

## HOW DO IRC 125 (Pre-tax) DEDUCTIONS AFFECT SOCIAL SECURITY INCOME?

There are many variables that contribute to retirement income. Our Preventative Care Management Program has shown to be beneficial for employees working with the same company and participating in the Preventative Care Management Program over many years. The result of the Preventative Care Management Program regarding social security incomes has shown to be insignificant for most employees because many employees have multiple jobs during their “employable life”. Participants build cash value via the whole life policy offered in the benefits package. So, employees who participate in the program for many years find it beneficial and those who participate for a short period of time find it insignificant.

We recommend you familiarize yourself with the formula. Social Security benefits are calculated based on your 35 highest-earning years in the workforce and are adjusted for inflation. If you don't have 35 years of earnings, zeros are averaged in for the years you didn't work at a job in which you paid in Social Security. The proportion of your income that is replaced by Social Security varies based on how much you earn. Consider a worker who turns 62 in 2020, to calculate his benefit, the first \$926.00 of his average monthly earnings is multiplied by 90%, the next \$5,583.00 by 32%, and the remainder by 15%. The sum of these three amounts equals his initial monthly payment amount. Workers also have cost-of-living increases added to their benefit beginning at age 62, even if they don't begin to receive benefits until a later year.

### Consider the averages.

In June 2020, the average Social Security benefit was \$1,503.00 per month. The maximum possible benefit for a worker retiring at age 66 in 2020 is **\$3,011.00**. To get this amount, the worker would need to earn the maximum taxable amount, currently **\$137,700.00**, each year after age 21.

### Use a calculator

You can find Social Security's online tools at [www.ssa.gov/planners/benefitcalculators.htm](http://www.ssa.gov/planners/benefitcalculators.htm). These tools include the Quick calculator, which provides an instant but rough estimate, and the Retirement Estimator, which is based on your actual earnings record on file with Social Security.

We used this tool to run multiples scenarios for a person with a variety of incomes both with and without 125 deductions. While 125 deductions reduce the amount of money you put into social security, they do not reduce the percentage you contribute. Even without whole life insurance and zero cash value the average difference was less than \$120.00. Once the whole life policy is included, the cash value benefit is greater with the “most modest” returns.

Married couples have additional options. Married couples are entitled to benefits based on their own work record or up to 50% of the higher earner's benefit, whichever is higher. A spouse may also be eligible for a survivor's benefit when the higher-earning spouse passes away. “there are a lot more options for spousal benefits when you wait, at a minimum, until full retirement age,” says Jean Setzfand, vice president of financial Security at AARP. For example, dual-earner couples who have reached their full retirement age may be able to claim spousal benefits and then later switch to payments based on their own work record, which will then be higher due to delayed claiming. Spousal benefits are reduced if claimed before full retirement age. You can also claim on an ex-spouse's work record if the marriage lasted at least 10 years. We want you to make an informed decision and we are here to help you.

**This document is not intended to be tax advice or legal advice and the reader should consult a retirement professional for any decision regarding their retirement income.**

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