Guide for Financial Professionals

Protective

UNDERSTANDING SOCIAL SECURITY

A look at the big picture

Is your clients' picture of retirement incomplete?

Building retirement income plans for your clients is a process that requires bringing a spectrum of income sources together to create a well-composed picture of how those assets will provide for everyday income needs. However, many financial professionals often leave one important element — Social Security — out of the picture entirely.

Whether it is due to a lack of understanding of Social Security, decreased confidence in its longevity or other reasons, leaving Social Security benefits out of the frame could result in an incomplete retirement income picture for your clients.

The retirement benefits provided by Social Security can be substantial. Even if those benefits will not be a primary income source for your clients, it's important that they make some key decisions about those benefits prior to retirement. Professionals who can educate their clients about their options with Social Security benefits are poised to remain a part of their clients' financial planning picture well into the future.

Protective®

Understanding Social Security from Protective

That's why we offer the Understanding Social Security program. Packed with a variety of resources, the program offers tools to help you learn about the key aspects of the Social Security program and consumer material to help your clients better understand Social Security. Additionally, it provides a full array of educational materials to help you educate your clients on their options as they prepare to receive Social Security benefits.

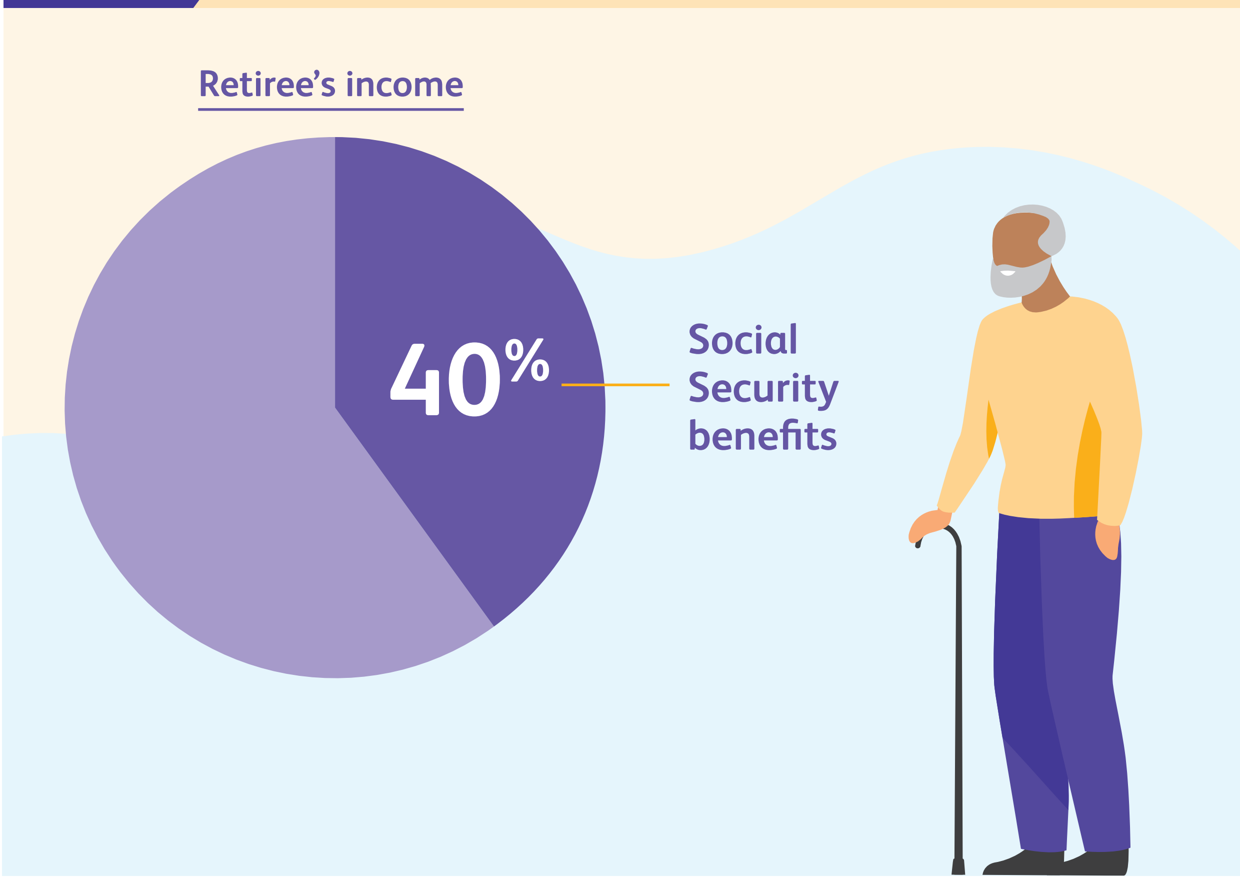
In this guide, you'll find the following information:

