What's New for Social Security 2022

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Rethinking Social Security

Some clients want to claim Social Security benefits now because they:

- Lost their job or retired early due to health concerns during COVID and need the money.
- Want to take advantage of 5.9% COLA in 2022 – the largest benefit hike in 40 years.
- Concerned Social Security may go broke and want to grab benefits while they can.

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Addressing Those Three Concerns

- If you need the money now, go ahead and file for Social Security benefits. But be aware of the downside of claiming benefits before full retirement age.
- Don't rush to claim Social Security just to cash in on the 5.9% COLA for 2022 – the largest annual benefits hike in 40 years. The increase will be included in future benefits for anyone who is 62 or older in 2022.
- The Social Security trust funds are expected to be depleted in 2034 – one year sooner than last year's estimate. Congress has more than a decade to fix program finances to prevent across-the-board benefit cuts. Claiming early locks in lower benefits.

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New for 2022 Due to 5.9% COLA
Benefits, taxes and earnings cap increase

	2021	2022
Maximum taxable earnings	$142,800 per year	147,000/yr.
Maximum FICA tax for SS	$8,853	$9,114/yr.
Earnings test under FRA	$18,960/ year ($1/$2 offset)	$19,560/yr.
Earnings test in FRA year	$50,520/year ($1/$3 offset)	$51,960/yr.
Maximum SS benefit at FRA	$3,148 per month	$3,335/mo.
Avg SS benefit, all retired	$1,565 per month	$1,657/mo.
Avg SS benefit couple	$2,599 per month	$2,753/mo.
Avg SS benefit widow(er)	$1,467 per month	$1,553/mo.

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Will Social Security Benefits Be Cut in 2034?

- The 2021 trustees report shows that Social Security will be unable to pay full benefits beginning is 2034 – one year sooner than previously projected – when the trust fund reserves will be depleted.
- Depletion does not mean bankruptcy. Ongoing FICA payroll tax revenue will cover about 78% of scheduled benefits 13 years from now--unless Congress acts before then .
- Historically, Congress tends to phase in benefit changes over decades to minimize impact on current and near-retirees and allow current workers time to adapt. Lawmakers have many options to fix the system.

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Social Security Reform and Trust Fund Solvency

Legislative Proposal	Portion of SS Shortfall That Would Be Eliminated
Immediately Raise FICA tax by 3.4% to 15.8%	101%
Gradually raise FICA 0.1% per year to 14.8% by 2047	56%
Apply 12.4% FICA tax on earnings above $400,000	60%
Apply 12.4% FICA tax to all earnings	65%
Use Less Generous Chained CPI to calculate COLA	19%
Reduce SS benefits for higher-income retirees with AGIs over $60,000 singles/$120,000 married	13%
Gradually raise full retirement age to 68	13%
Gradually raise full retirement age to 70	47%

Source: Social Security Administration, Office of Chief Actuary

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If You Must Claim Social Security Early

Know — How claiming age affects your benefits

Understand — How earnings from a job can impact benefits if claimed before full retirement age (FRA)

Learn — About do-over options to create larger benefits later.

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Eligibility

You need a minimum of 40 credits – at least 10 years of covered earnings – to be eligible to collect Social Security retirement benefits or be married to a worker who is eligible for Social Security.

Ex-spouses who were married at least 10 years and who are currently single may be eligible for retirement benefits on a former spouse's earnings record.

Benefits are based on the top 35 years of indexed earnings and your age at time of claim. If you work less than 35 years, the calculation will include zero earnings years which will reduce future benefits.

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Your Age Matters

You can collect Social Security retirement benefits as early as age 62 but they will be permanently reduced by 25% or more for the rest of your life. Benefits are subject to earnings restrictions if you claim before Full Retirement Age (FRA) and continue to work.

If you wait until FRA to claim, you can collect full benefits even if you continue to work.

If you delay collecting beyond FRA, you can increase your benefits by 8% per year up to age 70.

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Delayed Retirement Credits

For every year you postpone collecting Social Security beyond FRA, your benefits increase by 0.66% per month--8% per year--up to age 70, boosting benefits by up to 32% compared to FRA of 66.

Delayed Retirement Credits (DRCs) only apply to retirement benefits. Spousal benefits and survivor benefits do not qualify for DRCs. They are worth the maximum amount if claimed at FRA.

A survivor is entitled to up to 100% of a deceased worker's benefits--including any DRCs.

