

Social Security Benefits & Taxes

White Paper Produced by David Beaty ChFC, CLU, LUTCF

One of the most important questions when retiring is “When do I draw Social Security?” Understanding Social Security as the base for your retirement income and how to get the largest benefit is very important.

1. Eligibility: Employees are eligible to draw benefits starting as early as age 62 and must have had at least 10 years (40 Credits) of earnings subject to Social Security taxes.
2. Earnings Taxes: Employees are taxed at 7.65% (6.2% to retirement & 1.45% to Medicare), employers pay a matching amount. Taxes for the retirement fund is capped at \$127,500 of earnings for 2017 ($127,500 \times 6.2\% = \$7,905$). Medicare tax is 1.45% of all earnings. Self Employed individuals pay both the employee and employer taxes.
3. Benefit Taxes: Federal Income taxes on benefits are calculated as including up to 85% of your benefits as taxable income. The Modified Adjusted Gross Income is used to determine the amount of benefits to include in taxable income. The Modified Adjusted Gross Income includes earnings, pensions, dividends, taxable interest, plus tax-exempt bond interests, plus 50% of your Social Security benefits. If this Modified Adjusted Gross Income exceeds the following thresholds a portion of your benefits will be included in your income for tax purposes.

Single Filers:	\$25,000 = 50%	\$34,000 = 85%
Joint Filers:	\$32,000 = 50%	\$44,000 = 85%
Separate living together:		\$0=85%
4. Full Retirement Age (FRA): For individuals born between 1943 and 1954 full retirement age is 66. From 1955 to 1960 FRA steps up to age 67.
5. Benefit adjustments by age (assuming FRA age 66): Early Retirement starting at age 62 benefits are reduced as follows: Age 62 = -25%, Age 63 = -20%, Age 64 = -13.4%, Age 65 = -

7.7%. For delayed retirement: Age 67 = +8%, 68 = +16%, Age 69 = +24%, age 70 = +32%.

6. Spousal Benefits: Spouses can either draw the greater of their own benefit or a spousal benefit of 50% of the primary worker benefit. These benefits are also adjusted based upon age of the beneficiary at the start of benefits.
7. Earning Limits: For beneficiaries under FRA and working, benefits are reduced \$1 for every \$2 over the earnings limit of \$16,920 for 2017. For those turning FRA during this year. For the months prior to your birthday, the earnings limit is \$44,880 with benefit reduction of \$1 for every \$3 over this limit. There is no earnings limit beginning with your birth month at FRA.
8. There are also separate rules for Disability, Survivors, and some Divorced beneficiaries.
9. There are some options for beneficiaries born before 1954 to claim a spousal benefit at retirement then switch to their own benefit later maximizing benefits using this strategy.

For a Social Security benefit review and an income tax review contact us at www.heartlandfinancial.net or 319-277-1059.

Reference: 2017 Guide to Social Security, Mercer Publishing LLC