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In this issue: Taxes, Social Security COLA, charitable giving, pandemic pastimes

The taxman cometh

As you look over your sources of retirement income, it's essential for your financial plan's sustainability that one know how much the government will claim as its share. Researchers recently examined the federal tax burdens for households where at least one earner claimed Social Security benefits between 2010 and 2018. Here are a few takeaways from their preliminary findings for the two highest income groups (fifth and highest quintile – annual average income from Social Security and pensions for the first year of retirement ranging from \$54.7K – \$70.5K, plus defined contribution plan balances and financial wealth assets of \$268K - \$1.18M; fourth quintile - annual retirement income averaging \$41.4K plus plan/wealth assets of \$50.7K).

The researchers assumed that households wouldn't withdraw from their retirement plans early, and would follow the RMD rules starting at age 70. Alternatively, they also examined the effect of taking early withdrawals, as well as using retirement account assets to purchase an immediate annuity. For households with assets held in taxable, non-retirement accounts, it was assumed they used only interest and dividends from those assets, or bought an annuity.

- For the households only taking RMDs and living off interest and dividends, the average federal tax rate paid by the highest quintile ranged from 9.8% – 21% for couples, and 13.6% – 20.7% for singles. For the fourth quintile, it ranged from 0.8% for couples, and 5% for singles.
- Those who instead annuitized their 401(k)s plus 50% of their other assets mostly had a higher tax burden as a result, from 10.6 – 19.1% for couples in the fifth quintile, and 15.7 – 23.6% for singles. For the fourth quintile, the difference was less significant (0.8% for couples, 6.1% for singles).

These data are not really surprising to us, as we have witnessed a similar pattern over the years. Most retired PFPG clients pay income taxes at lower effective federal rates than do our younger, employed clients. Maine state income taxes were not considered in this study, but they demonstrate a similar impact. Because Maine exempts social security income, and often some portion of pension income, from taxation, retirees usually experience a lower income tax rates than do wage earners.

Social Security COLA adjustment

The 2021 official cost of living adjustment, 1.3%, has been announced by the Social Security Administration. SSA will mail notices to recipients in December, or you can securely obtain your new benefit amount by accessing or signing up for [my Social Security](#) online.

At 1.3%, it is the fifth time since 2010 that seniors see a low or zero inflation adjustment. The calculation is tied to the Consumer Price Index for Urban Wage Earners (workers under 62), and gives greater weight to gas and electronics, and less to housing and medical costs. When the COLA for Social Security benefits is less than the increase in Medicare premiums, Medicare Part B premiums are adjusted to prevent a net decrease in the recipient's monthly SS check. (This "hold harmless" provision doesn't apply to people who are new to Medicare, or [who pay higher Part B premiums because they have high incomes](#) and are subject to IRMA, however.)

Charitable giving

Since the majority of income tax filers currently take the standard deduction instead of itemizing deductions, and the times are uncertain at best, charities are taking a hit. If you'd like to give but aren't in a position to file a Schedule A, there are other options.

The CARES Act permits those taking the standard deduction for 2020 to claim up to \$300 in charitable deductions to qualified nonprofits. You can also give directly to individual people in need, though it won't be deductible.

If itemizing this year already brings you close to the amount of the standard deduction, adding contributions could bring you over the top. Also, in 2020 only, those who do itemize can deduct cash contributions up to 100% (instead of 60%) of their adjusted gross income, presenting an opportunity to make a major gift. Consult with your advisor about the feasibility of making gifts of stock shares instead of cash.

Required minimum distributions from IRAs are waived for 2020, but those over 70 ½ can still make nontaxable distributions to charities (make sure the check is made out to the charity, not yourself), and keep track of those amounts.

Pandemic pastimes

Maybe you've already baked enough sourdough bread, read *War and Peace*, and repainted a few rooms, and are thinking about other activities to occupy the fall and winter months.

More than ever, people are using their computers to access classes and videos to keep their brains active and their bodies moving:

Exercise videos: AARP's website has a variety of [10-minute exercise videos](#) for seniors, but they're great for anyone. They require no special equipment. And no one is watching.

Take a course: Many museums offer online classes and lectures, though in many cases there is a fee or you have to be a member. If you'd like to try an online course for free, take a look at the many college offerings on [coursera.org](#), [online-learning.harvard.edu](#), and [edx.org](#); there are certificate programs for a fee available as well.

Puzzles and games: The old-fashioned jigsaw puzzle is enjoying a revival (there are shortages), as are board games like Clue, backgammon, Yahtzee and Boggle. Read [descriptions of some of the classics still available](#).

Try something a little *koselig*: Winter can be challenging for some and exhilarating for others. One researcher suggests that a shift in outlook can lessen the winter blahs after studying one of Norway's Arctic communities, where the sun shines indirectly for two – three hours/day during the darkest period. The residents embrace outdoor activity, and enjoy practicing activities they find *koselig* (cozy, warm, contented), such as “snuggling under blankets with a warm drink in the candlelight.” Ovaltine, anybody?

Wishing you a happy and healthy autumn,



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