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Korbitz Financial Planning Newsletter

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Spring seems to have finally made it to Wisconsin. I hope the weather is improving wherever you are.

I am focusing this newsletter on US Savings Bonds and Social Security. The annualized rate for US Savings Bonds spiked from 3.54% to 7.12% for the period November 2021 through April 2022. That rate is expected to increase to just under 10% for the period May 2022 through October 2022. This investment has attracted more attention lately than it has in years, and may be of interest to you.

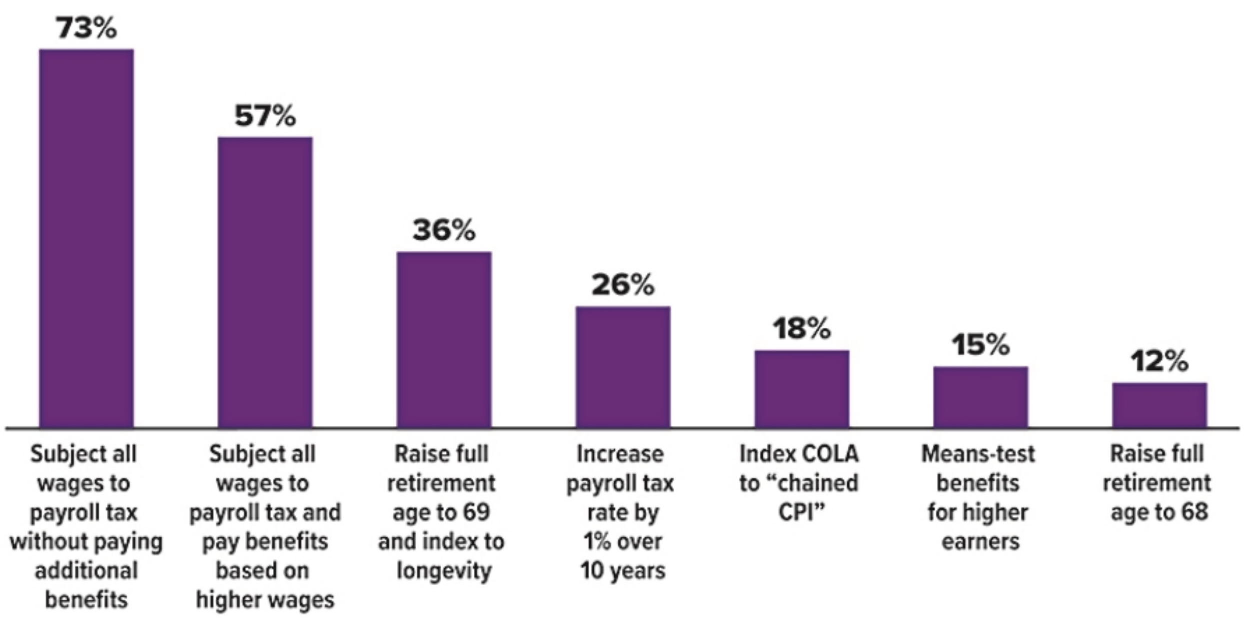
Social Security is a benefit that is available to almost every American. It is helpful to understand the concepts behind this benefit.

I hope you have a great summer. Please let me know if you have any questions.

Eric

Closing the Social Security Funding Gap

According to the 2021 Social Security Trustees Report, the reserves that help fund Social Security retirement and disability benefits will be depleted in 2034, one year earlier than last year's projection due to the pandemic. At that time, the program will be able to pay only 78% of scheduled benefits. Numerous bills have been introduced to address the shortfall, but lawmakers have stalled because potential fixes require increased taxes and/or benefit reductions. The chart below shows the estimated percentage of the 75-year Social Security funding gap that would be closed by some proposed changes.



Source: Social Security Administration, December 13, 2021

Series I US Savings Bonds

The lowly and boring US savings bond got a boost last fall when the annualized rate for the following 6 months was announced as 7.12%. That rate applied to Series I savings bonds issued or renewed for the period November 2021 through April 2022. The rate for bonds issued or renewed during the period of May 2022 through October 2022 is very likely to be higher than this, based on recent inflation data. Some are projecting an annual rate of 9.62%. Since the interest rate is tied to inflation and changes every 6 months, it will not remain at this level forever.

