

Best Practices In Social Security And Medicare Planning

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Best Practices

- Keep in mind:
 - Social Security is on track to pay lower benefits in the future.
 - Social Security significantly reduces the amount workers need to save for retirement.
 - Maximizing Social Security Benefits starts in a worker's 20s, not his or her 60s.
 - Couple's strategies: spouses may claim benefits based on a working spouse's earnings.
 - A worker's earnings can benefit the extended family, but benefits are capped.
 - Surviving spouses and children have multiple options.
 - Qualifying for premium-free Medicare Part A requires qualifying for Social Security.
 - Avoid Medicare Parts B and D premium penalties.

Social Security Trustees' Report

Press Release

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For Immediate Release



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News Release

SOCIAL SECURITY

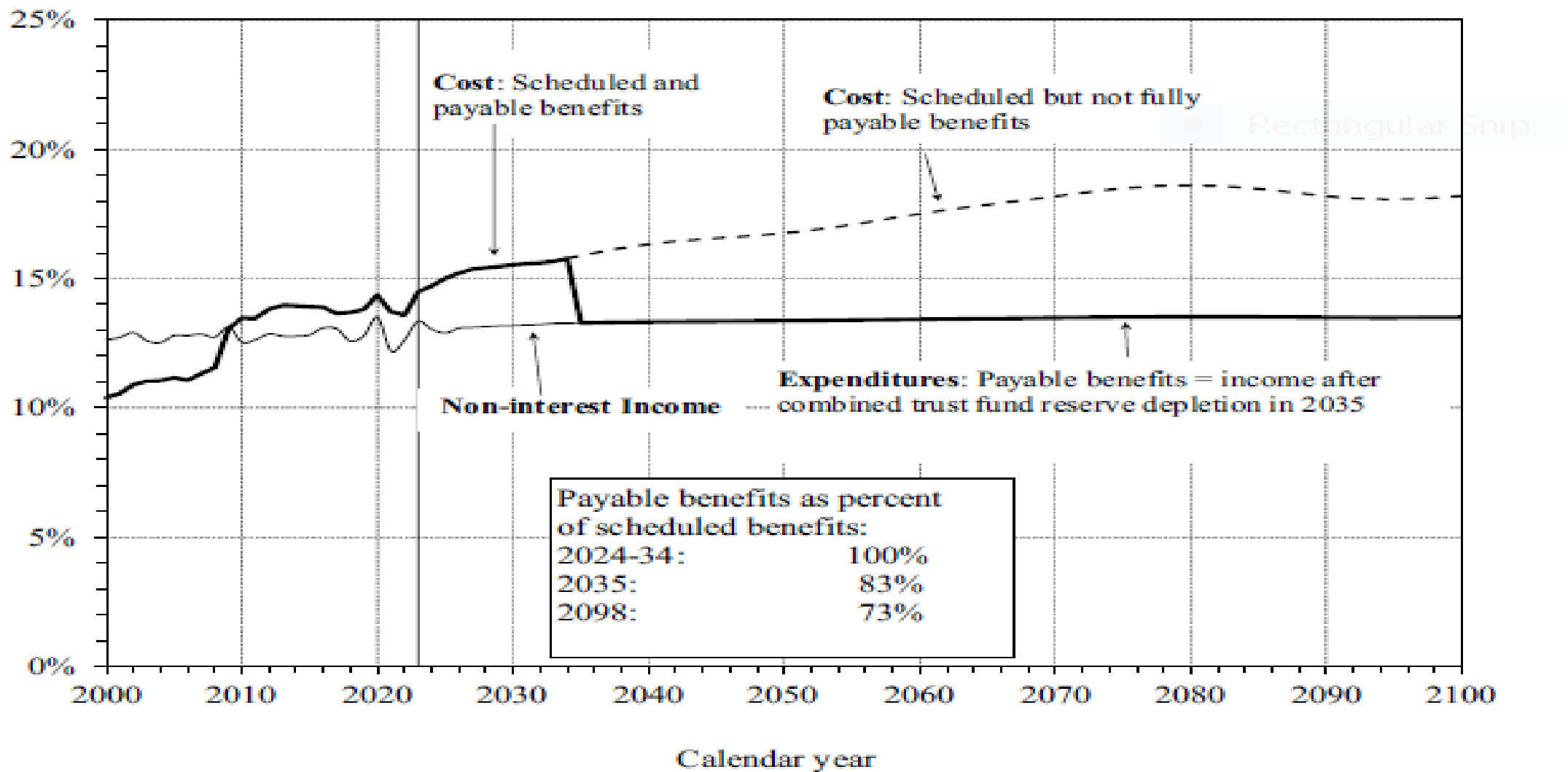
Strong Economy, Low Unemployment, and Higher Job and Wage Growth Extend Social Security Trust Funds to 2035

The Social Security Board of Trustees today released its annual report on the financial status of the health of the Social Security Trust Funds. The combined asset reserves of the Old-Age and Survivors Insurance and Disability Insurance (OASI and DI) Trust Funds are projected to have enough dedicated revenue to pay all scheduled benefits and associated administrative costs until 2035, one year later than projected last year, with 83 percent of benefits payable at that time.

In the 2024 Annual Report to Congress, the Trustees announced:

- The asset reserves of the combined OASI and DI Trust Funds declined by \$41 billion in 2023 to a total of \$2.788 trillion.
- The total annual cost of the program is projected to exceed total annual income in 2024 and remain higher throughout the 75-year projection period. Total cost began to be higher than total income in 2021. Social Security's cost has exceeded its non-interest income since 2010.
- The year when the combined trust fund reserves are projected to become depleted, if Congress does not act before then, is 2035. At that time, there would be sufficient income coming in to pay 83 percent of scheduled benefits.

Figure II.D2.—OASDI Income, Cost, and Expenditures as Percentages of Taxable Payroll
 [Under intermediate assumptions]



The Difference Social Security Makes In Retirement Planning

Retirement Planning W/ and W/O Social Security

Step 1: Determine amount to be funded

Income today		\$100,000
WRR		<u>80%</u>
Needs	\$80,000	\$80,000
Less Social Security Replacement	<u>0</u>	<u>(\$30,000)</u>
Amount to be funded	\$80,000	\$50,000

Step 2: Inflate funds to retirement age

PV	\$(80,000)	\$(50,000)
N	37	37
i	3.0%	3.0%
Pmt	0	0
FV	\$238,818	\$149,261

Retirement Planning W/ and W/O Social Security

Step 3: PV Of Retirement Annuity

	W/O SSB	With SSB
PMT	\$238,818	\$149,261
	<u>X 25 (4% withdrawal rate)</u>	<u>X 25</u>
	\$5,970,450	\$3,731,525

Step 4: Annual Funding Amount

FV	\$5,970,450	\$3,731,525
N	37	37
I	9%	9%
PV	0	0
PMT	(\$23,108)	(\$14,442)

Inflation-Adjusted Savings

- $$\frac{\$3,731,525 \div (1 + .09)^{37} - (1 + .03)^{37}}{(.09 - .03)}$$

= \$10,531 starting in Year 1

- At 10.5% of gross income, this amount is much more palatable than \$14,442. The amount increases by 3% to \$10,847 in year 2 and so on throughout the individual's or couple's working life.

