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Tax Season and Your Social Security Benefits

BY EDWARD CATES, CHAIRMAN, TSCL

It's already February, which means that this year's tax deadline of April 15 is just a few short weeks away. For many Social Security recipients, especially people who have just started claiming their benefits, it adds yet another layer of complexity to figuring out how much you owe the government—or conversely, how much it owes you.

How do Social Security Payments Interact with Income Taxes?

It's possible to pay income taxes on up to 85 percent of your Social Security benefits, but many people don't pay any taxes at all on their benefits. Where you end up depends on your earnings and how you file your taxes, single or jointly.

To understand whether you'll need to pay taxes on your benefits, it's important to first understand the concept of

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combined income. For Social Security beneficiaries, your combined income is 50 percent of your benefit amount. For example, if you earned $24,000 in Social Security benefits for 2024 and an additional $30,000 from your 401(k) withdrawals, your combined income would be $42,000.

Once you have your combined benefit amount, you can use it to find out how much you'll pay in Social Security taxes. If you file taxes as an individual, you'll pay taxes on 50 percent of your benefits if your combined income exceeds $25,000. That number increases to 85 percent if your combined income exceeds $34,000. If you file as a couple, the threshold to pay taxes on 50 percent of your benefits is $32,000, and the threshold to pay taxes on 85 percent of your benefits is $44,000.

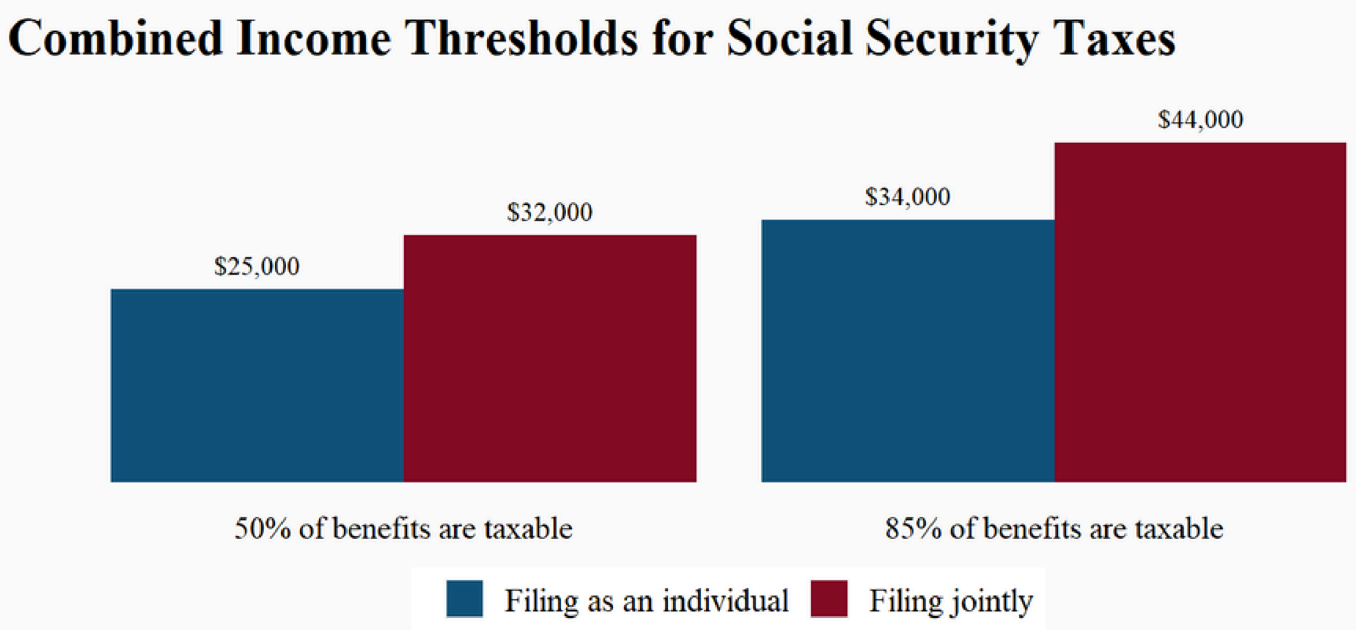
To see how much of your benefits are taxable, you can turn to several online calculators. TheFinanceBuff.com, for example, provides a free one.

