Social Security Basics

Hantzmon Wiebel Tax Update

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December 17, 2020

"I just don't know what do with myself in that long stretch after college but before social security."

Social Security Basics
Webinar Overview

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Social Security Basics

Social security falls under the Social Security's Old-Age, Survivors, and Disability Insurance (OASDI). This covers not only retirement benefits but disability payments, payments to survivors of deceased workers as well as Medicare Hospital Insurance.

- One of the most fundamental things your client should understand is that Social Security is only meant to replace about 40% of your pre-retirement earnings. Most individuals will need additional assets to maintain their lifestyle upon retirement. Budgeting and consulting with a financial planner can help them determine what additional assets they need to accumulate.
- Funding comes from payroll tax withholdings and self-employment income taxes.
- Your benefit calculation is based on your highest 35 years of social security earnings (with earnings indexed for inflation for wages received prior to age 62). Social security is not based upon Medicare wages.
- Need 40 "quarterly" credits to be eligible for social security. A quarter is earned in each year you make earnings of $1,410 (for 2020). Earning of $1,410 X 4, or $5,640, entitles you to four quarters for the year. The earnings do not have to be made in separate calendar quarters. Only 4 quarters are earned in any one year.
- Benefits are calculated based on the Average Indexed Monthly Earnings (AIME) of your highest 35 years of wages. If you have not worked for 35 years, it is assumed your wages were zero for the years not worked, which dilutes your benefit.

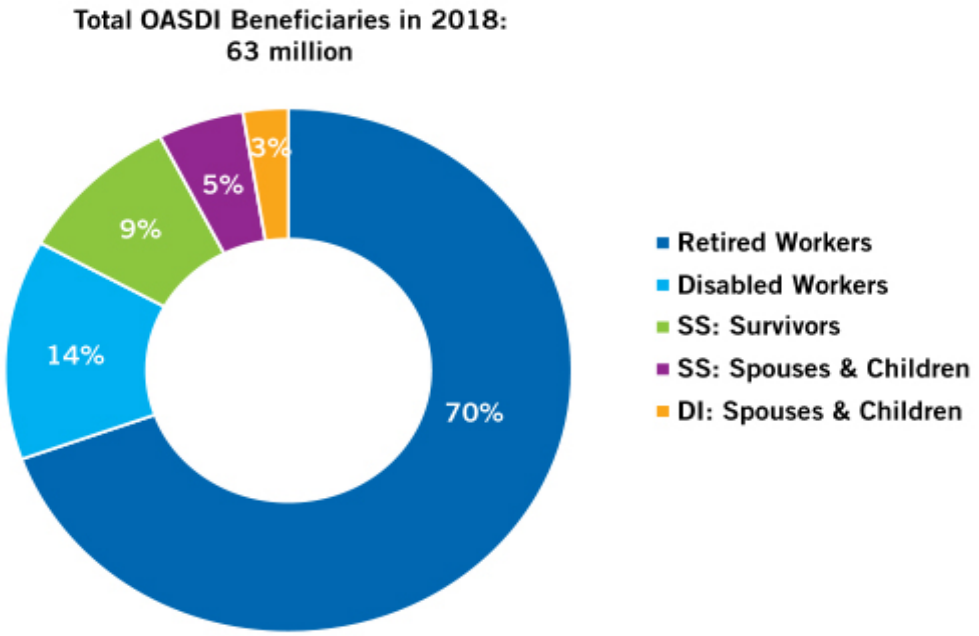
Social Security Basics (cont'd)

- Once AIME is determined, the next step is to determine the Primary Insurance Amount (PIA). PIA is the monthly amount payable if you retire at full retirement age (FRA). The formula for calculating your PIA is:
  - 90% of first $926 + 32% of amount between $927 to $5,583 + 15% of amounts greater than $5,583

  PIA is weighted to deliver proportionally more benefits to low wage workers.
- You can set up an account on-line with the Social Security Agency and they can provide estimates of your monthly benefit based on when you retire. They assume any additional years worked you earn the same as the last wages reported to them so the farther out the projection, the more it is likely to be understated if you expect your earnings to increase annually.

