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What Women Need to Know About the Increase in Social Security Benefits (and Taxation)

Inflation has been hitting everyone's wallets all year. With the cost of everything from gas to groceries going up, a 40-year high in the cost-of-living-adjustment (COLA) for social security sounds like a good thing. It is, but that's not all there is.

Here are some things women need to consider. It's critical to ensure your retirement income is subject to the least amount of taxes possible. Since up to 85% of social security benefits are taxable, it's essential to look at your entire financial picture from a tax perspective.

Retirement income typically can come from several sources: social security, pensions, tax-deferred retirement accounts such as 401(k)s and IRAs, taxable accounts and interest-bearing savings accounts, and other interest-bearing investments. All these come into play for your taxation.

What's Happening with Social Security Benefits?

The cost-of-living for 2023 is 8.7%, that translates to an increase of about \$140 per month on average. For individuals making over \$34,000 (or couples filing jointly, over \$44,000), up to 85% of those benefits are taxable.

What Happens if You Work While Collecting Social Security?

The monthly benefit for existing retirees is just one of the impacts of the COLA. Other parts of social security are adjusted as well.

With full retirement age (FRA) nearing 67 for many retirees, it's becoming increasingly common to retire from full-time work before you reach FRA. But many retirees take on part-time work for a variety of reasons, including personal fulfillment, a desire to stay busy, and a need to supplement income. The problem is that until you reach full retirement age, social security reduces your benefit if your income exceeds certain limits.

If you are under FRA for the entire year of 2023, \$1 in benefits will be withheld for every \$2 in earnings that exceed \$21,240. If you reach FRA in 2023, \$1 in benefits will be withheld for every \$3 in what you earn over \$56,520 prior to reaching FRA.

Once you reach FRA, there is no impact on your benefits, no matter how much you earn.

The Sources of Your Income Are Important



The income tax brackets have also increased – so there is a little more flexibility. The new brackets are as follows:

- **10%:** \$1-11,000 for singles and \$0-\$22,000 for couples
- **12%:** \$11,001-\$44,725 for singles and \$22,001-\$89,450 for couples
- **22%:** \$44,726-\$95,375 for singles and \$89,451-\$190,750 for couples
- **24%:** \$95,376- \$182,100 for singles and at \$190,751-\$364,200 for couples
- **32%:** \$182,101-\$231,250 for singles, and \$364,201- \$462,500 for couples

This is where the tax puzzle comes into play. The key is to be proactive about tax planning. If you are in early retirement, you may consider a Roth conversion to fill up lower tax brackets. You'll be taxed on the amounts you convert, but once invested in the Roth, the funds will grow tax-free, and you won't be taxed on future withdrawals.

But you'll need to be thoughtful and consider your entire picture. Many women hold high levels of cash that could be creating higher income this year than in years past, thanks to higher interest rates. That interest income is taxable at ordinary income rates. Increases in social security, combined with increases in taxable interest income, along with withdrawals from tax-deferred retirement accounts, can push ordinary income higher.

These factors may be enough to bump you into a higher level of taxation on social security. Another consideration, if you're getting insurance under the Affordable Care Act with a subsidy, you'll want to be careful that income doesn't get to a level that decreases or eliminates your subsidy amount.

The Bottom Line

Cost-of-living increases in social security are permanent and can be seen as one upside of the inflationary environment of the last year. But for women in retirement, it's important to consider each piece of your income and taxation and to understand the moves you can make to keep more money in your pocket.

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