Are Series I US savings bonds right for you? Well, there are multiple factors to consider.

First, you need to set up an account with the US Treasury's *TreasuryDirect* site to buy the bonds. There is a second way to get them, but that involves buying paper bonds with your tax refund. Since we just finished filing our tax returns, and the limit is $5,000 per tax return, I will not go into that here.

Second, there is a purchase limit of $10,000 per person or entity per year. That is, any individual can purchase $10,000 per year AND if you have a Trust the Trust could also buy $10,000 of Series I bonds per year. Thus, a married couple with a Joint Trust (the most common), could buy up to $30,000 of Series I bonds per year through the US Treasury ($10,000 for each spouse and $10,000 for the Trust.) For some wealthier individuals, this may be a very small percentage of your assets, and you may decide it is not worth the hassle of setting up and managing multiple accounts for $30,000 per year of investment.

Third, you need to have the cash available for purchase, and that cannot be cash in your IRA or 401k. Thus, if you have all your assets in your retirement accounts, Series I bonds will not work for you.

Fourth, this is a long-term investment. You cannot cash in the savings bond for one year after purchase. If you redeem a bond before 5 years you will give up the last 3 months' worth of interest.

There are other factors that you should be aware of. You will pay taxes on the interest you earn only when you cash in the bond or bonds. That could result in a fairly large amount of interest income, if left for many years. On the other hand, that income will be free from state income taxes. It is also worth noting that no statements are mailed for TreasuryDirect accounts. Everything, including tax reporting, is online.

So, if you have the cash available, and you are willing to tie it up for a period of 1-5 years, how do you buy the bonds? The following are the steps that you would take:

1. Ensure that you have the amount you want to purchase available in your checking or savings account.

2. Go to TreasuryDirect.gov and open an account. Since this is a financial account, you will need to provide all your basic demographic information, along with your Driver's License and bank information.

3. Note your account number and password in a safe place! You will need this in the future.

4. After setting up your account and password, you are ready to buy your bonds.

5. Log onto your account and specify the amount of Series I bonds you wish to purchase, and from what account. Be sure you do NOT purchase Series EE bonds, as you will be disappointed in the rate of return.

The TreasuryDirect website is a little clunky to work with. For example, you need to use an on-screen keyboard to enter your password. Despite that, you may find it worthwhile to do this.

There is a very good article and tutorial on buying Series I US savings bonds at TheFinanceBuff.com. You can find it by going to that site and searching for *How to Buy I Bonds* .

Using the interest rate listed above (7.12%), you would earn $712 in interest on an annualized basis for each $10,000 of Series I bonds you have. Is it worth it? That is up to you to decide.

Working While Receiving Social Security Benefits

The COVID-19 recession and the continuing pandemic pushed many older workers into retirement earlier than they had anticipated. A little more than 50% of Americans age 55 and older said they were retired in Q3 2021, up from about 48% two years earlier, before the pandemic.[1]

For people age 62 and older, retiring from the workforce often means claiming Social Security benefits. But what happens if you decide to go back to work? With the job market heating up, there are opportunities for people of all ages to return to the workforce. Or to look at it another way: What happens if you are working and want to claim Social Security benefits while staying on your job?

Retirement Earnings Test

Some people may think they can't work — or shouldn't work — while collecting Social Security benefits. But that's not the case. However, it's important to understand how the retirement earnings test (RET) could affect your benefits.

