

# PLANNING *for Today's Concerns*

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## A Look at America's Most Popular Pension Plan: Social Security

Approximately 50% of elderly Americans receive at least half of their income from Social Security. Let's take a look at this important program and some of the changes we will see this year.

### Eligibility

Eligibility for Social Security is based on the number of credits earned during your working years. In 2021, you will earn one credit for every \$1,470 you make, up to a maximum of four credits for the year. People born in 1929 or later need at least 40 credits to receive Social Security benefits when they retire.

### How the System Works

Social Security is a pay-as-you-go system. Money paid into the program by current workers is used to pay for current retirees' benefits. Money that is left over goes into the Social Security Trust Fund, which is meant to be used when contributions no longer meet the program's obligations.

### How to Receive "Full" Benefits

You can choose to begin taking Social Security benefits at age 62.

However, this will lead to a lower monthly benefit than if you wait until full retirement age.

Your full retirement age depends on when you were born. If you were born:

- In 1960 or later, your full retirement age is 67
- Between 1955 and 1960, full retirement age ranges from 66 and two months to 66 and 10 months
- Between 1943 and 1954, full retirement age is 66
- Between 1938 and 1942, full retirement age ranges from 65 and two months to 65 and 10 months
- Before 1938, full retirement age is 65

### How Much Will You Receive?

Your monthly benefit is based on how much you earned during your lifetime. The formula can get complicated, but basically the Social Security Administration averages the income from your 35 highest-earning years. You can go to the Social Security Retirement Estimator (<https://www.ssa.gov/benefits/retirement/estimator.html>) to see how much you will receive.



# A Look at America's Most Popular Pension Plan: Social Security (Cont.)



## Can You Keep Working and Still Receive Benefits?

Yes. If you have already reached full retirement age, you can continue working and receive your full benefit. If you have not yet reached full retirement age and continue working, your benefits will be reduced temporarily. However, the Social Security Administration will credit your “account” when you reach full retirement age, leading to a higher benefit.

## The Spousal Benefit

Eligible spouses can claim Social Security benefits even if they have never held a paying job. To qualify, the “nonworking” spouse must be 62 or older and the spouse with a “work record” must already be receiving retirement or disability benefits. It’s worth noting that widowed spouses become eligible for 100% of their partner’s full benefit unless they also had a job and the benefit they earned from their own income is higher. In certain situations, divorced spouses can also be eligible for spousal benefits.

## Taxes and Social Security

Depending on your income, you might have to pay taxes on Social Security benefits. For example, as of 2020, couples with a combined income of \$32,000 to \$44,000 who file a joint tax return may have to pay tax on up to half of their benefits. A combined income over \$44,000 could lead to 85% of a couple’s Social Security benefits being taxed.

## Social Security Funding Challenges

Social Security has collected more than it paid out for decades. As noted earlier, excess income went into the Social Security Trust Fund. According to AARP, this fund held \$2.9 trillion by the end of 2019. However, due to the retiree population growing faster than the working population, as well as the fact that people are living longer, Social Security is starting to pay out more than it takes in. Without changes to the way Social Security is financed, the trust fund is projected to run out in 2035.

Of course, even then Social Security will still collect taxes and pay benefits. According to recent estimates, however, it will only be able to cover 79% of scheduled benefits. To avoid that scenario, Congress would have to take measures to strengthen Social Security’s finances, as it did in 1983 when the program’s reserves were nearly exhausted. Given the program’s importance, and the fact that millions of older Americans have been paying into the system for decades, it is extremely unlikely Congress would fail to take the necessary steps to protect it.

## Changes for 2021

The Social Security Administration announces its annual changes to the program every October. Here are some key changes that took effect on January 1st of this year, according to the Social Security Administration’s fact sheet.

- Social Security recipients received a 1.3% increase for 2021. (Beneficiaries received a 1.6% increase in 2020.)
- The maximum earnings subject to Social Security tax increased from \$137,700 a year to \$142,800 a year
- The amount of money working Social Security recipients can earn before their benefits are reduced increased slightly
- Social Security disability benefits also increased slightly
- It now takes \$1,470 to earn a single Social Security credit, a \$60 increase from 2020

You can learn much more about Social Security, and access a wide range of helpful tools, at

<https://www.ssa.gov>.





