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THE ROAD TO RETIREMENT

OUR MONTHLY GUIDE TO EVERY MILEPOST, JUNCTION, AND LANDMARK ON YOUR ROAD TO RETIREMENT.

THIS ISSUE

WHAT'S ON OUR MINDS THIS MONTH

This issue of *The Road to Retirement* is devoted to one thing: Social Security.

Social Security is one of the most important sources of income during retirement, but it's also one of the most complex. There are pitfalls to avoid and opportunities to seize which aren't always common knowledge.

In this issue, we will look at three aspects of Social Security that all pre-retirees should know about. We'll also address some recent headlines about Social Security that you may have seen.

Have a great month!

WHAT'S AROUND THE BEND: SOCIAL SECURITY TAXES

It often comes as a surprise to many retirees, but a portion of your Social Security benefits may be subject to taxes depending on your overall income in retirement.

Because those taxes can eat into the income you expect to draw from in retirement, it's very important to factor taxes into your planning. To help, here are some answers to some common questions we often get about Social Security taxes:

Q: Which benefits actually get taxed?

Monthly retirement benefits, survivor benefits, and disability insurance benefits are all typically taxable — again, depending on a person's income, which we'll get to in a minute. However, Supplemental Security Income, which is a separate program run by the Social Security Administration (SSA), is not taxable.

Q: How much will my benefits be taxed?

Typically, if half of your annual benefits combined with your other income exceeds $25,000 per year (if you are a single filer) or $32,000 (if you are part of a married couple filing jointly) then 50% of your benefits will be taxable. If your combined income exceeds $34,000 (single) or $44,000 (married filing jointly), then up to 85% of your benefits may be subject to tax.

IMPORTANT NOTE: Earlier this month, Congress passed a new bill that provides a temporary tax deduction of up to $6,000 for those aged 65 and older with an adjusted gross income of $75,000 or less (single) or $150,000 or less (married filing jointly). The deduction phases out for incomes above these limits, ending at $175,000 for individuals and $250,000 for married couples.

QUOTES WE'VE BEEN THINKING ABOUT:

"You have the power over your mind – not outside events. Realize this, and you will find strength."

— MARCUS AURELIUS

It's important to note that this does not eliminate taxes on Social Security benefits, as some communications have claimed. However, it can reduce the amount of Social Security income that is subject to the tax, so some individuals may find that they do not need to pay any taxes on their benefits at all.

This deduction lasts only until 2028. If you have any questions about it, or about Social Security taxes in general, please let me know.

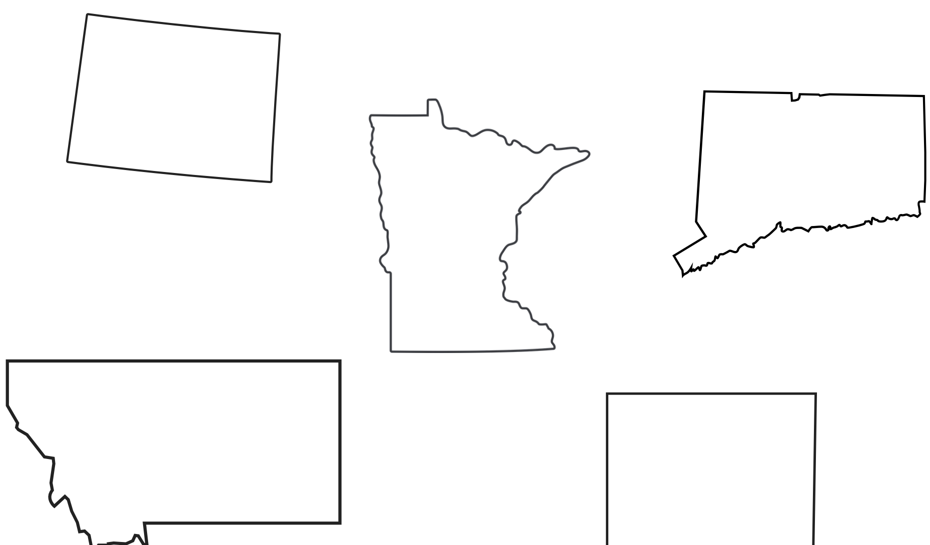
Q: How do Social Security taxes actually get paid?

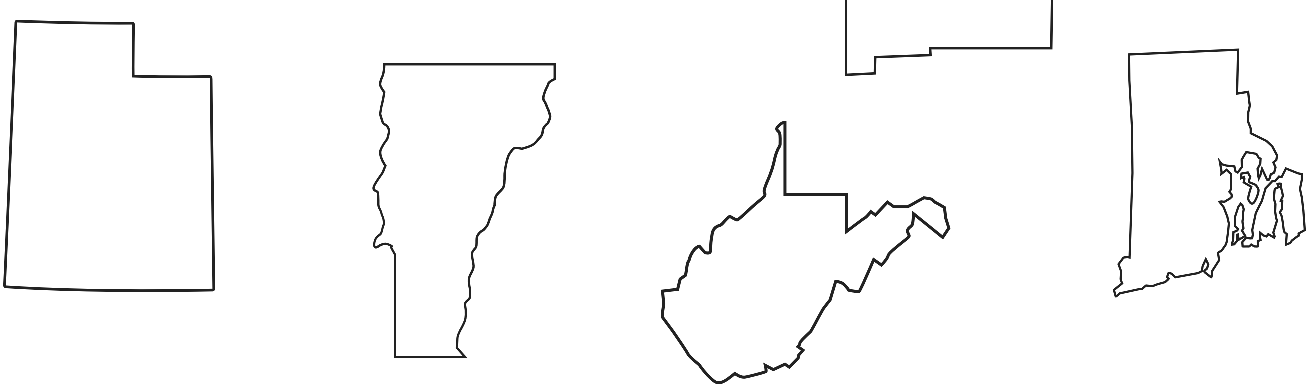
If your benefits are considered taxable, you can choose to pay those taxes all at once when you file your annual return, or by withholding taxes on your monthly payments. (In essence, receiving a smaller check each month because some of your payment is going to taxes.) If you choose the latter option, you must submit a request to the SSA, where you can choose to withhold 7%, 10%, 12%, or 22% of your monthly payment.