1. Social Security basics
2. When to file for benefits
3. All about taxes
4. Medicare and special situations
5. Resources and next steps

Social Security basics

Social Security covers an estimated 96% of Americans. Initially designed in the 1930s as a retirement safety net, the program has grown to provide benefits to retirees, workers who become disabled and families in which a spouse or parent dies. According to the Social Security Administration, approximately 168 million people currently work and pay Social Security taxes and over 60 million people receive monthly Social Security benefits.

FACT Today, on average, Social Security benefits account for 40% of a retiree's income.*



*ssa.gov.

While it was designed as a program for retirees, it is not meant to be their only source of retirement income. On average, Social Security benefits account for about 40% of a retiree's income.

The actual amount of Social Security benefits paid in retirement is based primarily on the highest 35 years of wages earned and the recipient's age at retirement. Throughout their working years, your clients have been accumulating Social Security credits. The credits are based on the amount of earnings.

In 2025, workers will receive one credit for every $1,810 of earnings up to the maximum of four credits per year. In order to collect retirement benefits, an individual needs to have accumulated 40 credits (equivalent to 10 years of work).

Social Security: How it works

When people work, they pay taxes into Social Security. That tax money is used to pay benefits to:

- People who already have retired
- People who are disabled
- Survivors of workers who have died
- Dependents of beneficiaries

The money a worker pays in taxes is not held in a personal account for personal use later. Taxes that are currently being collected are being used now to pay people who are getting benefits today.

The benefits

Your typical client, a lifelong, high-wage earning individual (someone who has always paid the maximum amount toward the Federal Insurance Contributions Act (FICA), making their first benefit claim at age 67 could expect to receive a maximum benefit in 2025 of $4,018 monthly. This equates to $48,216 over the course of a year. While these are maximums for 2025, the average benefits are also substantial.

Once benefits begin, these amounts are adjusted periodically for inflation, and the payments are guaranteed to last the individual's lifetime or their spouse's, whichever is longer.

The benefit amounts could be of particular significance for two-earner couples. Both spouses are entitled to the full benefit they earned and contributed taxes toward throughout their working lives.

Help clients understand their benefits

Average 2025 Social Security benefits (per month)

For Financial Professional Use Only. Not for Use With Consumers.

To get an estimate of their benefits, your clients can go to ssa.gov/myaccount. There, you can walk them through registering to see their annual statement, where they will find an estimate of future benefits based on their earnings record. Also on the ssa.gov site, there are tools and calculators to determine benefit amounts based on earnings and when a client plans on filing for benefits. For more in-depth resources and tools, go to myprotective.com/socialsecurity, where you'll have access to all of the Understanding Social Security materials and tools from Protective.

Spousal benefits

If an individual qualifies for spousal benefits, they will receive the benefit they earned through their own wage. In addition, if 50% of their spouse's benefit is greater than their own benefit, they will receive their benefit plus the difference between that benefit and 50% of their spouse's benefit. For example, if a working husband merits $24,000 in annual benefits, his nonworking or lower-wage earning wife could receive at least another $12,000 a year in spousal benefits.

When one spouse dies before the other, the survivor has another choice to make. If they've been receiving benefits on their own earnings record and their deceased spouse had a higher benefit, they can "upgrade" to the higher benefit as the survivor.

2025 Social Security benefits

Maximum benefit for retirees at age 67

$4,018 monthly

or

$48,216 annually

When to file for benefits

When considering when to take benefits, clients must consider many factors and should consult a Social Security professional if they need advice. Things to consider: the client's health, their work and family situations, other sources of retirement income and their overall financial picture.

FACT Today, 67 is the new 65 when it comes to full retirement age.

In general, a worker can begin receiving benefits at full retirement age, which is a number that varies based on the year a person was born. For most, that age is somewhere between 65 and 67.

Year of birth	Full retirement age
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 or later	67

Filing early

Although there is a full retirement age guideline, workers can begin filing for benefits at age 61 years 9 months, with benefit payments beginning at age 62. But, beginning benefits at age 62 will result in those benefits being significantly reduced from what they would be if the retiree waited until full retirement age to claim them. And, the reduction in benefits is permanent. That is, for the remainder of their lifetime, benefits will be reduced.

