "SPOUSAL SWITCH")

This filing strategy was affected by the Bipartisan Budget Act of 2015. Individuals age 62 or older by December 31, 2015, are still able to utilize this strategy.

In this strategy, the lower-earning spouse can apply for benefits, and the higher-earning spouse, who is at FRA, files for the spousal benefit. By claiming the spousal benefit, the higher-earning spouse delays receipt of his or her own benefit, earning DRCs. When the higher earner reaches 70, he or she can switch to his or her own benefit, which has increased through DRCs over time. In order to claim a larger benefit later, the spouse who wants to claim the spousal benefit first and then switch to his or her own benefit later must be at FRA when claiming the spousal benefit, and the lower-earning spouse must have applied for his or her benefit.

For an example, let's look at Roberto and Elena. Elena will file for her $1,000 benefit at FRA (age 66). Roberto will file for his spousal benefit, allowing his own benefit to grow to $2,640 through DRCs. During the gap between 66 and 70, the couple will collect $1,500 per month; and when Roberto reaches age 70, the total benefit will increase to $3,640, a $640 increase over what they would have received by if they both had claimed at age 66.

CLAIM NOW, CLAIM MORE LATER

Roberto benefit at FRA =	$2,000
Elena benefit at FRA =	$1,000
Roberto spousal benefit =	$500

If both retire at age FRA, age 66:

Roberto:	$2,000
Elena:	$1,000
Total benefits:	$3,000

With Claim Now, Claim More Later, Roberto claims a spousal benefit at 66 and then at 70, switches to his benefit which grew through DRCs.

Roberto:	$2,640
Elena:	$1,000
Total benefit:	$3,640

By utilizing this strategy, the couple will receive $640 per month more than if they both filed for standard benefits at age 66.

*This strategy is only available for individuals age 62 or older by December 31, 2015.

It's important to understand that, with the passage of the Act, anyone younger than 62 at December 31, 2015, will no longer have a restricted application option. As a result, you will be deemed to be filing for benefits and will automatically get the higher benefit of either your benefit or your spousal benefit. Your benefit will be reduced if you are claiming early.

DIVORCED INDIVIDUALS

Some strategies for divorced individuals were affected by the Bipartisan Budget Act of 2015. In addition to his or her own benefit, a divorced spouse may be able to claim a spousal benefit if:

- He or she was married for at least 10 years, and
- Has been divorced for at least two years, and
- Is currently unmarried.

However, unlike traditional spousal benefits, the former spouse does not have to file for retirement; he or she only needs to be eligible for benefits (i.e., age 62). In addition to the Standard Spousal Benefit, you may also still be eligible to take advantage of the Claim Now, Claim More Later filing strategy covered on page 8. With the passage of the Bipartisan Budget Act of 2015, the divorced spouse must be age 62 or over by the end of 2015 to use this strategy. For Claim Now, Claim More Later, the divorced spouse should notify the Social Security worker that he or she is filing a restricted application for spousal benefits.

SURVIVING SPOUSES

The Bipartisan Budget Act of 2015 does not affect options available for surviving spouses. Upon the death of one spouse, the surviving spouse at FRA is entitled to a survivor benefit equal to 100 percent of the deceased spouse's benefits on the date of death.

Surviving spouses also can take advantage of some 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 70. His or her benefit will have increased from earning DRCs.
- Another option allows a surviving spouse with low retiree benefits to take his or her own (reduced) benefit at 62 and then "switch" to the 100 percent survivor benefit at FRA (i.e., age 66).

Please remember that the "earnings rule" will apply to any benefits received before the surviving spouse attains FRA.

Remember, the goal is to obtain the highest benefit amount possible for the longest duration possible, after considering other relevant factors.

Individuals who delay benefits increase not only their benefit but also the benefit for their surviving spouse should they die first.

DELAY BENEFITS AND BRIDGE THE INCOME GAP

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

Strategies for bridging the income gap between ages 62 and age 70 often include continuing to work full time, utilizing other retirement assets such as your 401(k)s and Roth IRAs, working part time and holding off on major discretionary expenditures. 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 your entire retirement. A financial professional can provide you 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. Ron and Sharon are 61, and they are evaluating whether they can retire at 62. Their goal is to live on $82,400 per year in retirement. They have approximately $700,000 in retirement assets to help fund the delay period.

We evaluated three 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.

POSSIBLE RETIREMENT SCENARIOS		
1 Both Ron and Sharon retire at 62 and take early Social Security benefits	2 Both retire at 62 but delay taking Social Security until age 70	3 Both keep working until age 65 and delay Social Security to age 70

In scenarios one and two, the couple has enough assets to supplement their income until age 70; however, all of their assets are liquidated early into retirement, leaving a permanent gap between their income needs and their cash reserve plus benefits received from Social Security. In scenario two, the gap is much smaller due to the earned DRCs, which increase their Social Security benefits.

In scenario three, by working until age 65, Ron and Sharon are able to accumulate more savings, earn DRCs and preserve much of their assets. In fact, at age 90, the couple would still have approximately $570,000 in assets. Working just a few extra years would help ensure that their money lasts throughout their retirement.

	SCENARIO 1	SCENARIO 2	SCENARIO 3
Social Security Income at 70*	$55,349	$97,415	$97,814
Age when all assets are liquidated	Age 81	Age 77	At age 90, Roth balance is approx. $570,000
Income Gap at age 81	-$45,069	-$9,644	$0

*Accounts for COLA and DRCs. None of the scenarios utilized the filing strategies and therefore are not impacted by changes under the Bipartisan Budget Act of 2015.

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. Additionally, if they both continue to work until age 65, a cash reserve of approximately $570,000 will be available to help supplement any income shortfall due to eligibility for only one individual's Social Security benefit.

CHANGING YOUR MIND

What if you decide to claim benefits only to find that your situation has changed? If you elect to receive early Social Security benefits before your FRA and later change your mind, 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 have already received, interest free. You can then restart your benefits at a later date and at a larger amount, based on your (older) age.

CONCLUSION

When it comes to planning for your retirement, Social Security should be just one part of your retirement income strategy—albeit 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 45 percent 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 are 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 action steps to take in preparing for retirement is to meet with your financial professional about your Social Security benefits. A financial professional should be able to prepare different scenarios based on your situation so you are able to make the most informed decisions regarding your retirement.

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

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

You and your financial professional should review your plan annually so that you can adjust it as your needs evolve.

[1] EBRI Retirement Confidence Survey, 2013

[2] 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.

[3] http://socialsecurity.gov/planners/taxes.htm

[4] LIMRA Research: "Are Couples Really Addressing the Longevity Risks?" http://www.limra.com/Posts/PR/Industry_Trends_Blog/Are_Couples_Really_Addressing_the_Longevity_Risks_.aspx

[5] LIMRA Research: "Half of Retirees Do So Before They Had Planned — Often Not By Choice" http://www.limra.com/Posts/PR/Industry_Trends_Blog/LIMRA_Research__Half_of_retirees_do_so_before_they_had_planned_--_often_not_by_choice.aspx?LangType=1033

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