Potential Changes to Taxes on Your Benefits

If the thresholds for paying taxes on your benefits seem outdated, that's because they are. They were introduced in 1984, which is more than 40 years ago now. According to the Census Bureau, the median U.S. household income at the time was $26,430. That's less than a third of the median household's income of $80,610 in 2023, the last year for which data is available at the time of this writing.

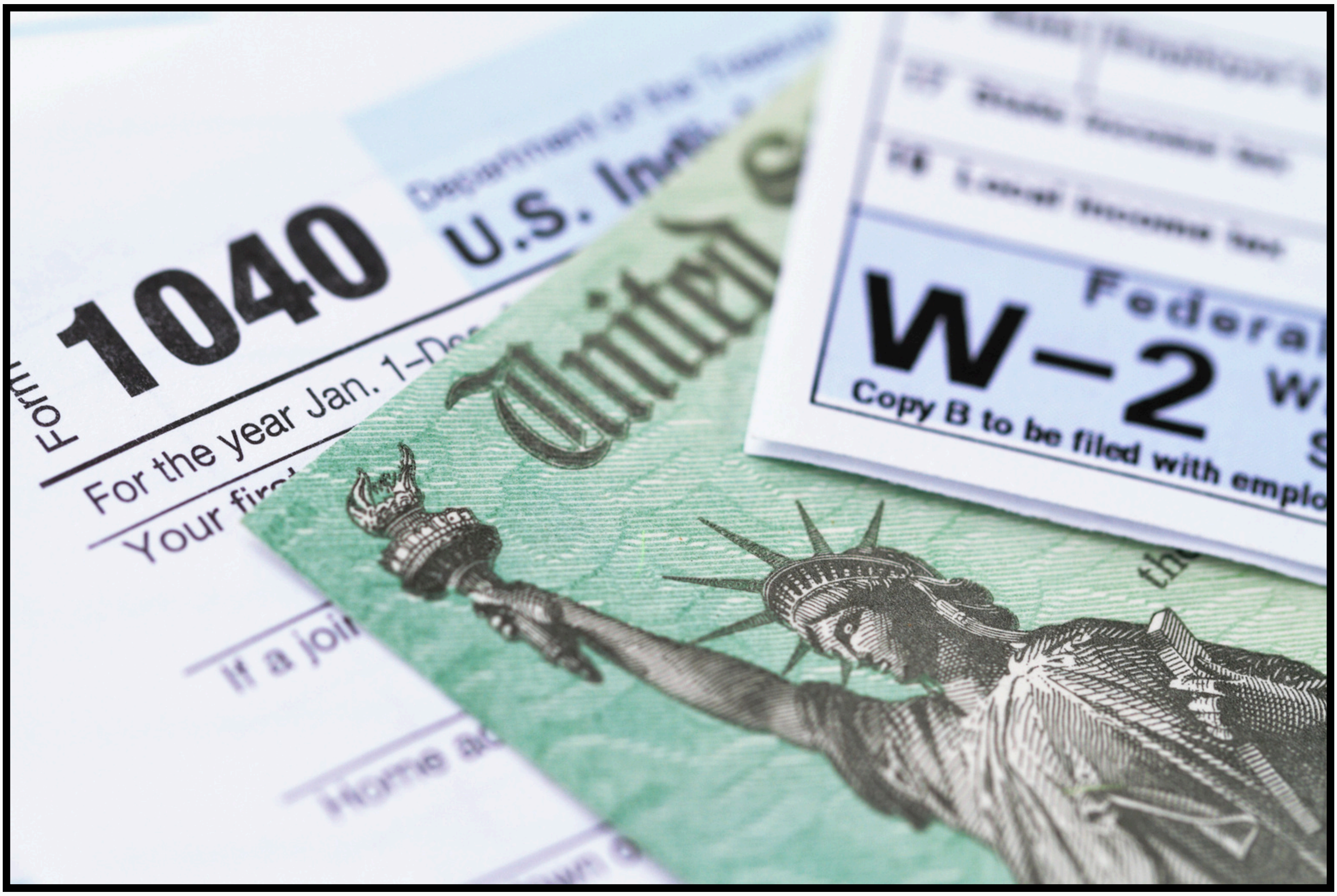
The reality is that the government's failure to update these thresholds is egregious and that seniors should be paying far less taxes on their benefits. If we adjusted the 1984 thresholds to 2023 dollars, people filing taxes as individuals wouldn't start paying taxes on their benefits until their combined income reached about $76,000. For people filing jointly, that figure would be about $98,600.