For example, if a person whose full retirement age is 66 decides to take benefits at 62, they will be reducing their benefits by roughly 25 percent. If the retiree's full retirement age is 67, the reduction is even more severe: 30 percent. Any reduction in benefits can be costly, given that the average retiree can expect to spend 30 years in retirement.

Delaying Social Security benefits mainly pays off if your client outlives the life expectancy tables. Of course, probable life span is not the only factor that your clients should consider. You can help your clients see the bigger picture by running their underlying financial circumstances through several "what if" scenarios.

Filing for benefits: sooner or later?

Source: ssa.gov, Retirement Age and Benefit Reduction, 2024

Here is a quick overview of some situations that will likely favor taking benefits sooner rather than later. However, each client's situation is unique, and they should consider their own circumstances.

Health concerns

For those clients in poor health or under financial duress, filing early isn't going to be as much of a choice as a necessity.

Already retired

For those who are no longer working and have little reason to think they will be working again — and where retirement savings are inadequate to support their income needs — filing early will probably make sense. Still, financial professionals should calculate whether it makes more financial sense to spend savings during the first few years of retirement and delay filing in order to access higher lifetime Social Security benefits later or not. This is especially true for single clients.

Lower-earning spouse

The lower-earning member of a double-income couple will want to consider taking benefits early. For them, filing early is not as limiting since they can "upgrade" their benefits by filing for spousal benefits on the higher-earning spouse's maximized benefit. If they survive their spouse, they can switch to his/her higher full benefit upon his/her death.

Parents of school-age children

Filing early may also be beneficial when a client still has minor children living at home (or a child with a disability that began prior to age 22). In such cases, delayed parenthood offers a bonus: Children are entitled to receive benefits if their parents are receiving benefits. In fact, this source of income can be a welcome way to fund future education costs.

Plans for a career change

Someone launching a second career or starting a business may benefit from filing early because wages in the early years of such activities tend to be low. In other words, even though they will be working full-time, the earnings limits could have a minimal impact on their benefit level. It should be noted that the earnings limits (earnings are reduced by $1 for every $2 earned in excess of the limit until the recipient reaches his or her full retirement age) apply to earned income, not to income realized from investments or money generated from capital gains.

Receiving benefits while still working

Sometimes, your client will want to begin taking benefits while they are still working. While this is an option, your client should be aware of what this will mean for their benefits now and in the future.

Your client needs to know:

- If a worker files to receive Social Security benefits while still working, those benefits will be subject to an earnings limit as long as the individual is under their full retirement age.
- Those who claim benefits prior to their full retirement age while still earning wages are subject to an earnings limit test. Benefits are reduced at a rate of $1 for every $2 earned above the limit. In 2025, that limit is $23,400.
- The reduction is less severe in the tax year in which you reach the full retirement age. For the portion of the year you were under the full retirement age, benefits are only reduced $1 for every $3 earned over the larger limit. In 2025, that limit is $62,160. After your birthday that year, the limits no longer apply.

All about taxes

The Social Security Administration reports about 56% of its recipients pay taxes on their retirement benefits. Social Security benefits are likely to be taxable for those recipients who have income from other sources, such as pensions, retirement accounts and personal savings.

FACT Today, individuals receiving benefits who have a total income of more than $25,000 will have to pay federal taxes on their Social Security benefits.

There is a calculation to determine whether a client will have to pay taxes on their benefits, and this will need to be determined each year when their tax return is being prepared. As their financial professional, you can help estimate the amount of any potential taxes and recommend strategic moves the client can make to lessen their tax liability.

Since the actual percentage of benefits that will be taxed each year will vary with the amount of other income your clients report, you can help your clients estimate the percentage by using the following equation.

Example tax estimate equation		
___________	+	All income from wages, pensions and investment
___________	+	Any non-reportable tax-exempt income
___________	+	Any other exclusions to income
___________	+	50% of the anticipated Social Security benefit for the tax year
___________	=	**The result is the total provisional income that applies to the tax liability calculation for your clients.**

If provisional income is:

- **$32,000 or less** for joint filers ($25,000 or less for single filers), Social Security benefits are free of federal taxation, though state taxes may still apply
- **Between $32,000 and $44,000** for joint filers ($25,000 and $34,000 for single filers), up to 50% of Social Security benefits must be reported on Form 1040
- **Over $44,000** for joint filers (over $34,000 for single filers), up to 85% of the benefits will be taxed as ordinary income

When instructed, the Social Security Administration will automatically withhold money for taxes from each benefit check. Otherwise, quarterly estimated tax payments will be expected by the IRS.