## Five Ways President Biden's Tax Plan Could Impact Your Finances

Although President Biden outlined his tax plan during the presidential campaign, conventional wisdom held that Republicans in the Senate would block the implementation of his agenda. Now that Democrats control both the House and the Senate (if you factor in the vote of Vice President Kamala Harris), it's worth revisiting some of Biden's proposals.

In general, Biden would like to increase taxes on people earning more than \$400,000 per year and repeal a number of provisions in the Tax Cuts and Job Act of 2017. Here are some of the details.

**1. An increase in the top individual income tax rate from 37% to 39.6%.**

**2. Elimination of "step-up in basis" at death.**

Currently, the step-up in basis allows families to pass capital gains tax-free to their heirs. This is accomplished by "stepping up" the value of an asset from its original purchase price to its value when inherited, which results in less gain and therefore less tax paid. The step-up in basis significantly reduces capital gains taxes on assets with substantial appreciation, such as personal residences. The Biden plan would eliminate this tax-saving provision.

**3. A reduction in exemptions for estate and gift taxes.**

These exemptions are currently set at \$11.7 million per person and \$23.4 per married couple. Biden has proposed restoring estate and gift tax exemptions to their 2009 level: \$3.5 million per person for the estate tax and \$1 million for the gift tax.

**4. Capital gains treated as normal income.** For individuals with income over \$1 million, long-term capital gains and "qualified dividends" would be treated as normal income and taxed at 39.6%. This is significantly higher than the current rate of 15% to 20%.

**5. Limiting the tax benefit of itemized deductions to 28% for upper-income individuals.**

*Of course, President Biden's tax proposals require congressional approval before they become law. Such approval is by no means a certainty. If these proposals do become law, wealthy Americans will have to reevaluate and likely adjust their financial and estate plans.*

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## How to Request FEMA Funds for COVID-19 Funeral Expenses

The Federal Emergency Management Agency (FEMA) announced that it has allocated \$2 billion dollars to reimburse families up to \$9,000 dollars for COVID-19 related funeral expenses which were incurred after January 20, 2020. These funds have been made available under the relief packages of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 and the American Rescue Plan Act of 2021.

### Eligibility

In order to be eligible for FEMA funds for COVID-19 funeral expenses, the following requirements must be satisfied:

1. The death must have occurred in the United States, including U.S. territories and the District of Columbia;
2. The death certificate must indicate that COVID-19 attributed to the death; and
3. The applicant must be a United States Citizen, a non-citizen national, or a qualified alien who paid for COVID-19 funeral expenses after January 20, 2020. Please note that there is no requirement for the decedent to have been a United States citizen, a non-citizen national, or a qualified alien.

### Implementation

Although the FEMA application has not yet been finalized and released, FEMA will begin to implement its financial assistance by accepting applications in April 2021. FEMA will also establish a dedicated toll-free telephone number for applications. For further guidance and the most current information, please click on this link for FEMA's website page: <https://www.fema.gov/disasters/coronavirus/economic/funeral-assistance>.

### Documents Needed for FEMA Funds for COVID-19 Funeral Expenses

In preparation for the FEMA application for financial assistance, FEMA recommends gathering the following documents which are required to be submitted:

1. **An official death certificate** which reports that the death was directly or indirectly related to COVID-19 and indicates that the death occurred in the United States;
2. **Funeral expenses documents**, such as payment receipts and the funeral home contract, which include the applicant's name, the decedent's name, the dollar amount of the funeral expenses, and the dates of the funeral expenses; and
3. **Proof of funds received from other sources** which were specifically used for the funeral expenses. Please note that FEMA cannot issue reimbursement for funeral expenses for which financial assistance was already received from burial or funeral insurance, voluntary or government agencies, or other sources.

If FEMA approves eligibility for financial assistance for COVID-19 funeral expenses, it will issue either a check by mail or funds by direct deposit, depending on the option selected on the application.

The COVID-19 pandemic has caused grief and financial stress on many families who have tragically suffered the loss of a loved one. At Russo Law Group, P.C., we understand how difficult it is to cope with the death of a loved one. We can provide professional services to guide you through the estate issues and to ease your burdens. We invite you to take advantage of our comprehensive website as well as our free seminars and webinars to learn more about how **Russo Law Group, P.C.** may assist you.