



## **Social Security And Your 401(k)**

You've worked hard to earn Social Security benefits and are probably looking forward to enjoying the fruits of your labor in retirement. A common question we get asked is, "Will the income I'll receive from my 401(k) negatively affect the amount of my Social Security benefits?" In short, no. Your Social Security income is determined by your total lifetime earnings and the age you choose to begin receiving benefits. However, your 401(k) income *can* affect your taxes.

### **Social Security Benefits**

Your Social Security benefits are determined by a few factors. The average amount you earned during your working years is one of them - the more you earn, the higher your benefit payment. Your payout also depends on your life expectancy, age when you retire, and the age you choose to start taking benefits. The longer you wait to retire and/or start collecting benefits, the higher your monthly payment. The earliest you can start collecting is age 62, and the latest is age 70.

### **401(k) Plans and Social Security Taxes**

When you make 401(k) contributions through your employer, you don't pay income tax on that money, but you do pay Social Security taxes. That means your 401(k) distributions will be liable for income taxes but not Social Security taxes.

### **The Potential Tax Burden of 401(k)s on Social Security Benefits**

Even though Social Security benefits aren't calculated using your 401(k) income, your 401(k) income could put your total annual income above a certain threshold. Breaking this threshold could obligate you to pay income taxes on a portion or all of your Social Security benefits.

The different income thresholds are based on the combined total of earned wages, distributions from retirement savings accounts (such as IRAs, 401(k)s, and non-taxed interest earned), and half of your Social Security benefits. If you calculate your income

level and tax liability now, you can better plan for what your retirement needs will be down the road.

If you'd like further clarification or help determine your expected Social Security benefits and taxes, we're here to help.