It's no surprise that seniors overwhelmingly support updating these income thresholds. Among 997 respondents to TSCL's 2025 Senior Survey so far (it's currently in the field),



30 percent support providing a one-time adjustment to catch the thresholds up to today's dollars. Then, to solve the problem long-term, 73 percent support implementing an annual adjustment that helps them keep pace with future inflation.

At TSCL, we strongly support both changes and will fight to get them done. As you probably read earlier this year, we worked hard to help push the Social Security Fairness Act through Congress before former President Biden signed it on January 5. Moving forward, we'll continue pushing for similar bills that fix challenges for seniors like unfair taxation.



Biden Proposal to Expand Medicare Access to Weight Loss Drugs Hangs in the Balance

BY ALEX MOORE

In November, former President Biden proposed expanding anti-obesity drugs, like Wegovy, for people with Medicare and Medicaid coverage. These drugs are currently only covered for people who use them to treat other conditions, like diabetes and heart disease. However, the change faces a threat from the incoming administration.

The new administration's pick to lead the Department of Health and Human Services, Robert F. Kennedy Jr., has expressed skepticism about the drug in his pledge to tackle chronic diseases like diabetes and obesity.

"We're spending $1,600 a month on this drug, there's a bill right now before Congress that will make it available to everybody who is overweight, which is 74 percent of the American population," he told Fox News in October. "That alone will cost $3 trillion a year. If we spend about one fifth of that giving good food, three meals a day to every man, woman, and child in our country, we can solve the obesity and diabetes epidemic overnight for a tiny fraction of the cost."

Moving forward, it will be important to see how this saga plays out. Will the incoming administration yield to Kennedy Jr.'s preference and prefer to help reduce obesity and chronic diseases through primarily nutrition and exercise, or will it make the popular drugs available to seniors via Medicare and Medicaid?

However you feel, we encourage you to get involved in this important issue. Write to your Congressional representative person and encourage them to work on legislation that helps seniors manage their health and show them that your voice matters. And take our 2025 Senior Survey and let your voice be heard.

What's a MOOP?

BY SUSAN STEWART, LICENSED INSURANCE AGENT

MOOP stands for Maximum Out of Pocket. As a licensed insurance agent, I'm required to quote it to my clients when I help them pick an insurance plan, but people often struggle to understand the concept.

MOOP is the maximum that you can pay out-of-pocket each year for your covered medical care expenses, and it's strictly for medical expenses—not pharmacy, not dental. Think of your MOOP as a medical expense piggy bank. Every time you have a copay or co-insurance (which is when you pay a percentage of the care rather than a flat rate), that amount goes into the MOOP piggy bank. What's included under this umbrella is broad: specialist copays, in-hospital copays, co-insurance for your durable medical equipment, and physical therapy. All of this goes into the MOOP piggy bank.

Now, here's the important part. Once you fill your MOOP piggy bank by reaching the maximum, your plan will pay 100 percent of all covered costs. The most common way that beneficiaries misunderstand MOOPs is believing that their plan will stop paying at that point rather than starting to pay to 100 percent.

Which plans have the lowest MOOPs?

Generally speaking, your MOOP will be lower in an HMO than in other plans. This is because HMOs fully restrict you to their networks in exchange for a lower MOOP, lower copays, and higher benefits.

PPOs, on the other hand, usually have two MOOPS: your in-network MOOP and combined in-and-out-of-network MOOP, or your combined MOOP for short. For example, your in-network MOOP could be $7,000, and your combined MOOP could be $10,000. You can choose to go out of your network. However, it will not only cost more out-of-pocket, but your MOOP will also increase.

MOOPs vary from plan to plan, county to county, and state to state. That's especially true if you're choosing to step outside of your PPO network. That's why it's so important to understand the maximum out-of-pocket medical expenses you could incur in any given year when picking a plan.

Changes coming to MOOPs in 2025

In 2025, Medicare added a new MOOP and the program's infamous "donut hole" is going away. This new MOOP is specifically for pharmacy benefits, is separate from your MOOP for medical expenses, and is capped at $2,000.

