

September 12, 2022 – Wealth Planning Commentary

Social Security Benefits projected to increase by 8.7% in 2023

The cost-of-living adjustment (COLA) for Social Security benefits in 2023 is currently expected to be around 8.7%. The expectation is based on data released by the Bureau of Labor Statistics on September 13th. The 2022 adjustment was 5.9% and the average increase since 1975 is approximately 3.7%. The greatest increase was not surprisingly in 1981 – 14.3%. The final 2023 increase is calculated by the Social Security Administration and will be released in October.

Why is the Social Security adjustment higher than the July inflation number of 8.5%? The Social Security COLA is based on the CPI for Urban Wage Earners or CPI-W. CPI-W is based on the actual expenditures of households where more than half of income earned is from clerical and wage occupations; it represents 28% of the population. This index is different from what we typically think of as inflation: CPI for all Urban Consumers. The CPI tracks the price of a basket of consumer goods and services, it's a broader measure.

Some households do not require Social Security to maintain their lifestyle in retirement. For many Americans, Social Security is their sole annuity. Various studies have found that anywhere from 20-40% of retired Americans rely on social security as their primary source of income.

There are two bills in congress targeting an increase in Social Security benefits:

- **The Social Security Expansion Act** - aims to pay retired Americans another \$2,400 in benefits annually by raising the earnings cap on Social Security taxes from \$147k to \$250k a year. The act also proposes a 16.2% net investment income tax on active S-corporation holders and active limited partners. The legislation would keep the Social Security Trust Fund solvent for another 75 years, the fund is currently expected to deplete in 2035.
- **'You Earned It, You Keep' Bill** - repeals federal taxes on Social Security benefits for retirees across the country. This bill would also be funded by subjecting more of wages to social security tax.

The proposed legislation is not expected to pass anytime soon.

Reminder that third quarter estimated tax payments are due Thursday, Sept 15th

Confirm that there's adequate liquidity set aside to pay the tax. If your income is meaningfully lower than last years, and you use the Safe Harbor method, there's an opportunity to save on tax payments this year.

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