Q: Do states tax Social Security benefits, too?

It depends. Most states do not tax Social Security benefits, but the following states do:

- Colorado
- Connecticut
- Minnesota
- Montana
- New Mexico
- Rhode Island
- Utah
- Vermont
- West Virginia





WHAT'S OVER THE NEXT HILL:
WHEN TO APPLY FOR BENEFITS

Many retirees often want to know, “When is the best time for me to file for my benefits?” There are two different ways to answer this question: By explaining what year you should file, and when in the year you should file. Let’s start with “what year.” The answer is: Whenever you need to, but the longer the wait, the better.

Too many people rush to collect their benefits as soon as they retire. This is sometimes a mistake, especially if you retire early. Technically, you can begin receiving benefits as early as age 62, but if you do, your benefits will be reduced significantly. For example, people born between 1943-1954 would see their payouts permanently reduced by 25%.

Waiting until your “full retirement age” might be a better option—it means you won’t face any reduction. What is your “full retirement age?” It’s the age at which a person may first become entitled to “full” or “unreduced” retirement benefits.[2] This chart gives you the specifics:

Year of Birth	Full Retirement Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67 years of age

FUN FINANCIAL FACT

Summer is a time for vacations! But did you know that vacations aren’t just good for your mental health, but can actually help you live longer? It’s true! Research has found that taking a vacation can help reduce your risk of death by 20% and heart disease by 30%.

If that’s not an excuse to get out and enjoy some fun in the sun, then I don’t know what is!

SOURCE: BIOPSYCHOSOCIAL SCIENCE AND MEDICINE

The latest you can begin collecting benefits is at age 70, and there's good reason to hold off until then if you can afford it. Benefit payments go up 8% for every year you wait after you reach your full retirement age up to age 70. In other words, the longer you can keep your hand out of the cookie jar, the more sweets you'll eventually receive.

Now, in terms of when in the year you should file. This one is much simpler. The answer: Three months before you plan to start receiving your benefits. This ensures you don't procrastinate while also giving the SSA time to process your application in a timely manner. This way, you should begin receiving your benefits on time and in the correct amount.

WHAT'S ON THE HORIZON: THE FUTURE OF SOCIAL SECURITY

In recent months, you may have seen some unsettling headlines about the future of Social Security. That's largely due to the latest annual Social Security and Medicare Trustees report, which gives projections on the finances of these programs and how well-funded they will be in the future.

Among other things, the report revealed that the trust funds that partially pay for Social Security will be depleted by 2034. That's one year earlier than most experts predicted. When that happens — assuming nothing else changes in the meantime — the SSA will be forced to cut monthly benefits by an average of 23% in order to ensure everyone still receives payments.

It's a startling report, and an equally startling number. Both have many pre-retirees wondering what their benefits will actually look like, and whether they'll be able to retire when they want. Or if they'll be able to live the retirement lifestyle they want. Or if there will even be Social Security at all in the future!

As a financial advisor, my job, as you know, is to help people plan and work towards the future they want. So, I am currently reassuring everyone who works with me that, while this news certainly adds an extra wrinkle to our planning, it does not derail it!

There are two reasons for this. The first is because the numbers in that report assumes that nothing will change between now and 2034 — and that's unlikely to be the case.

It's important to understand that the recent news about Social Security refers specifically to its trust funds – two financial accounts that help pay for the cost of benefits. But the majority of funding for Social Security actually comes from payroll taxes — and as those aren't going away any time soon, Social Security as a program will not be going away, either.

Furthermore, there are a number of actions that Congress can take in the coming years to help shore up funding for Social Security. The most direct route would be a permanent increase to payroll taxes, but a more varied approach is probably more likely. Here are just a few steps Congress will likely look at:

- Raise the Full Retirement Age from 67 to either 68 or 69.
- Subject all wages to the payroll tax rather than raise the tax itself. (Currently, only wages up to $168,600 are subject to the tax.)
- Reduce the growth of benefits for the very top earners.
- Change how cost-of-living adjustments are indexed to inflation.

This is just a glimpse into the various possibilities. The point is that Congress has many potential tools at its disposal to ensure that retirees continue to receive the benefits they expect — and deserve — from their decades of hard work.

The other reason this doesn’t derail our planning? Because we have lots of time to adjust! You see, while Social Security is important, it’s just one arrow in the income quiver. My team and I have the ability to help you calculate exactly how much you need to achieve the things you want, and where that income can and should come from. That means we remain very confident in our ability to continue helping you work toward your goals and achieve the dreams that are most important to you.

I expect we’ll provide more information on this topic over the coming years, but in the meantime, my advice is this: While the future of Social Security may be determined in Washington, your future stems from something much more powerful: The dreams you dream, and the plans we make.

We’re very excited about what the future holds!