



RETIREMENT PLANNING

**MEDICARE SURCHARGE CHANGES**

Some high-income retirees, defined as individuals with modified adjusted gross income exceeding \$85,000 and married couples with MAGIs topping \$170,000, will pay more for both Medicare Parts B and D in 2018.

Although the Medicare Part B monthly surcharges, ranging from \$187.50 to \$428.60 per person, remain the same this year, some of the income tiers that trigger those premiums have changed. This year's premiums are based on 2016 tax returns. As a result, individuals with incomes exceeding \$133,500 and married couples over \$267,000 in 2016 will pay higher Medicare premiums this year even if their 2016 income did not increase from 2015.

**HIGH-INCOME WORKERS TO PAY**

The maximum wages subject to payroll or FICA taxes, which fund Social Security benefits, increase by \$1,200 this year. Employers and employees each pay 7.65% of the first \$128,400 of wages in 2018. That means high-income workers will pay an additional \$91.80 in payroll taxes this year.

All wages, including those above the \$128,400 cap, are subject to the 1.45% portion of the payroll tax that funds Medicare. Plus, individuals with earned income above \$200,000 and married couples with earned income topping \$250,000 will pay an additional high-income surcharge of 0.9% in Medicare taxes in 2018.

Social Security and Medicare changes hitting in 2018

Key numbers that will affect your retired clients' benefits

BY MARY BETH FRANKLIN

The new year brings changes in how much retirees will receive from Social Security and how much more some higher-income workers will contribute in payroll taxes toward their future benefits. Most Medicare beneficiaries will pay more for premiums this year, and some higher-income beneficiaries may be surprised by changes in their Medicare surcharges. Here is a handy fact sheet on key numbers that will affect retired clients' benefits and expenses in 2018.

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**EARLY RETIREES CAN EARN MORE**

Individuals who claim Social Security benefits before their full retirement age and who continue to work are subject to earnings restrictions. In 2018, retirees who are younger than 66 can earn up to \$17,040 before losing any benefits, \$120 more than last year. After that, they would forfeit \$1 in benefits for every \$2 earned over that limit.

Those who turn 66 in 2018 can earn up to \$45,360 in the months preceding their birthday without jeopardizing any benefits, up \$480 from last year. They would lose \$1 in benefits for every \$3 earned over that limit. The earnings cap disappears once they reach full retirement age. Any benefits lost to the earnings cap are restored in the form of higher monthly benefits at full retirement age.

**RETIREMENT AGE IS INCREASING**

The current full retirement age of 66 is increasing for workers born after 1954 and that means the reduction for claiming benefits early is also on the rise. For individuals born in 1956 who turn 62 this year, the full retirement age is 66 and 4 months. They can still claim Social Security as early as age 62, but their benefits would be reduced by 26.67% compared to a 25% reduction for those with a full retirement age of 66 who claim at 62.

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RETIREE FINALLY GET A RAISE

After two years of little or no cost-of-living adjustments, retirees will finally get a 2% increase in their Social Security benefits in 2018. It is the biggest COLA in six years. The average retirement benefit will increase by \$27 to \$1,404 per month, and the average retired couple will receive a \$46 raise to \$2,340 per month. The maximum monthly Social Security benefit for lifelong high earners who begin collecting benefits at full retirement age this year will rise by \$101 per month to \$2,788.



HIGHER MEDICARE PREMIUMS OFFSET COLAs

But retirees shouldn't celebrate their increased benefits too soon. The average Social Security COLA will be consumed by an increase in the premium for Medicare Part B, which pays for doctors' visits and outpatient services. Most Medicare beneficiaries will pay \$134 per month for Part B premiums in 2018, up \$25 per month from last year.



BENEFITS REMAIN TAXABLE

Despite all the talk about reducing income taxes starting this year, Social Security benefits are still taxed the same way, based on combined income, which includes taxpayers' adjusted gross income plus tax-exempt interest and half of their Social Security benefits.

Individuals whose combined income is between \$25,000 and \$34,000 pay income taxes on up to half of their benefits. Once it tops \$34,000, they pay income taxes on up to 85% of their benefits. Married couples with combined incomes between \$32,000 and \$44,000 pay taxes on up to 50% of their Social Security benefits. Once it tops \$44,000, they pay taxes on up to 85% of their benefits.



QUALIFYING FOR BENEFITS COSTS MORE

The cost of the credits that a worker needs to qualify for Social Security benefits and Medicare coverage is going up. To be eligible for Social Security and Medicare, you must earn at least 40 Social Security credits with a maximum of four credits per year. In 2018, each credit represents \$1,320 in earnings, up \$20 from last year. That means that an individual must earn at least \$5,280 in 2018 to qualify for the maximum four credits, compared to \$5,200 in 2017.