The facts cited on these pages sourced from ssa.gov.

Beware the pitfalls of delaying income

When it comes to managing the impact of taxes on their clients' Social Security benefits, financial professionals are somewhat limited. Clients can delay realizing income in any one year by:

- Laddering CD or annuity maturities to come due in future years
- Postponing withdrawals from IRA accounts, if possible
- Avoiding the realization of capital gains
- Managing income generation

However, pushing income into future years may just make the tax burden larger in those years, conceivably pushing the client into a higher income tax bracket.

Benefits reduction vs. taxation of benefits

The taxability of benefits is different from the reduction of benefits for those still working. Under the earnings limit reduction, benefits are reduced $1 for every $2 in wages earned over a set limit (in 2025, that limit is $23,400). But even though this limit disappears once the client reaches full retirement age (between 65 and 67, depending on when they were born), the tax liability is a life-long consideration.

The bottom line

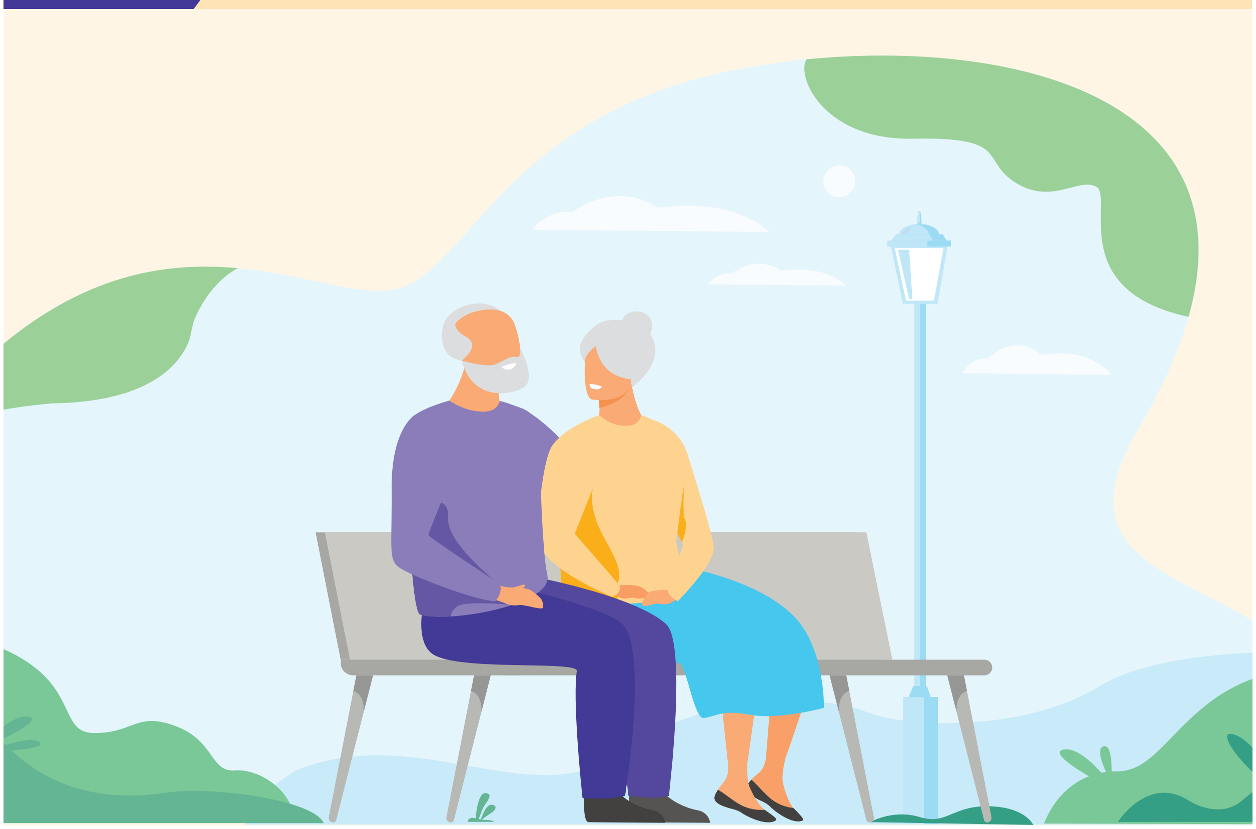
Between the earnings limit reduction and the tax liability on benefits, you may find that clients still involved in the workforce at a professional level are not likely to see much of an advantage in taking early retirement benefits from Social Security.