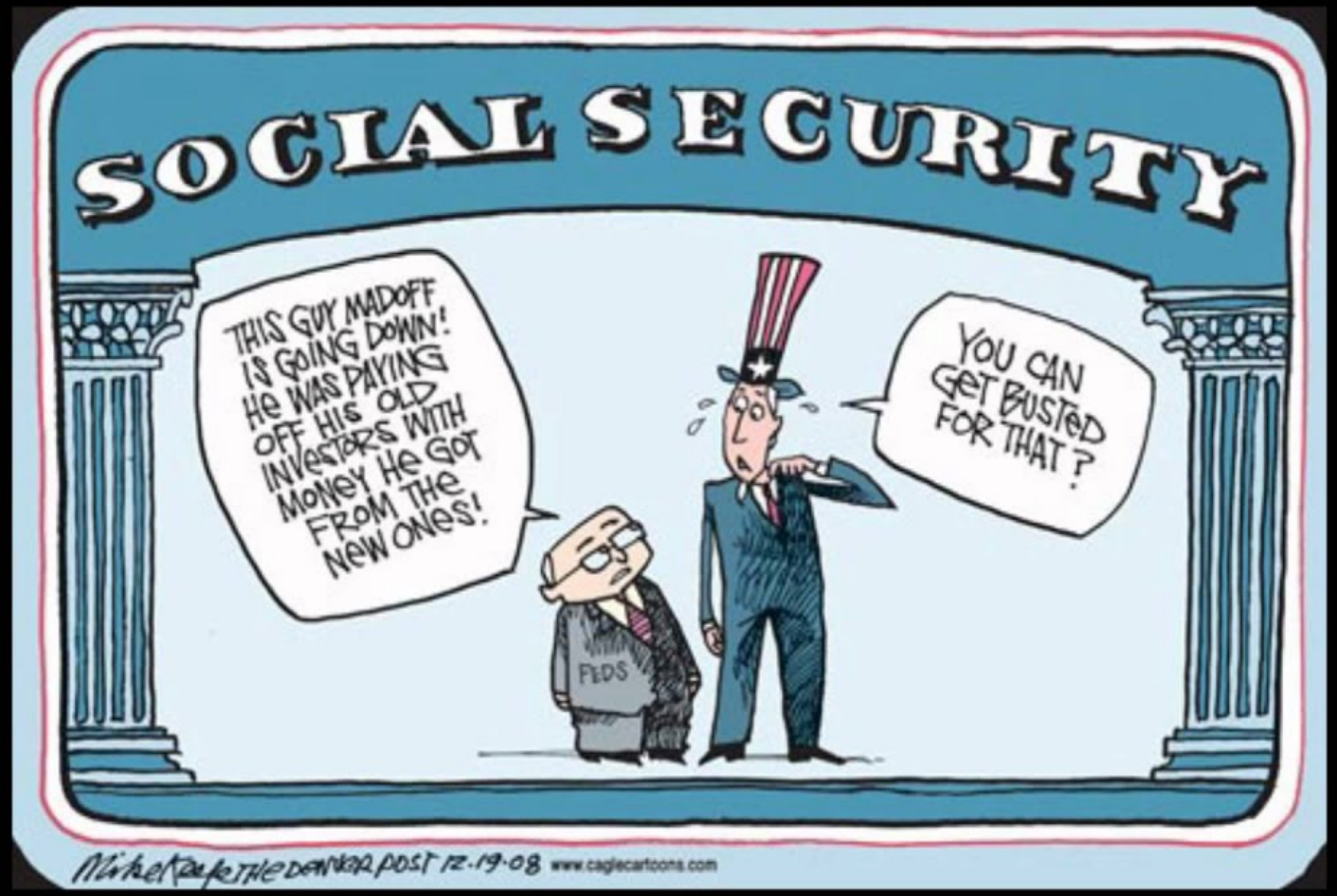
Social Security Basics (cont'd.)

Retired workers make up 70 percent of Social Security beneficiaries



SOURCE: Social Security Administration, *The 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, April 2019. Compiled by PGPF.
NOTE: SS is Social Security. DI is Disability Insurance. Numbers may not sum due to rounding.

PGPF.ORG


SOCIAL SECURITY
THIS GUY MADOFF IS GOING DOWN! HE WAS PAYING OFF HIS OLD INVESTORS WITH MONEY HE GOT FROM THE NEW ONES!
YOU CAN GET BUSTED FOR THAT?
FEDS
Mike Rowe THE DENVER POST 12-19-08 www.caglecartoons.com

Social Security – Early Retirement

- Your “full retirement age“ (FRA) is based upon your date of birth. Full retirement age for those working today could range from 66 to 67 years of age with the FRA increasing based on certain monthly intervals.
- It is assumed that a person taking early retirement will die on average, at the same time as someone who takes retirement at their FRA or takes delayed benefits. Based on this, taking benefits at 62 (the earliest date eligible) your monthly payment will be reduced based on the fact that you will receive more payments than someone who takes benefits after age 62. Depending on your date of birth, your monthly benefit could be reduced 23-30% if you claim at the earliest date possible. Actuarily, you should receive the same amount of money as someone who retires at full retirement age receiving 100% of their benefit. Those delaying claiming a benefit, earn an additional monthly benefit which could result in a maximum of 24-30% increase at age 70 depending on their date of birth.