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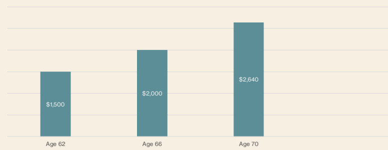
Benefits Based on Claiming Age

76% increase* in monthly benefits by claiming at 70 vs 62

*assuming FRA is 66



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Your FRA May Be Higher

Raising FRA from 66 to 67 means the reduction for claiming early at 62 increases from 25% to 30% and reduces the amount of maximum delayed retirement credits at 70 from 32% to 24%

Birth Year	Full Retirement Age	Benefit Reduction at 62
1943 – 1954	66	25.00%
1955	66 and 2 months	25.83%
1956	66 and 4 months	26.67%
1957	66 and 6 months	27.50%
1958	66 and 8 months	28.33%
1959	66 and 10 months	29.17%
1960 and later	67	30.00%

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Pros and Cons of Delaying Social Security

Pros

--Bigger benefit for each year you postpone claiming between 62 and 70

--Creates a larger base for future COLAs

--Provides a potentially larger survivor benefit

Cons

--Reduced cash flow now

-- Higher breakeven age to make delaying worthwhile

--Could die before claiming

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Earnings Cap

If you collect Social Security before FRA and continue to work, you will lose $1 in benefits for every $2 earned over $19,560 in 2022.

Higher limits apply in the year you reach FRA losing $1 in benefits for every $3 earned over $51,960 in 2022 during the months before you reach FRA. The earnings cap disappears at FRA which is 66 and 4 months in 2022.

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#1 Rule

If you plan to keep working, in most cases it makes no sense to claim Social Security benefits before FRA.

All types of benefits – retirement, spousal and survivor – are subject to income limits on earnings if collected before FRA.

But benefits lost to the earnings cap are not gone forever. They will be restored at FRA in the form of higher monthly benefits.

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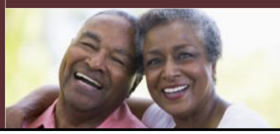
Strategies for Married Couples



The goal of most married couples should be to maximize the survivor benefit by having the spouse with the higher Social Security benefit delay claiming until 70.

Survivor benefits = 100% of the deceased worker's benefit including any delayed retirement credits if the surviving spouse is at least full retirement age at time of claim; less if claimed earlier.

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Spouses Receive Higher of Two Benefits

If a spouse is entitled to both her own retirement benefit and that of a spouse, in most cases she would receive the higher of the two benefits, not both.

A spousal benefit is worth 50% of the worker's full retirement age benefit if claimed at full retirement age; less if claimed earlier.

For example, if a wife's own benefit at FRA is $1,000 per month and her husband's FRA benefit is $3,000 per month, she would receive the higher spousal benefit of $1,500 per month – half of her husband's FRA amount.

If her own benefit was $2,000 per month, she would only receive her own benefit since it is larger than the spousal amount.

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How Spousal Benefits Are Reduced if Claimed Before FRA

Age of Claim	% of worker PIA if FRA is 66	% of worker PIA if FRA is 67
62	35%	32.5%
63	37.5%	35%
64	41.7%	37.5%
65	45.8%	41.7%
66	50%	45.8%
67	50%	50%

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Coordinate Claiming Strategies

Higher-earning spouse should delay claiming benefits--up to age 70--to lock in the maximum retirement benefit as well as the largest survivor benefit for the spouse left behind.

The lower-earning spouse may claim reduced benefits early at 62 if not working or at FRA if still working when earnings restrictions end. It increases household cashflow while the other spouse delays benefits.

Spouses with no Social Security benefits of their own must wait for the working spouse to claim retirement benefits before they can collect. Different rules apply to divorced spouses.

Maximum spousal benefits are worth 50% of worker's FRA amount – not half of the age 70 amount.

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Disappearing Claiming Strategy

--Individuals who were born on or before **1/1/1954,** have a special claiming option. Individuals must by 69 or older by the end of 2022 to do this.

--Wait until full retirement age or later to file a "restricted claim for spousal benefits" and collect half of your spouse's or ex's FRA amount while your own retirement benefit continues to grow up to age 70. Then switch to your own maximum benefit. That assumes the other spouse has already claimed Social Security. (Different rules for ex-spouses.)

--People born after 1/1/1954 can not use this valuable claiming strategy.