Medicare and special situations

The Social Security program is not limited to providing benefits to retirees. There are many special situations in which individuals are entitled to benefits. By familiarizing yourself with the situations below, you can be prepared to educate clients on how Social Security can fit into their financial plans before and during retirement.

FACT

Today, Social Security is much more than a retirement program, providing benefits to millions of Americans who are disabled or have other special situations.



The information represents only our current understanding of Social Security and Medicare in general and should not be considered legal or tax advice by consumers. Details of the Social Security and Medicare programs are subject to change at any time. Neither Protective nor its representatives offer legal or tax advice. Consumers should consult with their tax or legal advisor regarding their individual situations before making any legal or tax-related decisions.

The facts cited on these pages sourced from ssa.gov.

Medicare

Filing for Medicare

Filing for Medicare goes hand-in-hand with filing for Social Security. In fact, enrollment may be made through Social Security's offices. Both programs work to support older Americans throughout retirement, yet there is a difference. While the benefits available through Social Security are fairly straightforward (though deciding how to maximize them is complicated), Medicare is far more complex.

What is Medicare?

Medicare mainly provides coverage to those who are at least 65 and have paid Medicare payroll taxes for a minimum of 10 years. However, based on certain health factors, it may also be accessible to individuals who do not meet the payroll tax requirements. For others, it can be obtained through the payment of an additional premium. For most of your clients, Medicare is not an all-inclusive insurance solution. And depending on the Medicare plan coverage combination they choose, they are likely to need additional, privately arranged coverage.

Timing is essential

Enrollment must be completed about three months prior to turning age 65. Even if your client is still working, Medicare needs to be addressed. Similarly, even if your client is not working and has decided to postpone taking Social Security benefits until their full retirement age or beyond, not enrolling in Medicare could result in substantial penalties.

The ABCs and Ds of Medicare

Part A: Hospital insurance

Part A is intended to help offset the expense of being admitted to a hospital. In addition to covering inpatient hospital care, in some instances it will cover follow-up nursing home, hospice and home care. The premiums that pay for this insurance were already paid as part of the Social Security taxes withheld from your clients' paychecks during their working years.

Part B: Medical expense coverage

This component covers necessary medical care, such as physicians' services, and helps offset some of the expenses not covered by Part A, such as preventive care. As with Part A, it has annual deductible and co-payment requirements. However, this part of the plan is optional, and monthly premiums must be paid throughout retirement to maintain its coverage. In 2025, Part B coverage typically cost $185/month, but the premium would be higher for higher-wage earners. Paying the premium is easy — it is taken directly out of Social Security checks unless otherwise instructed. While coverage is optional, there is a 10% penalty assessed for every year past 65 that a retiree does not enroll (unless they have been enrolled in an employer plan).

Part C: Medicare advantage plans

These are alternative plans to the original Medicare Plans A plus B. The providers that execute these plans for Medicare function more like the HMO and PPO plans offered by employers: Some allow only "in-network" care, while the others allow service through anyone who has agreed to the Medicare payment plan. To opt for this coverage, which has an additional premium, your client still needs to be enrolled for Parts A and B. Whereas a privately obtained Medigap policy is recommended for those insured under Parts A and B, Part C is intended to cover that insurance need as well (excluding prescription drugs).

Part D: The prescription drug benefit

This part is also optional. It is only accessible for additional premiums, and those fees escalate with any delay in enrollment. For those not already covered under a policy that offers at least as much coverage as Medicare Part D, they increase by one percent of the monthly premium for each month that passes until enrollment. Even if your client does not have much in the way of prescription drug expenses, it may be more economical in the long run to enroll at age 65. Also, enrollment reopens every year so that seniors can reevaluate their drug plans and adjust accordingly for the year ahead. With multiple providers available in each state that clients can choose from, researching providers and comparing plans to anticipated needs is something they will need help with.

