TENON FINANCIAL
RETIREMENT PLANNING & INVESTMENT MANAGEMENT

Retirement Planning Insights

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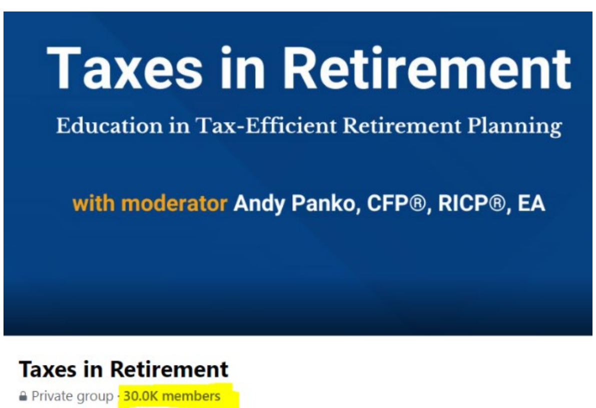
Up Front

A membership milestone in my Facebook group and a video on dividend investing

I assume most of you reading this likely first found me through my Facebook group, [Taxes in Retirement,](Taxes in Retirement) so you probably already know this. But I'm going to share it here anyway…my Facebook group just recently reached 30k members!



When I started the group in April 2020, I had no idea what to expect. I thought it would be cool to get to 1k members by the end of that year. Well, it hit 1k members a few months in. And now – a little over two years later – it just hit 30k.

I may be just a *wee* bit biased in saying this, but I genuinely feel that **Taxes in Retirement** is THE best place there is for free education and information about tax-efficient retirement planning. Thank you for your help in making it what it is!

In other news, I recently did a streaming **video** in the Facebook group with special guest Chris D'Agnes, CFA. Chris is a partner and portfolio manager at Hamlin Capital Management where he manages a high dividend stock portfolio.

Chris shared his knowledge and expertise in why dividends are important in equity investing, what he looks for in dividend-paying companies and how dividend-paying stocks have historically performed.

It was my first time doing a streaming video with a guest LIVE in my office. It took some extra A/V equipment and time to get the logistics worked out, but I think it worked out well.

Now I need to find other guests who are local or willing to travel to hang out with me and broadcast out of my office!

-Andy

Retirement Planning News

Summary of the 2022 Social Security Trustees Report.

On June 2, 2022, **The 2022 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds** (say that five time fast…) was released.

The report is more commonly known as the annual Social Security trustees report. It details the previous year's income and expenses of the Social Security system, inflows and outflows of the system's trust fund(s) and it gives both a 10-year and 75-year projection of the potential health and economics of the system.

This year's report was the 82nd such report and it is chock full of details about how the system works, how much money it takes in and pays out, how much is in the trust fund(s), etc.

The report is 275 pages long and contains A LOT of detailed graphs and technical speak. However, I highly recommend everyone read at least the first section of the report, which is fairly straightforward to digest. That introductory section gives a tremendously valuable and insightful summary of the system's current financial status.

For those of you who don't want to read the actual report, you're in luck! One of my recent **podcast episodes** summarized the key takeaways from the report.

And, I'm also about to summarize some of those key points for you right here:

- The economic recovery from the pandemic has been better than expected, hence the long-term projections of when the trust fund(s) will deplete are less worse than they were (more on that later)
- At the end of 2021, the system was providing monthly benefits to 50 million retired workers and their dependents, six million survivors of deceased workers and nine million disabled workers and their dependents
- In 2021, 179 million people worked in jobs where they paid into Social Security
- The total cost of the system for 2021 was \$1.145 trillion, which comprised \$1.133 trillion of benefit payments, \$6.5 billion in administrative expenses and \$4.9 billion in benefits specific to railroad workers
- The total income for the system in 2021 was \$1.088 trillion, which was from \$980.6 billion in payroll tax contributions, \$70.1 billion in interest earned on money inside the system's trust fund(s) and \$37.6 billion in federal income tax paid on Social Security benefits
- For 2021, the system took in \$56.3 billion less than it paid out. The deficit was funded by tapping into the trust fund(s), which ended the year with \$2.852 trillion in reserves
- For the next 75 years (i.e. the maximum length of time the Social Security trustees attempt to make projections), income into the system is expected to be less than benefits paid out. This means that the trust fund(s) will need to release reserves every year to cover the income shortfall
- At the projected pace of income shortfall, it's expected the trust fund(s) will deplete in 2035
- If no changes are made to the system, the projections play out as expected and the trust fund(s) run out in 2035, the system will only have enough income to pay 80% of benefits from that point forward
- One of the proposed fixes to the long-term funding of the system is an immediate 3.24% increase in payroll taxes (from 12.4% to 15.64%)