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Social Security Rules for Divorced Spouses

You may be able to receive benefits as:

- a retired worker based on your own earnings
- spousal benefits as eligible ex-spouse if larger than your own retirement benefit
- survivor benefits if your ex dies first

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Eligibility for Ex-Spouses

- Must be married at least 10 years before divorcing
- Currently unmarried to claim spousal benefits (different rules for survivors)
- Both ex-spouses must be at least 62 years old and eligible for Social Security
- In addition, if divorced at least two years, you can claim benefits as an "independently entitled spouse" on your ex's earnings record even if your former spouse has not yet filed for Social Security.

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Benefit Amount for Ex-Spouses

Based on your age at time of claim and comparison of own benefit to ex's

If your own benefit is larger than half of a living ex's FRA benefit, you will receive a retired worker's benefit based on your own earnings record.

If your retirement benefit is smaller, your benefit will be topped off by excess spousal amount to bring the combined total up to half of your ex-spouse's FRA, assuming you are at least full retirement age; less if you claim Social Security before FRA.

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Ex-Spouse Strategy Example

An eligible divorced spouse born 6/15/1953. She turned 68 in 2021. Her ex-spouse, also 68, is entitled to $2,400 per month. Her own benefit at FRA is worth $2,000 per month.

Ex-wife, who was married at least 10 years before the divorce and born before 1/2/1954, filed a "restricted claim for spousal benefits" and collected $1,200 per month on her ex-husband's earnings record-- even if he has not yet claimed benefits.

At 70, she will switch to her maximum benefit worth $2,640 per month. Her spousal benefits will not reduce her ex-husband's benefits.

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Survivor Benefits for Ex-Spouses

If you were married at least 10 years before divorcing, you may be able to collect survivor benefits on your ex-spouse worth up to 100% of his or her benefit amount – even if your ex-remarried.

Although you lose the right to collect spousal benefits on a living ex if you remarry, you CAN collect survivor benefits on a deceased ex if you wait until 60 or later to remarry.

Remember spousal benefits are worth up to 50% of a worker's benefit while survivor benefits are worth up to 100%. Your ex is worth twice as much dead than alive!

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Survivors Can Switch Benefits

Widows, widowers and surviving ex-spouses can collect survivor benefits as early as age 60 but are subject to benefit reductions and earnings restrictions if they continue to work. If they wait until 60 or later to remarry, they can collect survivor benefits even if married to someone else.

Survivors can collect survivor benefits initially and then switch to their own retirement benefit which continues to grow until age 70. Or they could collect their own reduced retirement benefit first and switch to maximum survivor benefits at FRA.

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How Much are Survivor Benefits?

Widow/widower's Start Age	% of Deceased Worker's Benefit
60	71.5%
61	76.3%
62	81.0%
63	85.8%
64	90.5%
65	95.3%
66	100%

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Strategies for Singles

For those who never married or who were divorced before 10 years of marriage:

Benefits based on age at time of claim.

Delaying claiming benefits until age 70 will result in a larger monthly payment but it may not be worth waiting that long since no one will collect a survivor benefit if you die before claiming Social Security.

Consider claiming at FRA and banking the benefits if you don't need them.

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Do-Over Strategies

If you change your mind within 12 months of first claiming benefits, you can withdraw your application (Form 521), repay the money you have already received and restart your benefits at a higher rate later.

Or, if you wait until FRA, you can suspend your benefits – but not repay them – and earn 8% per year up to age 70. No one can collect benefits on your record during the suspension (except an ex-spouse) and you cannot collect on anyone else's record.

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Benefits Suspension Example

Full benefit at FRA of 66 = $2,000 per month

Claim reduced benefit at 62 = $1,500 (75% of FRA amount)

At 66, suspend benefits. Checks stop for up to four years

Benefits earn DRCs worth 8% per year until 70 = 32% increase

Benefit amount increases to 99% of FRA amount at 70 (75% at 62 x 1.32 in DRCs = 99%)

-- $1,980/mo plus any intervening COLAs.

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Lump Sum Option

- Anyone who claims Social Security after their full retirement age (FRA) can request a lump sum payout of up to six months of retroactive benefits beginning no sooner than FRA.
- If you FRA is 66 and you claim benefits at 67, you can request six months of retroactive benefits payable in a lump sum to generate cash. Afterwards, you could suspend your benefits and earn delayed retirement credits (DRCs) up until age 70.
- You cannot receive DRCs for the same period that you received retroactive benefits.