- $$\frac{\$5,970,450 \div (1 + .09)^{37} - (1 + .03)^{37}}{(.09 - .03)}$$

= \$16,850 starting in Year 1

- At 16.9% of gross income, this amount is more palatable than \$23,108. The amount increases by 3% to \$17,356 in year 2 and so on throughout the individual's or couple's working life.

Planning With The Calculations

Social Security Taxes and Contributions

- Federal Insurance Contributions Act (FICA)
 - Collected through payroll and self-employment taxes
 - Total taxes of 7.65%
 - 5.3% up to \$176,100 (\$168,600 (2024)) of earnings (OASI)
 - .9% up to \$176,100 (\$168,600 (2024)) of earnings (DI)
 - 1.45% of total earnings (HI)
- Employers match the contributions made by their employees.

Contribution and benefit bases, 1937-2024

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
1937-50	\$3,000	1986	\$42,000	2006	\$94,200
1951-54	3,600	1987	43,800	2007	97,500
1955-58	4,200	1988	45,000	2008	102,000
1959-65	4,800	1989	48,000	2009	106,800
1966-67	6,600	1990	51,300	2010	106,800
1968-71	7,800	1991	53,400	2011	106,800
1972	9,000	1992	55,500	2012	110,100
1973	10,800	1993	57,600	2013	113,700
1974	13,200	1994	60,600	2014	117,000
1975	14,100	1995	61,200	2015	118,500
1976	15,300	1996	62,700	2016	118,500
1977	16,500	1997	65,400	2017	127,200
1978	17,700	1998	68,400	2018	128,400
1979	22,900	1999	72,600	2019	132,900
1980	25,900	2000	76,200	2020	137,700
1981	29,700	2001	80,400	2021	142,800
1982	32,400	2002	84,900	2022	147,000
1983	35,700	2003	87,000	2023	160,200
1984	37,800	2004	87,900	2024	168,600
1985	39,600	2005	90,000		

Note: Amounts for 1937-74 and for 1979-81 were set by statute; all other amounts were determined under automatic adjustment provisions of the Social Security Act.

From 1983 to 2022, the FICA cap is based on the CPI and increased at a 3.6% rate.

Qualifying for Social Security Retirement Benefits

- Two requirements: Age and Work
- In general, to get a retirement payment, the worker must be 62 and have at least 10 years of part-time work.

Work Requirement

- Fully Insured
 - 40 quarters of work
 - 1 quarter of coverage = \$1,810 (\$1,730 for 2024) - \$7,240 annually of earnings
 - Maximum accrual of 4 quarters per year
- Currently Insured for Survivor's Benefit
 - 6 quarters of coverage out of the previous 13 quarters
 - Continuing work is also important for obtaining disability benefits.

Calculating The Retirement Benefit

- Average Indexed Monthly Earnings (AIME):
 - Converts earnings after 21 using the National Average Wage Indexing Series.

National Average Wage Index

- The National Average Wage Index is determined by dividing the total wages reported to the SSA by the total number of workers.
- The Index serves two important purposes:
 1. Setting the factors used to index annual earnings to an inflation-adjusted amount; and
 2. Adjustments to the Primary Insurance Amount formula.
- The inflation factor in the Social Security computation is always the one in effect the year the worker attains age 60, called the Base Year.
 - Even if the Social Security computation is not performed until a later year, the adjustment is “locked in” in the Base Year.
 - Using age 60 is reasonable, as all the computation factors will be known by age 62, when the worker is first eligible.
- The inflation factor used for this allowance is based on average earners and does not fully cancel out the effects of inflation for high earners.

Wage Indexing

National average wage indexing series, 1951-2022

Year	Index	Year	Index	Year	Index
1951	2,799.16	1976	9,226.48	2001	32,921.92
1952	2,973.32	1977	9,779.44	2002	33,252.09
1953	3,139.44	1978	10,556.03	2003	34,064.95
1954	3,155.64	1979	11,479.46	2004	35,648.55
1955	3,301.44	1980	12,513.46	2005	36,952.94
1956	3,532.36	1981	13,773.10	2006	38,651.41
1957	3,641.72	1982	14,531.34	2007	40,405.48
1958	3,673.80	1983	15,239.24	2008	41,334.97
1959	3,855.80	1984	16,135.07	2009	40,711.61
1960	4,007.12	1985	16,822.51	2010	41,673.83
1961	4,086.76	1986	17,321.82	2011	42,979.61
1962	4,291.40	1987	18,426.51	2012	44,321.67
1963	4,396.64	1988	19,334.04	2013	44,888.16
1964	4,576.32	1989	20,099.55	2014	46,481.52
1965	4,658.72	1990	21,027.98	2015	48,098.63
1966	4,938.36	1991	21,811.60	2016	48,642.15
1967	5,213.44	1992	22,935.42	2017	50,321.89
1968	5,571.76	1993	23,132.67	2018	52,145.80
1969	5,893.76	1994	23,753.53	2019	54,099.99
1970	6,186.24	1995	24,705.66	2020	55,628.60
1971	6,497.08	1996	25,913.90	2021	60,575.07
1972	7,133.80	1997	27,426.00	2022	63,795.13
1973	7,580.16	1998	28,861.44		
1974	8,030.76	1999	30,469.84		
1975	8,630.92	2000	32,154.82		

From 1983 to 2022, wages increased at a 3.6% rate, the same as the CPI-W-based FICA increase.

AIME (1) Calculation

We illustrate the calculation of retirement benefits using two examples, labeled case A and case B. In each case, the worker retires in 2024. Case A, born in 1962, retires at age 62. Case B, born in 1958, retires at his [normal \(or full\) retirement age](#). In each case, we assume the worker has covered earnings from 1984 through 2023, as shown at right in columns labeled "nominal earnings."

Indexing brings nominal earnings up to near-current wage levels. For each case, the table shows columns of earnings before and after indexing. Between these columns is a column showing the [indexing factors](#). A factor will always equal one for the year in which the person attains age 60 and all later years. The indexing factor for a prior year Y is the result of dividing the [average wage index](#) for the year in which the person attains age 60 by the average wage index for year Y. For example, the case-A indexing factor for 1984 is the average wage for 2022 (\$63,795.13) divided by the average wage for 1984 (\$16,135.07).