Social Security is the foundation of many retirees' financial plans. The system is incredibly important as a lot of people rely on it. For that reason, I firmly believe legislative changes will eventually be made to help bolster the system to help eliminate or minimize any potential reduction in benefits; at least for people already on Social Security, or close to it.

I believe younger generations will likely see reductions in benefits between what they are supposed to receive as of now vs what they will ultimately get. But this is just my speculation.

Fixing the systems comes down to a combination of 1) paying less benefits out and/or 2) having people pay more in. Neither option is politically palatable, so I suspect changes won't be made to the system until the 11th hour. We shall see…

Practical Retirement Planning

Who is this MAGI person I keep hearing about?

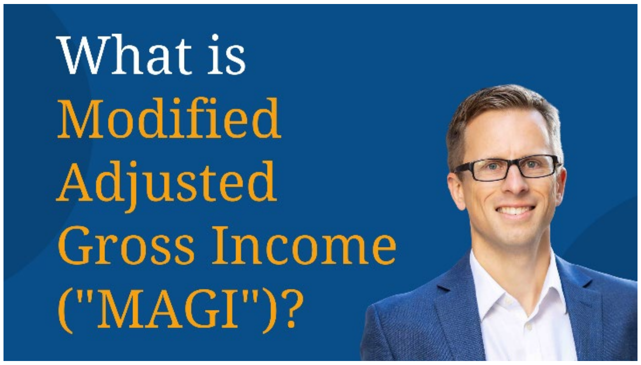
If you've watched, listened or read my content long enough, you've no doubt come across the acronym MAGI, which stands for Modified Adjusted Gross Income.

MAGI is a special calculation of your income that's used in determining your eligibility for certain credits, deductions, etc. on your tax return.

However, there are multiple MAGIs used throughout the tax code, and they're all a bit different. No surprise the tax code makes things more convoluted than they need to be…

I'm aware of about a dozen different MAGIs, but I know there are more than that. To help clear up the confusion, I recently did a podcast episode dedicated to explaining the handful of MAGIs you're most likely to come across in planning your retirement.

Also, for those who prefer content in video format, I did a YouTube video on this same topic over a year ago:



If you want to skip the podcast and video and get a Cliffs Notes version of the topic, keep reading!

As the name implies, *Modified* Adjusted Gross Income starts with Adjusted Gross Income ("AGI") and then modifies it by adding in certain items or taking out other items.

AGI is basically all of your potentially taxable income summed up, and then reduced by certain adjustments you may be eligible for. For example, if you worked and earned wages, your wages would be included in your AGI. But then if you made a contribution to an IRA, that contribution would potentially reduce it.

On your 2021 tax return, you can find your AGI on line 11 of Form 1040.

The few MAGIs you're most likely to see in planning for your retirement are:

- **Eligibility to contribute to Roth IRAs** – AGI minus any Roth conversions, plus any deductions for traditional IRA contributions. Plus there are also some deductions added back in for certain foreign income benefits, qualified education expense benefits and adoption expense benefits
- **Eligibility to deduct traditional IRA contributions** – The same as the MAGI above, but WITH keeping Roth conversions included
- **Medicare premium surcharges aka Income Related Monthly Adjustment Amount ("IRMAA")** – AGI plus any tax-exempt interest, such as interest paid on municipal bonds held in a normal taxable brokerage account
- **Net Investment Income Tax** – AGI plus adding back in certain foreign income benefits
- **Affordable Care Act ("ACA" or "Obamacare") premium tax credits/subsidies** – AGI plus any tax-exempt interest plus certain foreign income benefits plus the non-taxable portion of Social Security benefits

Unfortunately, these MAGIs are generally not shown on your tax return, so they may not be very evident to you. However, it's important to be aware of them and what they are, so you can plan accordingly in case any of them will impact you.