For clients already receiving Social Security benefits when they turn 65, Medicare Part A will start automatically. The optional coverage, however, requires separate enrollment several months prior to their 65th birthdays. For everyone else, including those who are still working, enrollment is still required. The exception is that if your clients' private insurance at least matches Medicare coverage, enrollment in the plan may be put on hold. But there are many complex rules, so being able to compare policies to current Medicare rules and coverage would be a great service to offer your clients as they near their 65th birthdays.

The facts cited on these pages sourced from ssa.gov.

Special situations

There are special situations in which Social Security benefits will vary from regular retiree benefits. By familiarizing yourself with the situations below, you can be prepared to help clients understand how Social Security can fit into their financial planning before and during retirement.

Divorced

Though a former spouse may no longer be part of their ex's day-to-day life, their Social Security benefit may be able to support a former husband or wife for the rest of their lives, providing the following conditions are met:

- The marriage lasted at least 10 years.
- The divorce has lasted at least two years.
- The former spouse is entitled to benefits.
- The claiming ex-spouse is unmarried.
- The claiming ex-spouse is at least 62.
- The claiming ex-spouse cannot qualify for a higher benefit on their own earnings record.

If these conditions are met, the ex-spouse may file for spousal benefits (half their former spouse's benefit) despite being divorced, even if that divorce was decades ago. Doing so does not impact the amount of the former spouse's benefit, nor his or her current spouse's ability to receive benefits. The former spouse does not even have to file for benefits first; he or she just needs to be at least 62.

Survivor benefits are also available based on a former spouse's earnings record if the ex-spouse:

- Is at least 60 (or 50 and disabled)
- Was married to the deceased at least 10 years
- Is not entitled to a higher benefit on their own record

If the surviving ex-spouse remarries after age 60 (50 if disabled), the marriage does not disqualify the ex-spouse from receiving benefits on their deceased spouse's earnings record. Again, payment to the divorced spouse has no impact on the benefits of a widow or any children who might also qualify for survivor benefits.

Employed by federal, state or local government

At one time, Social Security benefits were not available to these workers, including many teachers, because they were covered under different retirement programs. But that distinction is rapidly being phased out. Clients who expect to receive a government pension and who may not have been paying into the Social Security program throughout their entire working lives may still receive Social Security benefits. But benefits will be reduced to reflect the shortened participation in the Social Security program. Social Security maintains a separate website specifically geared toward answering questions for retiring federal, state and local government employees. It may be found at: ssa.gov/gpo-wep.

Disabled

These clients may already be receiving benefits when they reach the full retirement age. Their benefits will automatically switch from disability to retirement, requiring no further action on their part.

Living abroad

When working abroad for a U.S. company, or a company affiliated with a U.S. company, Social Security taxes may be subject to withholding by both the U.S. and the host country. But for those countries that have signed an agreement with the U.S., benefits coverage will be assigned to either the U.S. or the foreign country. For clients who have worked outside the U.S., a little extra digging may be required to determine if retirement benefits from another country will be a factor and what the rules are for receiving them.

Pensioners

Unless your client is receiving a pension from the federal government, or from a state or local government that was not participating in the Social Security system during their employment there, the receipt of a pension will not impact the amount of benefits received from Social Security. The reason is simple: These clients paid into Social Security through FICA, so they are entitled to the benefits they earned.

Widows and widowers

Survivor benefits have different age restrictions. Widows and widowers may begin receiving Social Security benefits at age 60 (or at age 50 if they are disabled), but the recipients have the option of switching to their own full benefits upon reaching their full retirement age, if those are higher.

The facts cited on this page sourced from ssa.gov.

Second-act careers

It should be noted that Social Security benefits are calculated by averaging the highest 35 years of earnings. Clients who make mid-life career switches into lower paying careers could see their eventual benefit level lowered through that action. While it is unlikely this would be a deal breaker for anyone, it may be a potential consequence worth noting if a client is trying to determine what potential financial consequences could arise from a career change.

Self-employed

Whether a client works for themselves or for someone else, and regardless of their age, earned wages are subject to FICA withholding. That is true even for someone in their 70s. The rules for claiming benefits, and the amount of benefits to be received, are the same as for those who were salaried throughout their careers.

The facts cited on this page sourced from ssa.gov.

Next steps

Social Security is just one element of a larger retirement strategy, unique for each client. In addition to our Understanding Social Security program, Protective offers a variety of retirement income planning products and resources to help you educate your clients as they enter the pre-retirement and retirement process. For more information, talk to your Protective representative.

Reach out to your Protective wholesaler for additional Social Security resources at 888-340-3428.

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Because we're all protectors.

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