We use the highest 35 years of indexed earnings in a benefit computation. The dropped indexed amounts are shown in red. Below the indexed earnings are the sums for the highest 35 years of indexed earnings and the corresponding average monthly amounts of such earnings. (The average is the result of dividing the sum of the 35 highest amounts by the number of months in 35 years.) Such an average is called an "average indexed monthly earnings" (AIME). The [next step](#) is to calculate benefits based on AIME amounts.

Earnings before and after indexing						
Year	Case A, born in 1962			Case B, born in 1958		
	Nominal earnings	Indexing factor	Indexed earnings	Nominal earnings	Indexing factor	Indexed earnings
1984	\$15,086	3.9538	\$59,647	\$37,800	3.2318	\$122,163
1985	15,779	3.7922	59,838	39,600	3.0998	122,751
1986	16,298	3.6829	60,024	42,000	3.0104	126,437
1987	17,392	3.4621	60,214	43,800	2.8299	123,951
1988	18,305	3.2996	60,400	45,000	2.6971	121,369
1989	19,089	3.1740	60,588	48,000	2.5944	124,530
1990	20,033	3.0338	60,777	51,300	2.4798	127,215
1991	20,844	2.9248	60,965	53,400	2.3907	127,665
1992	21,986	2.7815	61,154	55,500	2.2736	126,184
1993	22,243	2.7578	61,342	57,600	2.2542	129,842
1994	22,910	2.6857	61,530	60,600	2.1953	133,034
1995	23,901	2.5822	61,717	61,200	2.1107	129,174
1996	25,146	2.4618	61,905	62,700	2.0123	126,169
1997	26,695	2.3261	62,095	65,400	1.9013	124,347
1998	28,177	2.2104	62,282	68,400	1.8068	123,583
1999	29,837	2.0937	62,470	72,600	1.7114	124,247
2000	31,582	1.9840	62,659	76,200	1.6217	123,574
2001	32,432	1.9378	62,846	80,400	1.5839	127,347

AIME (2) Calculation

2002	32,856	1.9185	63,035	84,900	1.5682	133,140
2003	33,759	1.8727	63,222	87,000	1.5308	133,177
2004	35,434	1.7896	63,411	87,900	1.4628	128,578
2005	36,839	1.7264	63,598	90,000	1.4111	127,003
2006	38,646	1.6505	63,786	94,200	1.3491	127,088
2007	40,519	1.5789	63,974	97,500	1.2906	125,830
2008	41,573	1.5434	64,162	102,000	1.2615	128,677
2009	41,067	1.5670	64,352	106,800	1.2809	136,796
2010	42,160	1.5308	64,539	106,800	1.2513	133,637
2011	43,608	1.4843	64,728	106,800	1.2133	129,577
2012	45,100	1.4394	64,915	110,100	1.1765	129,536
2013	45,809	1.4212	65,104	113,700	1.1617	132,083
2014	47,572	1.3725	65,292	117,000	1.1219	131,258
2015	49,369	1.3263	65,480	118,500	1.0841	128,471
2016	50,070	1.3115	65,668	118,500	1.0720	127,035
2017	51,948	1.2677	65,857	127,200	1.0362	131,810
2018	53,984	1.2234	66,044	128,400	1.0000	128,400
2019	56,167	1.1792	66,233	132,900	1.0000	132,900
2020	57,918	1.1468	66,421	137,700	1.0000	137,700
2021	63,247	1.0532	66,609	142,800	1.0000	142,800
2022	66,797	1.0000	66,797	147,000	1.0000	147,000
2023	69,455	1.0000	69,455	160,200	1.0000	160,200
Highest-35 total			2,235,012	Highest-35 total		4,582,841
AIME			5,321	AIME		10,911

Note: Nominal earnings for case B are limited by the [contribution and benefit base](#) for all years. Case B is an example of a person who has earned at or above the maximum taxable amount in each year.

Calculating the Retirement Benefit (2024)

- **Calculate the Worker's Primary Insurance Amount (PIA) – “The Bends Points”**
 - Sum of three separate percentages of the AIME
 - 90% of the first \$1,174 (\$14,088 annually),
 - 32% of the AIME over \$1,174 and less than \$7,078,
 - 15% of the AIME that exceeds \$7,078 (\$84,936 annually)
 - PIA = \$3,822 (**2024**); \$45,864 annually in 2024

Primary Insurance Amount

The basic Social Security benefit is called the primary insurance amount (PIA). Typically the PIA is a function of *average indexed monthly earnings* (AIME). We determine the PIA by applying a [PIA formula](#) to AIME. The formula we use depends on the year of first eligibility (the year a person attains age 62 in retirement cases).

		Formula bend points		
Case	AIME	First	Second	Formula applied to AIME
A	\$5,321	\$1,174	\$7,078	$.9(1174) + .32(5321 - 1174) = \mathbf{\$2,383.64}$
B	10,911	960	5,785	$.9(960) + .32(5785 - 960) + .15(10911 - 5785) = \mathbf{\$3,176.90}$

Because the worker in case A is first eligible for benefits in 2024, and also retires in 2024, there are no applicable [cost-of-living adjustments](#), or COLAs, to the amount computed above. Therefore, the case-A PIA is the case A amount computed above truncated to the next lower dime, or \$2,383.60.

The worker in case B is first eligible in 2020 (the year case B reached age 62). Thus the case-B PIA is the case B amount computed above truncated to the next lower dime and increased by cost-of-living adjustments, or COLAs, for 2020 through 2023. These [COLAs](#) are 1.3 percent, 5.9 percent, 8.7 percent, 3.2 percent, respectively. The resulting PIA is \$3,822.80.

Benefit Based on PIA and Age

The amount of retirement benefits paid depends on a person's age when he or she begins receiving benefits. We reduce benefits taken before a person's [normal \(or full\) retirement age](#) and we increase benefits taken after normal retirement age.

We assume the worker in case A begins receiving benefits at the earliest possible age, which is age 62. Because case A's normal retirement age is 67 years, the benefit amount for case A is reduced for 60 months of [early retirement](#). The \$2,383.60 PIA is thus reduced to a monthly benefit of \$1,668.00.

The benefit amount for case B, assuming that benefits begin exactly at normal retirement age of 66 years and 8 months, is not reduced except for rounding down to the next lower dollar. The \$3,822.80 PIA is thus reduced to a monthly benefit of \$3,822.00.

