

October 17, 2022 – Wealth Planning Commentary

Large Increase in Social Security Benefits for 2023

We reported a few weeks ago that the Committee for a Responsible Federal Budget projected an 11.4% increase in social security benefits for 2023. However, the Social Security Administration announced last week that the Cost-of-Living Adjustment (COLA) for benefits will be 8.7% in 2023. The increase is much greater than the 2022 adjustment of 5.9%.

The Social Security COLA is based on the CPI for Urban Wage Earners (CPI-W) rather than the more familiar CPI for all Urban Consumers, which we generally think of as ‘inflation.’ CPI-W is based on the expenditures of households where more than half of the income is earned in clerical and wage occupations; it represents 28% of the population.

An 8.7% increase is good news for low-income seniors and helps maintain their purchasing power. Many Seniors rely on the benefit as a primary source of income. There may be downsides to receiving higher income for some clients. Increased benefits could cause recipients to have a higher percentage of benefits subject to taxation, and income limits are not adjusted for inflation. Those enrolled in Medicare Parts B and D may see an increase in their premiums due to the Income-Related Monthly Adjustment Amount (IRMAA).

Penalties Preemptively Waived for Inherited IRA Required Minimum Distributions (RMD)

In February, the IRS proposed new rules that clarify inherited IRA distribution requirements, and the guidance mainly impacts beneficiaries who are non-spouses. To briefly summarize the proposed rules: non-spouse beneficiaries who inherit an IRA from someone who was taking RMD will need to take RMD every year over a 9-year period and deplete the account by the 10th year. The rules will only apply to inherited IRAs, not Roths. The current rules require that the beneficiary deplete the account by the 10th year but are not required to take RMD before then.

The IRS posted a notice last week stating the intention to issue final rules.... presumably sometime soon. The agency also stated that inheritors of IRAs will not need to take RMD before 2023. Essentially the IRS is calming the nerves of impacted beneficiaries by preemptively waiving penalties for rules that are not yet finalized, enacted or enforceable.

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