Social Security – Early Retirement

Year of Birth	Full (normal) retirement age (FRA)	Months between age 62 and full retirement age	A $1000 retirement benefit would be reduced to	The retirement benefit is reduced by	A $500 spouse's benefit would be reducted to	The spouse's benefit is reduced by
1943-1954	66	48	$ 750	25.00%	$ 350	30.00%
1955	66 and 2 months	50	$ 741	25.83%	$ 345	30.83%
1956	66 and 4 months	52	$ 733	26.67%	$ 341	31.67%
1957	66 and 6 months	54	$ 725	27.50%	$ 337	32.50%
1958	66 and 8 months	56	$ 716	28.33%	$ 333	33.33%
1959	66 and 10 months	58	$ 708	29.17%	$ 329	34.17%
1960 and later	67	60	$ 700	30.00%	$ 325	35.00%

Social Security – Early Retirement

- If early retirement is claimed and you continue to work for wages or self-employment income, your monthly benefit may be reduced even further based on how much you earn. If you are under your full retirement age, making more than $18,240 in 2020, your benefit payment will be reduced $1 for every $2 earned over $18,240. In the year you reach full retirement age your benefit is reduced $1 for every $3 earned in excess of the $18,240 (for 2020). Once you reach the month of your FRA, there is no limit to how much you earn, there is no reduction in your monthly benefit.
- Amounts withheld from your benefits before your full retirement age due to the earnings limit are repaid to you after you reach FRA.
- One chance at a "do-over". If within the first year you claimed early retirement you change your mind, you can opt out of claiming benefits, BUT you must repay any funds you have received for benefits since claiming (including any Medicare premiums withheld or Federal taxes withheld). This allows you to continue the opportunity to increase your monthly benefit up to your FRA benefit. After a year has passed since receiving your first benefit payment, you can suspend your payments but any increase in the monthly benefit payment is based on the monthly benefit you received when you claimed early retirement. Your base monthly benefit will not increase based on any increase in earnings in years after suspension of your benefits.

Social Security – Delaying Claiming Benefits

- You can delay claiming retirement benefits if you choose. Each year you delay claiming after your FRA earns you an increase in your monthly payment with a maximum final increase of anywhere from 24 to 32% depending on your date of birth. Once you reach age 70, you are no longer entitled to an increase in your monthly benefit. There is no reason not to claim at 70, unless you don't need the money and are okay forfeiting the money back to the SSA.
- Delaying claiming benefits can also increase the spousal survivor benefit if you are the higher wage earner.

Social Security – Delaying Claiming Benefits (cont'd.)

Based on a full retirement age (FRA) of 67
and a benefit of $1,404 at FRA. $1,404 is average monthly benefit for workers in 2018

Age	Change in benefit compared to FRA	Monthly benefits	Annual difference in benefits vs. FRA	Benefits missed by delaying after 62	Years to break even vs. claiming at 62	Age you will break even
67	No change	$1,404	No change	$ 59,980	11.7	78.7
68	8% increase	$1,516	+$ 1,344	$ 70,776	11.1	79.1
69	16% increase	$1,628	+$ 2,688	$ 82,572	10.7	79.7
70	24% increase	$1,740	+$ 4,032	$ 94,368	10.4	80.4

Social Security – Spousal Retirement Benefits

- At FRA for a married couple, each spouse is entitled to the larger of their own earned benefit or 50% of their spouse's benefit ("spousal benefit").
- Spousal benefits do not increase above 50% of the other spouse's benefits at FRA (spousal benefits are not increased by taking delayed benefits). But spousal *survivor* benefits can increase with delayed benefits.
- Early retirement claiming the spousal benefit versus your own is subject to the discount for taking the payments early, like those retiring before their FRA.
- An individual may claim the 50% benefits of an ex-spouse if certain qualifications are met.
  - You were married at least 10 years and haven't remarried
  - You have been divorced for at least two years
  - You are at least age 62
  - Your former spouse is eligible for benefits (though does not have to be claiming them)
  - This does not affect the benefit amount the former spouse will receive

Social Security – Spousal Retirement Benefits (cont'd.)