Calculating Income Replacement

- For Case A (Alan) with an AIME in 2024 of \$5,321 (\$63,852 annually):
 - PIA = \$2,383.64 (\$28,604 annually)(replacing 45% ($\$28,604 / 63,852$) of Alan's average income)
 - Calculated at age 62 (with a normal retirement age of 67 – will be reduced by 30% to \$20,016 if he draws now)
- For Case B (Barb) with an AIME in 2020 of \$10,911 (\$130,932 annually):
 - PIA = \$3,822.80 (\$45,864 annually)(replacing 35% ($\$45,864 / 130,932$) of Barb's average income)
 - Calculated at age 66 and 8 months– will not be reduced

Timing The Start of Social Security Benefits

Social Security Benefit Amount

- The benefit amount is based on two factors:
 - Worker's *lifetime average earnings* (earnings factors), and
 - Worker's *age when payments begin* (age factors).
- The decision when to draw Social Security benefits is based on numerous factors:
 - Life Expectancy,
 - Immediate financial need,
 - Retirement earnings limitation test,
 - Discontinued or reduced employment,
 - Availability of benefits for spouse and dependents,
 - Creating a stream of income that allows the worker to continue deferring retirement account withdrawals, and
 - Projected benefit reductions in 2035.



Normal Retirement Age

The normal retirement age (NRA) is the age at which retirement benefits (before rounding) are equal to the "[primary insurance amount](#)." The table below shows how NRA varies by year of birth for retirees.

Year of birth	Normal Retirement Age
1937 and prior	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-54	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Notes:

1. Persons born on January 1 of any year should refer to the normal retirement age for the previous year.
2. For the purpose of determining benefit reductions for early retirement, widows and widowers whose entitlement is based on having attained age 60 should add 2 years to the year of birth shown in the table.

Early Or Late Retirement?

- A worker might file for Social Security benefits as early as 62, at FRA, or as late as 70, or any date in between.
 - The worker's choice determines how much he or she will immediately receive and the monthly payment for the rest of the worker's life.
- Retirement benefits may begin as early as age 62.
 - Permanently reduced benefit of 25 – 30%.
 - $\frac{5}{9}$ of a % for each month of early retirement up to the first 36 months of early retirement (total 20% at maximum)($\frac{5}{9} \times 36$ months).
 - $\frac{5}{12}$ of a % for each month of early retirement greater than 36 months (currently 5% at maximum)($\frac{5}{12} \times 12$ months).
- When FRA is 66, benefits paid at 62 are reduced by 25%.
 - A worker's \$2,000 PIA at 66 would decrease to \$1,500 ($.75 \times 2,000$) if he or she started to draw benefits at 62.
- When FRA was 65, benefits paid at 62 were reduced by 20%.
 - When FRA is 67, benefits paid at 62 will be reduced by 30%.

Delayed Retirement Credit

- For those with average life expectancies, it is usually best to begin taking retirement distributions after full retirement age.
 - 8% increase per year.
 - A worker's \$2,000 PIA at 66 would increase to \$2,640 (1.32 x 2,000) if he or she delayed retirement to 70.
 - A worker's \$2,000 PIA at 67 would increase to \$2,480 (1.24 x 2,000) if he or she delayed retirement to 70.
- Inflation adjustments still apply.

Retire Early Or Late? Normal Retirement Age 66

Breakeven Points for a person born between 1943 - 1954

Claim Social Security at age:	If you expect to die:
62	Between ages 62 and 78
66	Between ages 78 and 81.5
70	After 81.5

Retire Early Or Late? Normal Retirement Age 67

Breakeven Points for a person born after 1959

Claim Social Security at age:	If you expect to die:
62	Between ages 62 and 78.67
67	Between ages 78.67 and 81.5
70	After 81.5