- The RET applies only if you are working and receiving Social Security benefits *before* reaching full retirement age (FRA). Any earnings after reaching full retirement age do not affect your Social Security benefit. Your FRA is based on your birth year: age 66 if born in 1943 to 1954; age 66 & 2 months to 66 & 10 months if born in 1955 to 1959; age 67 if born in 1960 or later.
- If you are under full retirement age for the entire year in which you work, $1 in benefits will be deducted for every $2 in gross wages or net self-employment income above the annual *exempt amount* ($19,560 in 2022). The RET does not apply to income from investments, pensions, or retirement accounts.
- A monthly limit applies during the year you file for benefits ($1,630 in 2022), unless you are self-employed and work more than 45 hours per month in your business (15 hours in a highly skilled business). For example, if you file for benefits starting in July, you could earn more than the annual limit from January to June and still receive full benefits if you do not earn more than the monthly limit from July through December.
- In the year you reach full retirement age, the reduction in benefits is $1 for every $3 earned above a higher annual exempt amount ($51,960 in 2022 or $4,330 per month if the monthly limit applies). Starting in the month you reach full retirement age, there is no limit on earnings or reduction in benefits.
- The Social Security Administration may withhold benefits as soon as it determines that your earnings are on track to surpass the exempt amount. The estimated amount will typically be deducted from your monthly benefit in full. *(See example.)*
- The RET also applies to spousal, dependent, and survivor benefits if the spouse, dependent, or survivor works before full retirement age. Regardless of a spouse's or dependent's age, the RET may reduce a spousal or dependent benefit that is based on the benefit of a worker who is subject to the RET.

Back to Work

In this hypothetical example, Fred claimed Social Security in 2021 at age 62, and he was entitled to a $1,500 monthly benefit as of January 2022. Fred returned to work in April 2022 and is on track to earn $31,560 for the year — $12,000 above the $19,560 RET exempt amount. Thus, $6,000 ($1 for every $2 above the exempt amount) in benefits will be deducted. Assuming that the Social Security Administration (SSA) became aware of Fred's expected earnings before he returned to work, benefits might be paid as illustrated below.

In practice, benefits may be withheld earlier in the year or retroactively, depending on when the SSA becomes aware of earnings.

The RET might seem like a stiff penalty, but the deducted benefits are not really lost. Your Social Security benefit amount is recalculated after you reach full retirement age. For example, if you claimed benefits at age 62 and forfeited the equivalent of 12 months' worth of benefits by the time you reached full retirement age, your benefit would be recalculated as if you had claimed it at age 63 instead of 62. You would receive this higher benefit for the rest of your life, so you could end up receiving substantially more than the amount that was withheld. There is no adjustment for lost spousal benefits or for lost survivor benefits that are based on having a dependent child.

If you regret taking your Social Security benefit before reaching full retirement age, you can apply to withdraw benefits within 12 months of the original claim. You must repay all benefits received on your claim, including any spousal or dependent benefits. This option is available only once in your lifetime.

1) Pew Research Center, November 4, 2021

Your Social Security Statement: What's in It for You?

The Social Security Administration (SSA) provides personalized Social Security Statements to help Americans age 18 and older better understand the benefits that Social Security offers. Your Statement contains a detailed record of your earnings and estimates of retirement, disability, and survivor benefits — information that can help you plan for your financial future.

You can view your Social Security Statement online at any time by creating a *my* Social Security account at the SSA's website, ssa.gov/myaccount. If you're not registered for an online account and are not yet receiving benefits, you'll receive a Statement in the mail every year, starting at age 60.

Benefit Estimates

Your Social Security Statement tells you whether you've earned enough credits by working and paying Social Security taxes to qualify for retirement and disability benefits and, if you qualify, how much you might receive. Generally, retirement benefits are projected for up to nine claiming ages, including full (ages 66 to 67), early (age 62), and late (age 70). If you qualify, you can also see the benefit amount your survivors might receive in the event of your death.

The amounts listed are estimates based on your average earnings in the past and a projection of future earnings. Actual benefits you receive may be different if your earnings increase or decrease in the future.

More than 50 million individuals have established online Social Security accounts.

Source: Social Security Administration, 2021

Amounts may also be affected by other factors, including cost-of-living increases (estimates are in today's dollars) and other income you receive, and are based on current law.

Annual Earnings

In addition to benefit information, your Social Security Statement contains a year-by-year record of your earnings. This record is updated when your employer reports your earnings (or if you're self-employed, when you report your own earnings). Earnings are generally reported annually, so your most recent earnings may not yet be on your Statement.

Because Social Security benefits are based on average lifetime earnings, it's important to make sure your earnings have been reported correctly. Compare your earnings record against past tax returns or W-2s. If you find errors, let the Social Security Administration know right away by calling (800) 772-1213.

IMPORTANT DISCLOSURES

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