Whether you get your prescription drugs through a standalone Prescription Drug Plan or whether they're included in your Medicare Advantage plan, when you spend $2,000 out of pocket on prescription drugs (including any required prescription deductibles), you immediately reach your plan's catastrophic coverage phase. From there, all covered medications will be paid at 100 percent for the rest of the year. For beneficiaries who take more than one expensive medication, this can potentially save hundreds of dollars as opposed to hitting the donut hole and medication suddenly becoming unaffordable.

Another change that coincides with 2025's new MOOP for prescription drugs is pharmacy deductibles. While there are still Medicare Advantage plans with $0 pharmacy deductibles, they are hard to find in 2025. Deductibles range from $200 to $590. Typically, deductibles are for tier three, four, and five medications. You pay the full cost for your medication until you meet your deductible, and then you move into initial coverage with your expected copays or co-insurance.

Of course, always remember that any premiums you pay—for a Medicare Advantage Plan or a standalone Prescription Drug Plan—will not apply to your MOOP. However, you can work through these questions with your licensed insurance agent. Listen for these details when getting quotes. Ask if you don't understand or don't hear them. Educate and empower yourself to be your own advocate.

How Would Changing Social Security's Payroll Taxes Affect the Program's Finances?

BY ALEX MOORE

As you probably already know, Social Security is funded by a payroll tax. The rate is currently 12.4 percent, with employees and employers each paying 6.2 percent of wages up to the taxable maximum of $176,100 in 2025. People who are self-employed pay the entire 12.4 percent.

This tax is set by law, and it has often come under debate as Social Security faces a looming financial crisis in the 2030s. Should Congress raise the tax to better fund the program, or would it be better to lower the tax rate and pump more money back into the economy? Seniors certainly have an opinion. Among 995 preliminary respondents to TSCL's 2025 Senior Survey, 35 percent support increasing the payroll tax.

So, what would the impact be? It's easy to find out because the Social Security Administration has already imagined many scenarios and calculated their impact. We can measure each scenario by how much of the budget shortfall they would eliminate. In this article, we'll look at a few options for raising the payroll tax and how they'd play out.

Immediate, moderate increase

One proposal is to raise the payroll tax rate immediately, starting in 2025, from 12.4 percent to 16.0 percent. Companies and their employees would split the difference, each paying an

additional 1.8 percent of wages into the program. This change would eliminate 100 percent of Social Security's shortfall.

Gradual, mild increase

Another proposal is to slowly raise the payroll tax over time, by 0.1 percentage point each year from 2030 to 2049, until the tax rate reaches 14.4 percent. This proposal would have a much more limited impact on Social Security's finances, eliminating an estimated 43 percent of the budget shortfall.

Remove earnings caps

A third option is to eliminate the cap on Social Security's payroll tax contributions instead of raising the tax rate. This way, most American workers would continue to pay the same tax rate, but high earners would no longer be able to exempt some of their wages from the program. (As we mentioned earlier, all wages above $176,100 are exempt from the payroll tax in 2025.) The Social Security Administration estimates this approach would eliminate up to 73 percent of the program's budget shortfall.

Raise earnings caps

Congress could also choose to raise the limit of income that is subject to Social Security payroll taxes rather than eliminating it, ensuring that high earners pay more into the program while still providing at least some exemption. If Congress increased the taxable maximum such that 90 percent of earnings, regardless of how much someone made, was subject to the payroll tax, it could reduce the budget shortfall by up to 31 percent.

What do you think?

Do you think Congress should raise Social Security's payroll taxes? Let us know by taking our poll.

Take the 2025 Senior Survey!

Wait! Before you close this issue, please take a moment to take TSCL's **2025 Senior Survey**!