Early or Delayed Retirement – FRA of 67

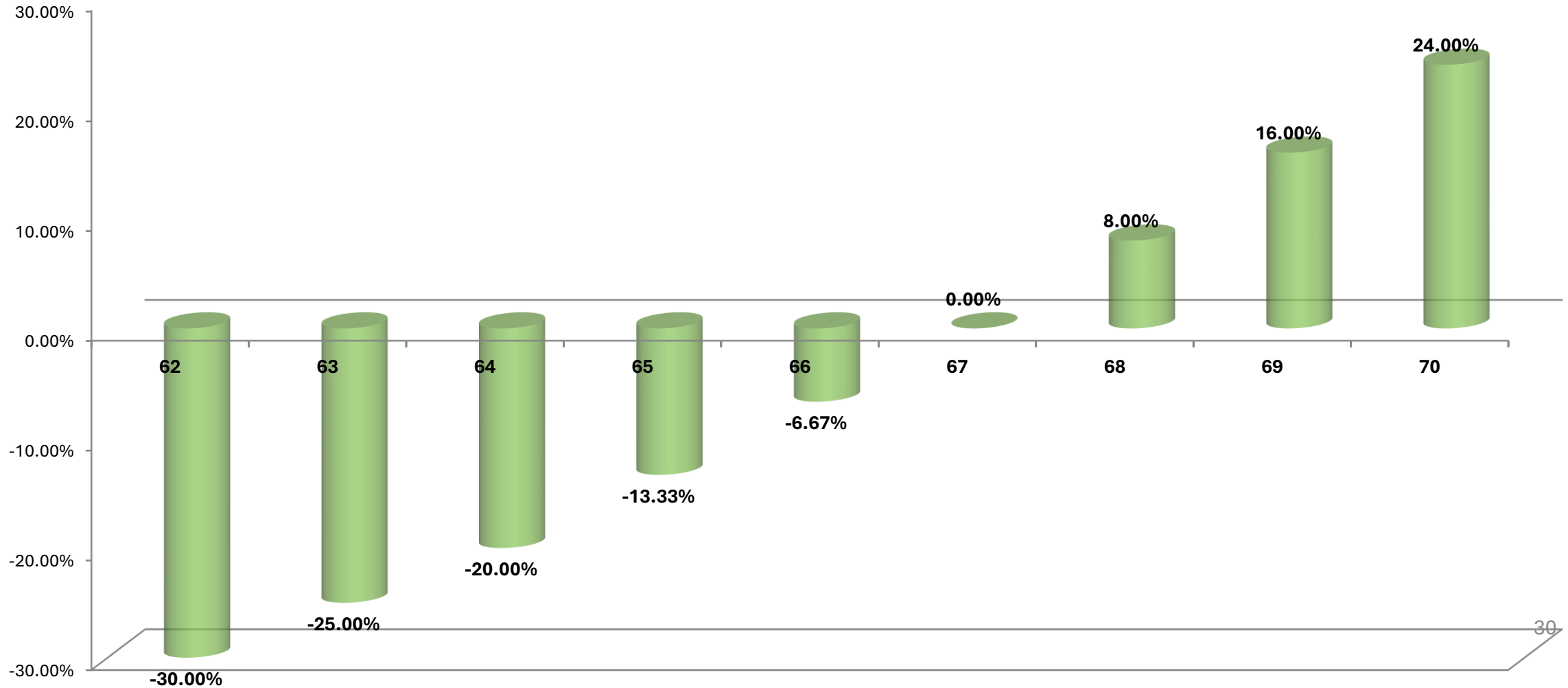
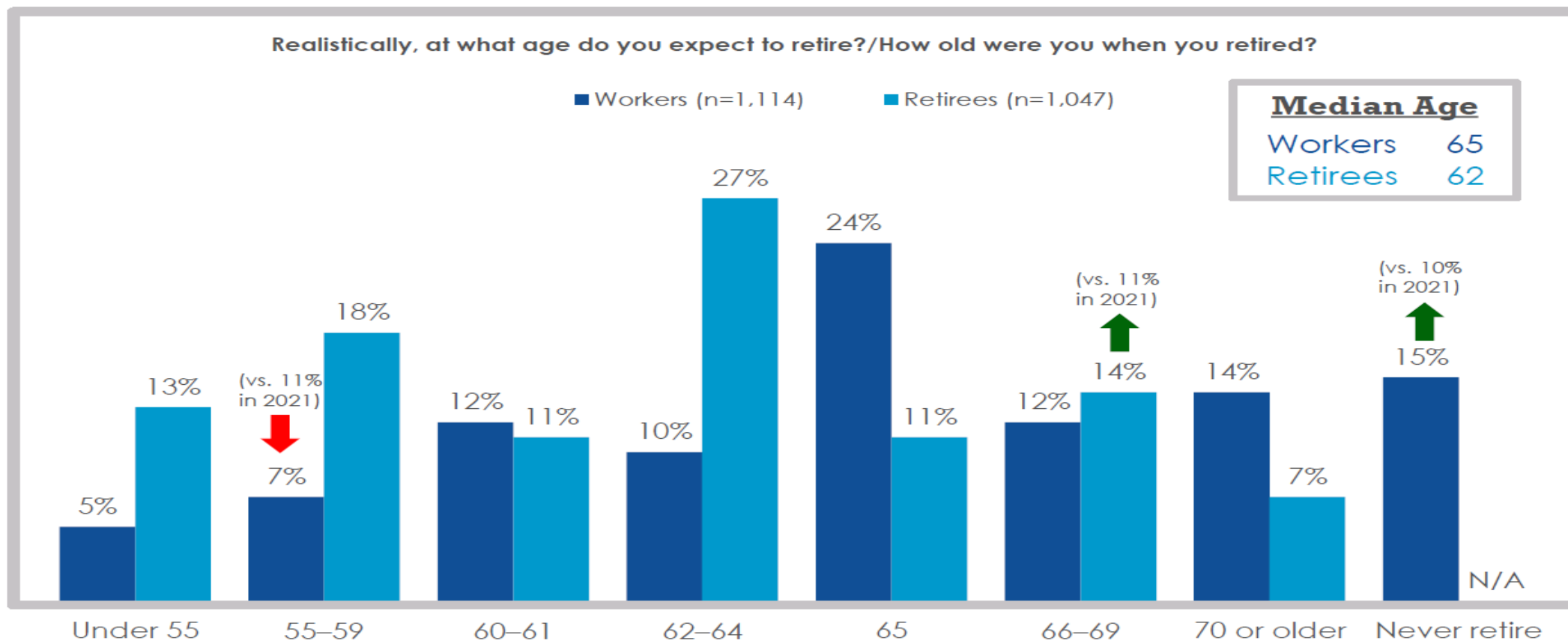


Figure 30

Half of workers expect to retire at age 65 or later, differing with the majority of retirees who retired earlier than age 65.



Figures and n-sizes presented exclude those who answered 'Don't know', said they never worked, or refused to answer; ↑=Significantly higher than previous year, ↓=significantly lower than previous year

Retirement Earnings Limitations Test

- Social Security retirement benefits are reduced for early-retirees who have earnings from continued employment.
- Earnings include:
 - Wages; and
 - Self-Employment Income.
- The following are NOT earnings:
 - Pension Income,
 - Investment Income,
 - Capital Gains, and
 - Rental income.

Retirement Earnings Limitations Test 2024

- Before full retirement age:
 - \$1 reduction for every \$2 of earnings above \$23,400 (\$1,950 monthly)(\$22,320 for 2024).
- In the year the retiree reaches full retirement age:
 - \$1 reduction for every \$3 of earnings above \$62,160 (\$5,180 monthly)(\$59,520 for 2024).
 - Only applies to earnings in the months before attaining normal retirement age.
- After attaining full retirement age, \$0 reduction.

The Silver Lining of the Earnings Tax

- Although the earnings test rule reduces benefits, it potentially increases benefits by decreasing the number of months the worker is treated as drawing benefits before Full Retirement Age.

Other Family Beneficiaries' Considerations

Covered Beneficiaries

- Participant Worker
- Worker's Spouse
- Worker's Children
- Worker's Dependent Parents
- Worker's Divorced Spouse(s) (10+ Years of Marriage)

Family Benefits

- Benefits are payable to a spouse of a worker who receives retirement benefits or disability benefits.
 - Spouse - *50% of worker's PIA*:
 - 62 or older
 - Caring for a child under age 16
 - Caring for a child who was disabled before age 22
- Benefits are payable to the children of a worker who receives retirement benefits or disability benefits.
 - Unmarried Child - *50% of worker's PIA*
 - Under 18
 - Under age 19 and in school
 - Age 18 or older and disabled
- If eligible, a worker's child is entitled to 50% of the worker's full payment amount, regardless of the percentage the worker receives.
 - There is no reduction for a child's age.

Definition Of A Spouse

- Either sex or same sex.
 - Parent of worker's child; OR
 - Married under state law for at least **one year**.
- Current or former spouse.
 - If recognized by the state, also recognized by Social Security.

Reduced Payments For Spouse's Early Retirement

- Reduction:
 - For the first 36 months of early filing, the payment is reduced $\frac{25}{36}$ of 1% for each month.
 - For any additional early months, the payment is reduced $\frac{5}{12}$ of 1% for each month.
- If under Full Retirement Age (FRA), the spouse must apply under his or her own record first and then stack to obtain the higher spousal benefit.
 - If the spouse is at least FRA and 62 or over on January 1, 2016, then the spouse can draw as a spouse without filing under his or her own work record.
 - After this date, it is not possible unless the worker has not started to draw benefits yet.