- Restricted application – allows worker to file only for spousal benefits even if own benefits would be higher. That worker can then wait to age 70 to draw own benefits and receive delayed retirement credits (potentially up to 32%). Must have been born by January 1, 1954 and this strategy is only good for couples. One spouse must be receiving retirement benefits for the other to claim the spousal benefit so only one spouse can delay benefits until age 70. Year 2023 is the final year this strategy will be available as individuals born by January 1, 1954 will all be age 70 as of January 1, 2024.
- Upon the death of a spouse, the surviving spouse is entitled to the larger of their own benefit or 100% of the deceased spouse's benefit if the survivor is at FRA. Survivor benefits claimed when the survivor is under FRA are subject to phase-outs like early retirement phase-outs. A surviving spouse under FRA can switch to their own benefit payment, if higher, at FRA.
- Takeaway: if one spouse wants to take early retirement, it should generally be the lower earning spouse. The 50% spousal benefits are based on a spouse's benefit at FRA and does not increase with delayed retirement. The surviving spousal benefit (which can be 100% versus the 50% spousal benefit) can be increased by delaying retirement. If the higher earner claims early, the spousal benefit if that spouse dies, will be lower.

Social Security – Double Dippers

- Individuals who are covered by a public employer pension or a government pension are sometimes referred to as double dippers if they also collect social security. Generally, some public employees and government employees are covered under a separate plan and they do not make contributions to the Social Security system while in those plans. A second career may find them employed with traditional Social Security based income.
- There are two provisions that may reduce the amount of social security benefits these individual may be entitled to: the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO).
- WEP applies when you have the 40 Social Security credits to qualify for Social Security as well as having a pension from a non-Social Security System. WEP may reduce your Social Security benefit but will never eliminate it.
- GPO only applies to Social Security benefits you may receive as a spousal or widow's benefit when the spouse/widow also receives a non-Social Security pension. GPO has the potential to eliminate any Social Security benefit payment.

"Sir, I'll need to see more than a birthday card to prove you're sixty five."

Social Security – Taxation of Benefits

- Retirement, survivor, disability and child survivor benefits are all taxable benefits. Supplemental Security Income (SSI) and the lump-sum death benefit are not taxable.
- SSI benefits are a Federal income supplement program funded by general tax revenues and not by the Social Security Administration. These benefits are designed to help aged, blind, disabled and very low-income individuals meet their basic needs.
- 13 states tax some or all Social Security benefits.
- Social Security benefits (SSB) may be Federally taxed anywhere from zero to 85% based on modified adjusted gross income plus one-half of SSB of the recipient(s). Tax preparation software should be capable of calculating the taxable portion of social security benefits. Additional information can be found in IRS Pub. 915, Social Security and Equivalent Railroad Retirement Benefits.

Social Security - Medicare

- US citizens and legal residents in the US for 5 years are eligible for Medicare. You do not need to be collecting your Social Security benefits (SSB) to obtain Medicare coverage. Coverage is available at age 65.
- Medicare Part A covers most inpatient hospital, skilled nursing facilities, home health and hospice. Part A Medicare is available for individuals who have been paying payroll taxes for 10+ years (40 quarters).
- The 2020 deductible for a hospital stay of less than 60 days in $1,404. You can go to any hospital in the US that accepts new Medicare patients. After 60 days in the hospital, a daily co-insurance applies ($352/day for days 61-90). Additional co-pays apply after 90 days.
- Failure to sign up for Medicare Part A at age 65 (there is a 6-month window around your birthdate to enroll) will lead to a life-time permanent increase in the Medicare Part A premiums so everyone eligible should timely sign up.

Social Security – Medicare (cont'd.)

- Medicare Part B covers doctor visits and other medical services that do not require inpatient hospital stays. Medicare B does involve a monthly premium that ranges from $144.60 to $491.60 based on income levels. Obtaining Medicare B if not drawing Social Security requires a monthly payment to the Social Security Administration to cover the premiums until you begin to receive your SSB.
- Medicare B annual deductible for 2020 is $198 and there-after covers 80% of expenses.
- The Medicare B premiums for 2020 are based on taxpayers 2018 income tax return income (two-year look-back). If a taxpayer has unusually high income in any one year, they can expect their Medicare B premiums to increase tremendously two years out. For 2020, the additional premium costs for higher income could be as much as $4,164 per year. Tax planning could possibly help mitigate this.

Social Security – Medicare (cont'd.)

