

Three Changes Coming for Social Security in 2025

Anticipating changes coming to Social Security in 2025 can help you start planning for the new year and identify any adjustments you can make to maximize your eligibility for the most benefits.

People who think these changes only impact retirees would be wrong. Current workers need to keep an eye on accumulating enough Social Security credits and understand how much of their wages will be subject to the 6.2% Social Security tax.

The Social Security Administration (SSA) won't be announcing any final adjustments to the program until the second week of October, however, beneficiaries can expect these three changes to take place in 2025.

1. Social Security cost of living adjustment for 2025

Your Social Security cost of living adjustment is likely to be smaller than in 2024.

Inflation eased for the fourth month in a row, to 2.9%, in July. The easing inflation rate means retirees will get a smaller increase in their Social Security checks next year, versus the increases they got in previous years when inflation was higher.

The projected COLA for 2025 is 2.57%. The projection is based on the July CPI numbers, which is the first of three sets of numbers the SSA will use to determine the 2025 COLA. We will have to wait until October to find out what the final COLA for 2025 will be. For 2024, the Social Security COLA was 3.2%.

Keep in mind that while a lower inflation rate should lead to a smaller increase in prices, it does nothing to lower the current prices for groceries, utilities or housing that many are struggling to meet. The Kiplinger Inflation Outlook observed in July that prices of groceries and energy were little changed and that housing costs should be easing more than they have been.

2. Full retirement age (FRA) in 2025

Retirees will have to wait a little longer to reach their full retirement age (FRA) in 2025. The full retirement age is increasing gradually if you were born from 1955 to 1960, until it gets up to 67.

In 2025, the full retirement age will be 66 years and 10 months. For those who turned 66 in 2024, FRA is 66 years and eight months.

Here is when you will reach your FRA, by birth year:

- If you were born in 1958, your FRA is age 66 and six months and was reached in 2024
- If you were born in 1959, your FRA is age 66 and 10 months and is reached in 2025
- If you were born in 1960 or later, your FRA is age 67 and will be reached in 2026 and after
- *NOTE: People born on January 1 of any year, refer to the previous year.*

If you retire at age 62, the earliest possible Social Security retirement age, your benefit will be lower than if you wait till your FRA. The more months remaining between age 62 and your FRA, the more your monthly payments will be reduced.

Early retirement will reduce your benefits by 5/9 of one percent for each month before normal retirement age, up to 36 months. If the number of months exceeds 36, then the benefit is further reduced by 5/12 of one percent per month.

If you choose to continue working beyond your full retirement age and delay applying for benefits, you can increase future Social Security benefits in two ways: Each extra year you work adds another year of earnings to your Social Security record, and higher lifetime earnings can mean higher benefits when you retire.

Benefits will increase from the time you reach full retirement age until you start to receive benefits, or until you reach age 70. For each full year you delay receiving Social Security benefits beyond full retirement age, 8% is added to your benefit.

3. Social Security credits and taxes in 2025

In 2025, you'll have to earn more to qualify for Social Security credits, and the wage cap for Social Security taxes will increase.

Social Security credits. You must earn a minimum number of Social Security credits to qualify for retirement benefits. The Social Security Administration cannot pay you benefits if you don't have enough credits. You must earn 40 work credits to become eligible for benefits, and you are allowed to earn up to four credits per year.

The SSA also uses the number of credits you've earned to determine your eligibility for retirement or disability benefits, Medicare, and your family's eligibility for survivor benefits.

To earn one credit in 2024, you must have wages and self-employment income of \$1,730, and you must earn \$6,920 to get four full credits. This amount increases annually, so it will rise in 2025, but the exact amount hasn't been announced yet. In 2023, you only needed to earn \$1,640 to earn a credit, \$90 less than what you need to earn in 2024.

Once you earn the 40 credits, earning more credits won't increase your benefit payment. Instead, your retirement benefit is based on how much you earned during your working years.

Wage cap. Social Security caps the amount of income you pay taxes on and get credit for when benefits are calculated. The cap is \$168,600 in 2024 and is indexed to inflation, so you can anticipate it will go up next year. If you make more than \$168,600 in 2025, you can expect a higher Social Security tax bill next year once this limit is increased.

In 2023, the wage cap was \$160,200, and it rose by \$8,400 to \$168,600 in 2024. This was a smaller increase than the jump from 2022 to 2023, when the cap increased by \$13,200.