Spouse Early Retirement Example

- Mary's full retirement age is 67. She is going to draw benefits at age 64, 3 years early. Her husband is drawing his retirement benefit of \$2,000.
- Her benefit based on her own record is \$800 per month because she was a stay-at-home parent much of her career. Her reduced benefit for her early retirement is \$640 (80% of \$800).
- Her benefit based on her husband's PIA of \$2,000 is \$1,000. Her reduced benefit for her early retirement is \$750 (75% of \$1,000).
- She will receive a stacked \$750 per month benefit (\$640 from her own benefit plus \$110 from her husband's).

Two Rules For Married Couples (Reichenstein and Meyer)

- After the death of the first spouse, the surviving spouse generally will continue benefits based on the higher-earner's record, while benefits based on the lower-earner's record generally will cease. This leads to two rules:
 - **First, to maximize the couple's expected lifetime benefits, the higher-earning spouse should begin his or her retirement benefits based on the age he or she would be when the lower-earning spouse is expected to die.**
 - **Second, the lower-earning spouse should begin his or her retirement benefits based on the age he or she would be when the higher-earning spouse is expected to die.**

Married Couple Example

- Nancy is the lower earner and has an above-average life expectancy of age 90.
- George, her husband, is six years older with a life expectancy of 79.
 - To maximize this couple's lifetime benefits based on life expectancies, George should delay his retirement benefits until age 70, because he would be 96 when Nancy is expected to die.
- Nancy may want to begin her retirement benefits before FRA because she will be 73, which is a shorter-than-average lifetime, when George is expected to die.
- Benefits based on her earnings record will cease at the death of the first spouse.

Special Rules For Former (Divorced) Spouses

- A former spouse must meet three special requirements:
 1. Must be at least 62.
 - This age limit means you cannot qualify at a younger age even if you have the worker's child in your care.
 2. Must be currently unmarried.
 3. Must have been married to the worker for at least ten years before the divorce.
 - The ten years run from the date of marriage to the date the divorce was final.

Special Rules For Former (Divorced) Spouses

- A divorced spouse does not need to wait for the worker to retire.
 - Unlike the rule for current spouses, a former spouse can draw benefits on the worker's record when the worker reaches age 62 even if the worker is not retired or drawing benefits.
- This rule does not apply to the worker's current spouse who has access to the worker's current earnings.
 - The former spouse generally does not have access to these earnings.

Multiple Marriages

- A divorced spouse with multiple former spouses can choose the former spouse who has the highest benefit.
 - The selection of benefit is not based on the longest or most recent marriage.
- The former spouse can change earnings record if subsequently a former spouse with a higher earnings record retires.

Who Is The Worker's Child?

- A child is the worker's child if he or she is the worker's:
 - Legitimate child,
 - Natural child (if acknowledged as the worker's child in writing or in legal proceedings),
 - Legally adopted child, or
 - Stepchild.
- The rule of thumb here is that if State law recognizes the child as the worker's heir in its intestacy inheritance laws, then Social Security will recognize the child as well.

Social Security Maximum Family Benefit

- The maximum family benefit is the maximum monthly amount that can be paid on a worker's earnings record for retirement and survivor benefits.
 - The limit on the amount of monthly Social Security benefits paid to the family of a retired or deceased worker is usually up to 175% of the retired or deceased worker's PIA.

Family Benefits Cap Calculation

- Calculation (2024)
 - 150% of the first \$1,500 of PIA
 - 272% of the PIA over \$1,500 and less than \$2,166
 - 134% of the PIA over \$2,166 and less than \$2,825
 - 175% of the PIA over \$2,825.

Maximum Family Benefit Example

For PIA of \$3,000

Worker at 100%, Spouse at 50%, and 3 children at 50% each (total = 300%)

Tier 1	150%	x	\$1,500	=	\$2,250.00
Tier 2	272%	x	(\$2,166 – \$1,500)	=	\$1,811.52
Tier 3	134%	x	(\$2,825 - \$2,166)	=	\$883.06
Tier 4	175%	x	(\$3,000 – \$2,825)	=	\$306.25
Total Percent of Max PIA				=	\$5,250.83 (175.03%)

Maximum Family Benefit Example

Beneficiary	Expected Benefit %	Benefit Amount	Actual Benefit	Actual Benefit %
Worker	100%	\$3,000.00	\$3,000.00	100%
Spouse	50%	1,500.00	562.71	18.76%
Child 1	50%	1,500.00	562.71	18.76%
Child 2	50%	1,500.00	562.71	18.76%
Child 3	50%	1,500.00	562.70	18.76%
	300%	\$9,000.00	\$5,250.83	175.04%

Maximum Family Benefit Example

Beneficiary	Expected Benefit %	Benefit Amount	Actual Benefit	Actual Benefit %
Worker	100%	\$3,000.00	\$3,000.00	100%
Spouse	50%	1,500.00	0	0%
Child 1	50%	1,500.00	750.28	25.01%
Child 2	50%	1,500.00	750.28	25.01%
Child 3	50%	1,500.00	750.27	25.01%
	300%	\$9,000.00	\$5,250.83	175.03%

Survivor's Benefits

Survivors' Benefits

- Four types:
 - Payments to the worker's widow(er) (if married at least nine months) and/or the worker's former spouse(s)(ten years);
 - Payments to the worker's surviving unmarried children;
 - Payments to the worker's dependent parents; and
 - A one-time, lump sum payment of \$255 to the worker's spouse or children.
- In order for the worker's survivors to be eligible for survivor benefits, the worker did **not** need to be drawing Social Security payments, **nor did the worker need to have reached retirement age**, before the worker died.

Survivors' Benefits Overview

- For family members of deceased participants:
 - Widow(er) – *100% of participant's PIA if age 65*
 - 60 and older – *reduced to 71.5%*
 - Over 50 and disabled
 - Caring for a child under age 16 – *75%*
 - Caring for a disabled child under age 22 – *75%*
 - Unmarried Child – *75% of participant's PIA*
 - Under 18
 - Under age 19 and in school
 - Age 18 or older and disabled
 - Income tax dependent parents of the deceased worker – *82.5% of participant's PIA if one parent, 75% if two*

Widow(er) Examples

- Normally, you must be at least age 60, rather than 62, to be eligible for widow(er) or surviving divorced spouse benefits. The younger age limit for survivor payments helps alleviate what is a difficult situation for many widow(er)s.
 - Mary, age 62, draws a widow payment on the record of her deceased husband. She and Greg have fallen in love and wish to marry. If they do, Mary can continue to receive her widow payment because her remarriage is after age 60.
 - Hannah, age 58, wishes to draw a widow payment on Harold's record when she turns 60. She wishes to marry Mark. If she marries Mark before she turns 60, she cannot draw a widow payment on Harold's record, but she could draw a spouse payment on Mark's record when she reaches 62, if he is drawing benefits.