- As Medicare Parts A and B can still leave an individual with potential catastrophic out-of-pocket expenses, many individuals also enroll in supplemental plans offered by private insurance companies. Medicare Part C consists of such plans called Medicare Advantage Plans. These plans participate in Medicare Parts A and B and each plan offers varying additional coverage and costs. The private insurance carriers are in part reimbursed by Medicare for each enrolled individual for the Part A and B coverage.
- Medicare Part D consists of the voluntary outpatient prescription drug plans offered through private insurance carriers. As with Part C plans, coverage and costs may vary. As with Medicare Part A, delayed enrollment can increase premiums.
- Medicare supplement plans are private insurance policies also known as Medigap policies. In 2020 there are currently 10 different Medigap policies to choose from. Pricing may vary between insurance companies for the same coverage.

Social Security – Planning Opportunities

- Ask your clients nearing age 62 if they have considered strategies to maximize their Social Security Benefits. Ensure they have set up their SSA account to obtain estimates of their current benefits.
- For single individuals, there are few strategies outside of delaying claiming benefits. Discuss with client the option of using other sources of income in retirement until they reach age 70 when their social security benefits will be maximized. Each year of delayed claiming of benefits earns an individual an 8% return. Be sure to ask if your single taxpayer was previously married – there may be higher benefits available from an ex-spouse.
- For married couples, there are several different strategies. These strategies involve obtaining a myriad of information from your clients to determine the best strategies. Things to consider include life expectancy, age differences between spouses, spouses' health, planned employment after age 62, financial needs, and the need to ensure security for a spouse (or children). Some strategies include:
  - One spouse files early while the second waits until age 70. If affordable, the lower earning spouse should claim first.
  - Those with health issues may want to claim as early as possible.
  - If the higher earner spouse is significantly older than the other spouse, delaying that older spouse's benefits ensures a higher survivor benefit for the younger spouse and/or dependents.

Social Security – Planning Opportunities (cont'd.)

- If you are serious about providing social security planning to your clients, it is probably best to invest in software to help with the planning process. Some of these include:
  - Social Security Analyzer ($300-$1,200 per year) (https://www.ssanalyzer.com/site/index.php
  - Social Security Timing ($500/annual or $50/month) (https://www.covisum.com/solutions/social-security-timing) (Michael Kitces top pick)
  - Maximize my Social Security ($250/annual) (https://maximizemysocialsecurity.com/)
  - Several on-line calculators are available for free on-line to review your personal planning opportunities


DOES THE THOUGHT OF SOCIAL SECURITY GOING PAPERLESS SCARE YOU AT ALL?
NOT AS much AS THE THOUGHT OF SOCIAL SECURITY GOING MONEY-LESS.
SOCIAL SECURITY TO PHASE OUT MAILING CHECKS
DINER

Social Security – Potential Future Changes to Ensure Viability

- Prior to the pandemic, it was estimated that the combined Social Security Trust Fund would disappear by 2035. It was predicted that benefits would need to be reduced by 20%. It is likely the pandemic makes this date too optimistic.
- There are several potential changes that are being looked at to bolster Social Security's financial security. These include:
  - Moving FRA from 67 to 70
  - Eliminate the cap on taxable social security wages to make these wages comparable to Medicare wages (for 2020 the cap on social security wages is $137,700, for 2021, $142,800)
  - Eliminating or reducing the delayed retirement credits for waiting to claim beyond your FRA
  - Delay early eligibility from age 62 to age 64
  - Reducing COLA adjustments
  - Reducing benefits for higher earners ("Means Testing").
  - Increase the payroll tax rate
  - Remove the exclusion of some salary reduction plans from social security taxation (FSA's, health insurance, etc.)
  - Eliminating state and local government pensions so these workers contribute to and are covered by social security.
- Each of these potential changes have their pros and cons. Expect to hear more about these options in the future.

Social Security – Additional Resources

- ssa.gov
- https://www.ssa.gov/benefits/retirement/
- https://www.aarp.org/retirement/social-security/
- https://www.medicare.gov/
- https://smartasset.com/retirement/social-security-calculator
- https://www.aarp.org/content/dam/aarp/work/social_security/2011-10/Social-Security-and-Marriage.pdf

Social Security - Handouts

I have several handouts available if you would like them. These include:

- Glossary of social security related terms.
- Reductions and increases in benefit for taking early retirement versus delayed retirement
- Medigap Policies currently available
- Chart of projected benefit cuts

Email me at gcarr@hantzmonwiebel.com if you would like me to send you these handouts.

"I don't care if it's not you. That's the Social Security number you've been using."

Questions?

Thank you!

Have a wonderful holiday and Happy New Year!