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Public Employees

If you receive a pension from work in the public sector--including some school teachers and CSRS federal workers--where you did not pay FICA payroll taxes, your Social Security benefits may be reduced or eliminated.

- The **Windfall Elimination Provision (WEP)** can reduce a worker's Social Security retirement benefit by up to half of his or her pension, but it cannot be reduced by more than $512 per month in for those who are newly eligible in 2022.
- The **Government Pension Offset (GPO)** rule can reduce or eliminate Social Security spousal or survivor benefits. SS benefits are reduced by two-thirds of the amount of the non-covered pension with no dollar limit.

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Who Is Subject to WEP/GPO?

- Public employees in 12 states do not pay FICA taxes: Alaska, California, Colorado, Connecticut, Illinois, Louisiana, Maine, Massachusetts, Missouri, Nevada, Ohio and Texas, plus public employees of some local governments in Georgia, Kentucky and Rhode Island.
- Federal workers covered under the old Civil Service Retirement System (CSRS) are also subject to WEP reductions unless they have at least 30 years of SS-covered employment.
- GPO does not apply if you paid FICA taxes during your last 60 months of public employment.

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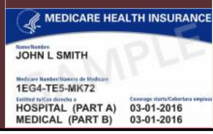
Medicare



* Medicare Part A hospital insurance is premium-free.
* Medicare Part B, which covers doctors' fees and outpatient services, carries a monthly premium that is deducted directly from Social Security benefits or billed directly if beneficiary is not yet collecting Social Security.
* Medicare Part D optional drug coverage also has a monthly premium.
* Or you can choose bundled services through a Medicare Advantage plan that combines Parts A & B, drug coverage and extra benefits such as vision, dental & hearing aids but you must use network providers.

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Medicare Premiums are Based on Income

--Premiums for Medicare Parts B and D are tied to income. The higher the income, the higher the monthly Medicare premiums.

--There are six income brackets that determine the surcharge known as Income Related Monthly Adjustment Amount (IRMAA). These are cliff brackets. If your income exceeds the upper limit by just $1, you will pay the surcharge applicable to the next higher IRMAA bracket.

--Medicare premium surcharges as based on the latest available tax returns. IRMAA surcharges for 2022 are based on 2020 tax returns filed in 2021. MAGI includes AGI + tax-exempt interest.

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2022 Medicare B IRMAA Rates

Premiums/Surcharges are per person ages 65 or older

MAGI in 2020	MAGI in 2020	IRMAA Surcharge 2022	Total Monthly Cost 2022
Individual Return	Joint Return		
<$91,000	<$182,000	$0.00	$170.10
$91,001 - $114,000	$182,001 -$228,000	$68.00	$238.10
$114,001 - $142,000	$228,001 - $284,000	$170.10	$340.20
$142,001 - $170,000	$284,001 - $340,000	$272.20	$442.30
$170,001 - $500,000	$340,001 - $750,000	$374.20	$544.30
>$500,000	>$750,000	$408.20	$578.30

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Reasons to Appeal IRMAA

--Respond to IRMAA notification letter immediately if your income has declined due to one of these "life changing events". Appeal instructions included in notification letter:

--You married, divorced, became widowed

--You or your spouse retired or reduced your work hours

--You lost income-producing property in a disaster area

--You or your spouse's pension was terminated

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Some Income Can't Be Appealed

If your income increased due to:

- --Capital gains from the sale of investments or second home
- --Sale of a business
- --IRA withdrawals
- --Roth IRA conversions

You will have to pay an IRMAA surcharge for at least one year. But if your income later declines, so will your future Medicare premiums.

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Some Income Doesn't Count in MAGI

--Distributions from **Roth IRAs/Roth 401(k)s**

--Distributions from **Health Savings Accounts** used to pay medical expenses

--Loans/distributions from cash value **life insurance**

--Proceeds from a **reverse mortgage**

--Qualified Charitable Distributions directly to a charity up to $100,000 per year. QCDs can be used to satisfy some or all of an IRA holder's RMD. Although RMD age raised to 72, QCD still available starting at age 70 ½.

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Questions?

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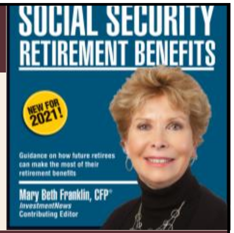

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