Widow(er) Payment Examples

- Sharon lost her husband, Sam, when she was 68. Sam's full payment amount was \$1,600, but he delayed retirement until he was 70 qualifying him for a \$2,112 (132%) benefit. Sharon's widow payment will be \$2,112.
- Frances lost her husband, Tom, when she was 68. Tom's full payment amount was \$1,600, but he was receiving only \$1,200 (75%) because his payments started at 62. Frances' widow payment will be \$1,320 (82.5% of \$1,600 minimum).

Widowed Before Retirement: Social Security Benefit Claiming Strategies

by Amy N. Shuart, David A. Weaver, and Kevin Whitman

Journal of Financial Planning

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Table 1:

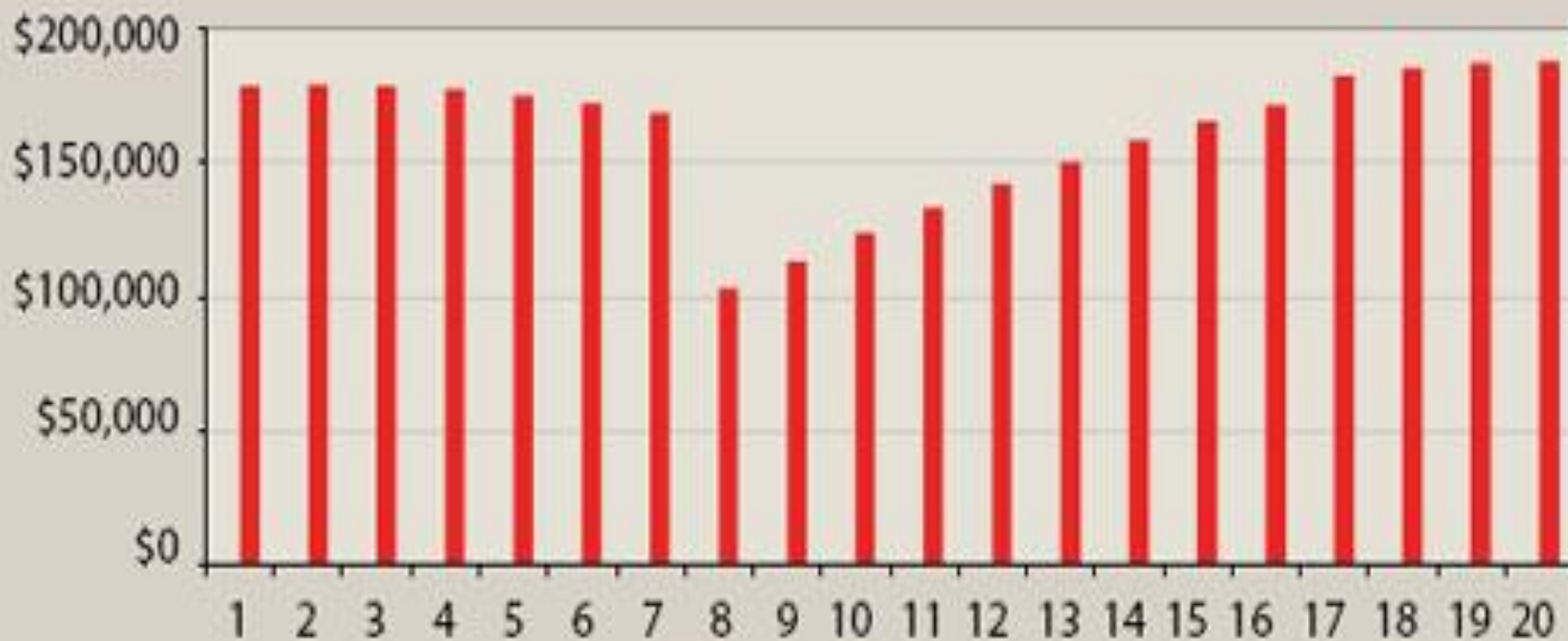
Benefit Type by Age Under Different Claiming Strategies

Age Option												Benefit Adjustment		
	60	61	62	63	64	65	66	67	68	69	70	Reduction for Early Claiming —Widow	Reduction for Early Claiming —Worker	Credit for Delaying Claiming —Worker
1	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	28.5%	None	None
2	None	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	23.7%	None	None
3	None	None	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	19.0%	None	None
4	None	None	None	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	14.2%	None	None
5	None	None	None	None	Widow	Widow	Widow	Widow	Widow	Widow	Widow	9.5%	None	None
6	None	None	None	None	None	Widow	Widow	Widow	Widow	Widow	Widow	4.7%	None	None
7	None	None	None	None	None	None	Widow	Widow	Widow	Widow	Widow	None	None	None
8	Widow	Widow	Worker	Worker	Worker	Worker	Worker	Worker	Worker	Worker	Worker	28.5%	25%	None
9	Widow	Widow	Widow	Worker	Worker	Worker	Worker	Worker	Worker	Worker	Worker	28.5%	20%	None
10	Widow	Widow	Widow	Widow	Worker	Worker	Worker	Worker	Worker	Worker	Worker	28.5%	13.3%	None
11	Widow	Widow	Widow	Widow	Widow	Worker	Worker	Worker	Worker	Worker	Worker	28.5%	6.7%	None
12	Widow	Widow	Widow	Widow	Widow	Widow	Worker	Worker	Worker	Worker	Worker	28.5%	None	None
13	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Worker	Worker	Worker	Worker	28.5%	None	8%
14	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Worker	Worker	Worker	28.5%	None	16%
15	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Worker	Worker	28.5%	None	24%
16	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Worker	28.5%	None	32%
17	None	None	Worker	Widow	Widow	Widow	Widow	Widow	Widow	Widow	Widow	14.2%	25%	None
18	None	None	Worker	Worker	Widow	Widow	Widow	Widow	Widow	Widow	Widow	9.5%	25%	None
19	None	None	Worker	Worker	Worker	Widow	Widow	Widow	Widow	Widow	Widow	4.7%	25%	None
20	None	None	Worker	Worker	Worker	Worker	Widow	Widow	Widow	Widow	Widow	None	25%	None

Note: Benefit adjustments are those for the 1945 birth cohort.