The **Senior Survey** is a critical piece of research that TSCL uses to understand you, our members. It provides you the opportunity to let us know how you feel about:

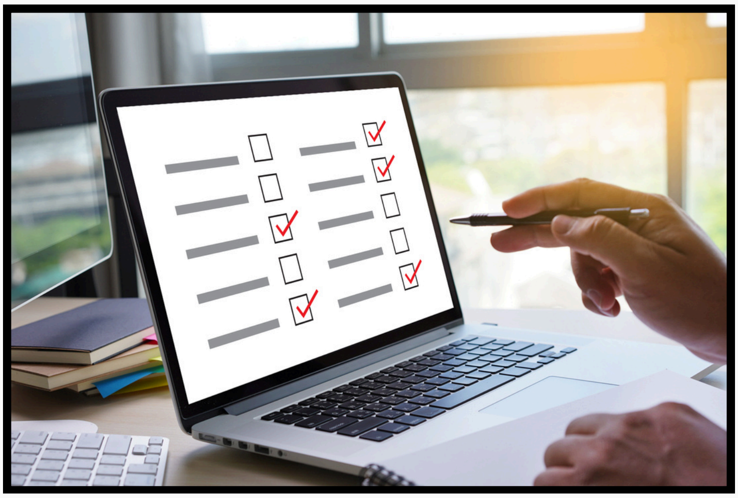
- Your Social Security benefits
- Your Medicare Benefits
- Policy proposals to reform your benefits.

Plus, for the first time this year, we'll be making the results available to you. Once the survey is completed, we'll prepare a detailed report. Be sure to visit our website later to access the complete report.

The survey will take about 15-20 minutes to complete. Your response will be completely anonymous. You can preview the questions on the following pages.

Please click the button below to take the survey now!

TAKE THE SURVEY!



2025 Retirement Survey

Section 1 – Retirement Status

- Have you begun claiming your Social Security retirement benefits?
  - Yes.
  - No, but I am eligible.
  - No, and I am not eligible.

- How many years are you away from claiming your Social Security retirement benefits?
  - 0-2 years
  - 3-5 years
  - 6-10 years
  - 10+ years

- What is your retirement status?
  - I no longer work.
  - I did not work prior to claiming my benefits.
  - I left the workforce when I retired but have since returned to work.
  - I remained in the workforce with reduced hours and/or responsibilities.

- When did you first claim your Social Security retirement benefits? Please choose the option that best describes your situation.
  - When I first became eligible (age 62).
  - After I first became eligible but before I reached full retirement age.\At full retirement age (between age 66-67 depending on birth year).
  - After full retirement age.

- Why did you choose to claim your benefits before full retirement age? Please select all that apply.
  - I did not know my benefits would be penalized.
  - I could not afford to cover basic expenses without them.
  - To handle a financial emergency.
  - To handle a medical emergency or address a medical issue.
  - To pay off debt.
  - To coordinate payments with my spouse.
  - I knew about the penalty to my benefits but did not care.
  - None of the above.

- What is your estimated total monthly take-home income, after taxes and other deductions?
  - $0 to $1,000
  - $1,001 to $2,000
  - $2,001 to $3,000
  - $3,001 to $4,000
  - $4,001 to $5,000
  - $5,001 to $6,000
  - $6,001 or more
  - Unsure

- Approximately what percentage of your income comes from your Social Security retirement benefits?
  - Less than 25%.
  - 26% to 50%
  - 51% to 75%
  - 76% to 99%
  - 100%
  - Unsure

Section 2 – COLA Satisfaction

- Overall, how satisfied are you with the amount you receive from your monthly Social Security benefit check(s)?
  - Satisfied
  - Neither satisfied nor dissatisfied
  - Dissatisfied

- Based on your economic experience, what would you expect U.S. inflation to have been in 2024?
  - Between 0% and 0.99%
  - Between 1% and 1.99%
  - Between 2% and 2.99%
  - Between 3% and 3.99%
  - Between 4% and 4.99%
  - Between 5% and 5.99%
  - Between 6% and 6.99%
  - 7% or above
  - Unsure

- You said that you believed U.S. inflation in 2024 was above 7%. How high do you think it was? Please enter a percentage between 7% and 100%.

- The Social Security Cost-of-Living Adjustment (COLA) is 2.6% for 2025. Which of the following statements best describes how you feel about this COLA?
    - This COLA is fair, and my benefits will keep pace with inflation.
    - This COLA is too low, and my benefits will fall behind inflation.
    - This COLA is too high, and my benefits will grow faster than inflation.

Section 3 – Medicare Satisfaction

- Have you started receiving Medicare benefits?
    - Yes.
    - No.

