



## WHY MORE RETIREES ARE PAYING TAXES ON SOCIAL SECURITY BENEFITS

Despite adjustments to income tax brackets and rates under the recently enacted tax reform legislation, an increasing number of retirees find 50% or more of their Social Security benefits subject to federal taxes. That's because the income thresholds governing the taxability of Social Security benefits have remained static for decades and have not been adjusted for inflation.

The taxation of Social Security benefits was first introduced in the Social Security Amendments of 1983 as part of a broader package designed to raise revenue and cut long-term costs for the Social Security program. In 1993, a second tier was added through the Omnibus Budget Reconciliation Act (OBRA), allowing up to 85% of a beneficiary's Social Security income to be exposed to federal income tax.<sup>1</sup> While this only represented 3.4% of the \$957.5 billion in Social Security revenue collected in 2016,<sup>2</sup> more than 50% of retirees are now subject to these taxes, up from 1 in 10 households when the tax was first established.<sup>3</sup>

### How Social Security Benefits are Taxed

- **Individuals** with a combined income of \$25,000-\$34,000 are subject to income taxes on up to 50% of their Social Security benefits. Those with more than \$34,000, can expect to pay taxes on up to 85% of their Social Security benefits.
- **Married couples** filing jointly with a combined income of \$32,000-\$44,000 are subject to income taxes on up to 50% of their Social Security benefits. Those with more than \$44,000 in combined income can expect to pay taxes on up to 85% of their Social Security benefits.

In this context, the IRS defines “combined income” (also known as “provisional income”) as:

### **Adjusted Gross Income (AGI) + Nontaxable Interest + 1/2 of your Social Security benefits**

Currently, no one pays taxes on more than 85% of their Social Security benefits.<sup>4</sup>

In addition to federal taxes, 13 states tax Social Security benefits. While Vermont treats Social Security benefits the same as the federal government, certain other states tax Social Security benefits only if income exceeds a state-specified threshold. For example, Connecticut taxes Social Security benefits if your income tops \$50,000, or \$60,000 if you're married filing jointly.<sup>5</sup>

For many retirees, a comprehensive approach to planning that encompasses tax, investment and Social Security planning may help limit or reduce the burden of Social Security taxes. Contact the office today to schedule time to talk about ways to help reduce your tax exposure in retirement.

<sup>1</sup> <https://fas.org/sgp/crs/misc/RL32552.pdf>

<sup>2</sup> [https://www.ssa.gov/policy/docs/chartbooks/fast\\_facts/2017/fast\\_facts17.pdf](https://www.ssa.gov/policy/docs/chartbooks/fast_facts/2017/fast_facts17.pdf)

<sup>3</sup> <https://www.fool.com/retirement/2018/01/22/the-taxation-of-social-security-benefits-has-creat.aspx>

<sup>4</sup> <https://smartasset.com/retirement/is-social-security-income-taxable>

<sup>5</sup> <https://www.kiplinger.com/slideshow/retirement/T051-S001-13-states-that-tax-social-security-benefits/index.html?rid=EML&rmrecid=3544116303>

# 6 GOOD REASONS TO NEVER STOP LEARNING

Whether you choose to pursue a degree, audit a class or learn a new skill or craft in retirement, the benefits of ongoing education are numerous. In fact, a growing number of studies indicate that people who utilize their brains to further their education, learn a new language or musical instrument—or maintain a network of relationships with family and friends—tend to experience lower rates of dementia and cognitive reasoning problems later in life.<sup>1</sup>

A commitment to lifetime learning can help you:

1. Strengthen your brain and memory receptors
2. Increase opportunities for intellectual exchange
3. Combat boredom and loneliness
4. Discover a renewed sense of purpose
5. Expand your intellectual horizons
6. Pursue interests you didn't have time for while raising a family or focusing on your career

## Ready to get started?

Many universities and community colleges allow seniors to audit classes for free or waive tuition for retirees in non-degree programs. Others offer tuition and fee discounts for seniors pursuing degrees.<sup>2</sup> [Osher Lifetime Learning](#), a program offered through The Bernard Osher Foundation, supports over a hundred lifelong learning programs at colleges and universities from Maine to Hawaii to Alaska. The courses are designed for people over 50 who are interested in learning for the joy of learning.

Consider taking advantage of the **Lifetime Learning Credit**, a tax credit of up to \$2,000 per year to help pay for undergraduate, graduate and professional degree courses. While there's no limit on the number of years you can claim this tax credit, your marginal adjusted gross income (MAGI) must be less than \$65,000 for individuals and less than \$131,000 for married couples filing jointly to claim the full credit. Income too high to qualify? Those with higher modified adjusted gross incomes may qualify for a partial credit.<sup>3</sup>

If you're thinking about heading back to school in retirement, give the office a call to talk about ways to fund your education costs in retirement.

<sup>1</sup> <http://time.com/4682031/how-to-prevent-dementia/>

<sup>2</sup> <https://money.usnews.com/money/blogs/on-retirement/articles/2018-01-25/4-ways-to-further-your-education-in-retirement>

<sup>3</sup> <https://www.irs.gov/credits-deductions/individuals/lc>

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