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What's new for Social Security in 2020?

By

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With the new year upon us, those who collect Social Security or pay into the public retirement program through payroll deduction will see some changes. The Social Security Administration makes cost-of-living adjustments on an annual basis. Here's how the changes may impact you:

For those receiving retirement benefits

If you collect Social Security benefits on a monthly basis, the amount you receive will increase by 1.6% beginning in January. According to the Social Security Administration, for the average recipient of retirement benefits, this will amount to an additional \$288 in 2020.

The result might be different if you are enrolled in Medicare. For most Social Security recipients, standard Medicare Part B premiums are deducted from monthly benefit checks. In 2020, Medicare Part B premiums will rise from \$135.50 to \$144.60 per month. That additional \$9 will be deducted from your Social Security benefit each month.

If you have Medicare Part C (Medicare Advantage) or Part D (prescription drug coverage) premiums deducted from your Social Security check, those costs may also be higher next year, reducing the net increase you will receive.

For early Social Security recipients

If you collect Social Security benefits prior to your full retirement age ("FRA") (at least age 66 for those born in 1943 and later), you may incur a penalty based on your earned income. If you work in 2020 and you will not reach FRA in that year, an important income threshold is \$18,240, which is \$600 more than it was in 2019. For every \$2 of income earned beyond that amount, one dollar in Social Security benefits will be withheld.

If you will reach FRA in 2020, you can earn up to \$48,600 for the months prior to reaching FRA before any reduction in Social Security benefits occurs. In that case, you sacrifice \$1 of benefits for every \$3 in earnings above the threshold. Once you reach FRA, the earnings limit no longer applies to Social Security recipients.

Impact on income earners

Those not yet collecting Social Security who earn six-figure incomes may see a modest tax increase in 2020. If your income typically exceeds the maximum taxable earnings amount for Social Security, you should be prepared for this change.

In 2019, any income earned by an individual beyond the \$132,900 maximum was not subject to the 6.2% Social Security payroll tax. In 2020, that threshold increases to \$137,700, which means an additional \$4,800 is subject to Social Security tax in 2020. That result is an added tax of up to \$297.60 in the coming year.

There are a lot of complexities with Social Security, so if this feels overwhelming, know you are not alone. If you have any questions, be sure to contact your financial advisor, tax advisor or the Social Security Administration.

¹ Source: medicare.gov, "Medicare costs at a glance." (<https://www.medicare.gov/your-medicare-costs/medicare-costs-at-a-glance>)

Source for all Social Security information: Social Security Administration, "Fact Sheet: 2020 Social Security Changes," November 2020. (<https://www.ssa.gov/news/press/factsheets/colafacts2020.pdf>)

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