- Overall, how satisfied are you with the cost of your Medicare benefits?
    - Very satisfied
    - Somewhat satisfied
    - Not satisfied

- Overall, how satisfied are you with the coverage of your Medicare benefits?
    - Very satisfied
    - Somewhat satisfied
    - Not satisfied

- How much did you spend per month on all healthcare costs in 2024? Please include all Medicare premiums, insurance premiums, co-pays, and out-of-pocket costs for all your medical needs, including dental and vision needs.
    - $0 to $200
    - $201 to $400
    - $401 to $600
    - $601 to $800
    - $801 to $1,000
    - $1,001 or more
    - Unsure

- How much did you spend per month on out-of-pocket costs for prescription drugs in 2024? Please do not include what you pay for Part D or Medicare Advantage plan premiums.
    - $0 to $50
    - $51 to $100
    - $101 to $166.67 (the 2025 out-of-pocket limit)
    - $166.68 to $200
    - $201 to $400
    - $401 to $600
    - $601 to $666.67 (the 2024 yearly out-of-pocket limit)
    - More than $666.67
    - Unsure

Section 4 – Policies

TSCL's research found that Social Security benefits lost approximately 20% of their buying power between 2010 and 2024 due to cost-of-living-adjustments (COLAs) that do not keep up with inflation.

- Which of the following policies would you support to raise future COLAs for Social Security benefits?
  - Calculating COLAs with an inflation index that better represents seniors' economic experiences.
  - Guaranteeing a 3% minimum COLA.
  - Providing a one-time $4,098 catch-up payment to make up for COLA shortfalls.
  - Providing a one-time $1,400 senior stimulus to make up for COLA shortfalls.
  - None of the above.

Social Security is facing a financial crisis because the program costs more money than it brings in. If Congress fails to act, benefits will be reduced by 20 percent starting in 2034 due to budget shortfalls.

- Which of the following policies would you support to address this issue? Please select all that apply.
  - Raising the full retirement age for Social Security from 67 to 70.
  - Creating a fast-track process for Congress to vote on Social Security legislation.
  - Increase the Social Security payroll tax rate. (currently 6.2 percent for employees and 6.2 percent for employers)
  - Eliminate the limit on earnings that are subject to Social Security payroll taxes. ($176,100 in 2025)
  - Applying the 6.2 percent Social Security employee payroll tax to investment income for high earners.
  - Require the government to invest Social Security payroll taxes in stocks, bonds, and other assets.
  - Reduce Social Security cost-of-living adjustments (COLAs).
  - None of the above.

Under current law, the income thresholds that make up to 85% of Social Security benefits eligible for taxation have never been adjusted for inflation since being established in 1984. You will pay federal income taxes on your benefits if your combined income (50% of your benefit amount plus any other earned income) exceeds $25,000/year filing individually or $32,000/year filing jointly.

- Which of the following approaches would you support to modernize the taxation threshold for Social Security income?
  - Provide a one-time adjustment to catch the thresholds up to today's dollars.
  - Implement an annual adjustment that helps the thresholds keep pace with future inflation.
  - None of the above.

- In your opinion, how much of a priority should Social Security and Medicare reform be for the Presidential administration and Congress?
  - A top priority
  - A high priority
  - A moderate priority
  - A low priority
  - Not a priority

- If the new Presidential administration and Congress pursue Social Security and Medicare reform, which aspect of the programs would you most like to see them prioritize?
  - Social Security's COLAs
  - Social Security's long-term finances
  - Medicare premiums
  - Medicare prescription drug access
  - Simplifying Medicare plan selection
  - Waste in the Social Security and Medicare budgets

Section 5 – Demographics

- What is your zip code?

- How old are you? Please enter a whole number.

- What is your gender?
  - Male
  - Female
  - Other

- What is your ethnicity?
  - Hispanic or Latino
  - Not Hispanic or Latino

- What is your race?
    - White
    - Black or African American
    - American Indian or Alaska Native
    - Asian
    - Native Hawaiian or Other Pacific Islander
    - Some other race
    - Multiracial

- Do you own or rent your primary residence?
    - Own
    - Rent

- What is your highest level of education?
    - Did not graduate high school
    - High school/GED
    - Some college, no degree
    - Associate’s degree
    - Bachelor’s degree
    - Master’s degree
    - Professional or doctoral degree (e.g., MD, JD or PhD)

- How would you characterize your political leanings?
    - Democrat
    - Republican
    - Independent
    - Other