Figure 1:

Total Lifetime Present Discounted Value Under Different Claiming Strategies



Option Number

Widow PIA = \$1,250 Worker PIA = \$625

Ratio = 0.5

Table 2:**Claiming Strategy to Maximize Present Discounted Value of Lifetime Benefits Based on the Worker PIA to Widow PIA Ratio**

Ratio of Worker PIA to Widow PIA	Strategy	Option Number
Widows with No or Relatively Small Worker PIAs		
$0 \leq \text{Ratio} < 0.165$	Widow at age 61 Do not claim worker	2
Widows with Modest Worker PIAs		
$0.165 \leq \text{Ratio} < 0.226$	Worker at age 62 Widow at age 63	17
$0.226 \leq \text{Ratio} < 0.297$	Worker at 62 Widow at 64	18
$0.297 \leq \text{Ratio} < 0.406$	Worker at 62 Widow at 65	19
$0.406 \leq \text{Ratio} < 0.632$	Worker at 62 Widow at 66	20
Widows with Substantial Worker PIAs		
$0.632 \leq \text{Ratio} < 2.628$	Widow at age 60 Worker at age 70	16
$2.628 \leq \text{Ratio} < 4.532$	Widow at 60 Worker at 69	15
≥ 4.532	Widow at 60 Worker at 68	14

Maximum Family Benefit Survivor Example

Beneficiary	Expected Benefit %	Benefit Amount	Actual Benefit	Actual Benefit %
Widow	100%	\$3,000.00	\$3,000.00	100%
Child 1	75%	2,250.00	726.08	24.2%
Child 2	75%	2,250.00	726.07	24.2%
Parent	82.5%	2,475.00	798.68	26.62%
	332.5%	\$9,975.00	\$5,250.83	175.02%

Maximum Family Benefit Survivor Example

Beneficiary	Expected Benefit %	Benefit Amount	Actual Benefit	Actual Benefit %
Widow	100%	\$3,000.00	0	0%
Child 1	75%	2,250.00	1,693.82	56.46%
Child 2	75%	2,250.00	1,693.82	56.46%
Parent	82.5%	2,475.00	1,863.19	62.11%
	332.5%	\$9,975.00	\$5,250.83	175.03%

Qualifying For Medicare Part A Requires
Qualifying For Social Security

Medicare Parts A, B, and D

<i>Part</i>	<i>What It Covers</i>
Medicare Part A: Hospital Insurance	Inpatient care in a hospital, skilled nursing facility, hospice, and home health care.
Medicare Part B: Medical Insurance	Covers doctor services and outpatient care, some preventive services, and medical equipment (wheel chairs, walkers, and so on).
Medicare Part D: Prescription Drug Insurance	Prescription drug programs offered through private insurance companies. Plans must be approved by the Centers for Medicare and Medicaid Services.

The Medicare Part A inpatient hospital deductible that beneficiaries pay if admitted to the hospital will be \$1,676 in 2025, an increase of \$44 from \$1,632 in 2024. The Part A inpatient hospital deductible covers beneficiaries' share of costs for the first 60 days of Medicare-covered inpatient hospital care in a benefit period. In 2025, beneficiaries must pay a coinsurance amount of \$419 per day for the 61st through 90th day of a hospitalization (\$408 in 2024) in a benefit period and \$838 per day for lifetime reserve days (\$816 in 2024). For beneficiaries in skilled nursing facilities, the daily coinsurance for days 21 through 100 of extended care services in a benefit period will be \$209.50 in 2025 (\$204.00 in 2024).

Part A Deductible and Coinsurance Amounts for Calendar Years 2024 and 2025 by Type of Cost Sharing		
	2024	2025
Inpatient hospital deductible	\$1,632	\$1,676
Daily hospital coinsurance for 61 st -90 th day	\$408	\$419
Daily hospital coinsurance for lifetime reserve days	\$816	\$838
Skilled nursing facility daily coinsurance (days 21-100)	\$204.00	\$209.50

Enrollees age 65 and older who have fewer than 40 quarters of coverage, and certain persons with disabilities, pay a monthly premium in order to voluntarily enroll in Medicare Part A. Individuals who had at least 30 quarters of coverage, or were married to someone with at least 30 quarters of coverage, may buy into Part A at a reduced monthly premium rate, which will be \$285 in 2025, a \$7 increase from 2024. Certain uninsured aged individuals who have fewer than 30 quarters of coverage, and certain individuals with disabilities who have exhausted other entitlements, will pay the full premium, which will be \$518 a month in 2025, a \$13 increase from 2024.

Premiums For Medicare Parts B And D

Medicare Part B (Medical Insurance) Covered Expenses

- In general, Medicare Part B covers medically necessary services, such as:
 - Doctors' services,
 - Tests,
 - Outpatient care,
 - Home health services,
 - Durable medical equipment (for example, wheelchairs or walkers), and a number of other medical services.
- Medicare Part B base premium: \$185
- Medicare Part B deductible: \$257 (\$240 in 2024)

2025 Medicare Part B Premium Means Test Based on 2023 Adjusted Gross Income

Medicare Part B Income-Related Monthly Adjustment Amounts

Since 2007, a beneficiary's Part B monthly premium has been based on his or her income. These income-related monthly adjustment amounts affect roughly 8% of people with Medicare Part B. The 2025 Part B total premiums for high-income beneficiaries with full Part B coverage are shown in the following table:

Full Part B Coverage			
Beneficiaries who file individual tax returns with modified adjusted gross income:	Beneficiaries who file joint tax returns with modified adjusted gross income:	Income-Related Monthly Adjustment Amount	Total Monthly Premium Amount
Less than or equal to \$106,000	Less than or equal to \$212,000	\$0.00	\$185.00
Greater than \$106,000 and less than or equal to \$133,000	Greater than \$212,000 and less than or equal to \$266,000	74.00	259.00
Greater than \$133,000 and less than or equal to \$167,000	Greater than \$266,000 and less than or equal to \$334,000	185.00	370.00
Greater than \$167,000 and less than or equal to \$200,000	Greater than \$334,000 and less than or equal to \$400,000	295.90	480.90
Greater than \$200,000 and less than \$500,000	Greater than \$400,000 and less than \$750,000	406.90	591.90
Greater than or equal to \$500,000	Greater than or equal to \$750,000	443.90	628.90

Basic Medicare Part D Premium

- The monthly premium is established by the company offering the plan.
 - According to the CMS, the national base beneficiary premium is \$36.78 in 2025 (\$34.50 for 2024), with the highest being over \$110.
 - The monthly premium covers only a portion of the total cost of Medicare Part D; the balance of the cost is paid by U.S. taxpayers from general revenues of the federal government.
- The annual deductible in 2025 is \$590 (\$545 in 2024).
 - The annual deductible increases annually as the overall cost of Medicare Part D increases.
 - Some plans have no or a lower annual deductible.

Medicare Part D Income-Related Monthly Adjustment Amounts

Since 2011, a beneficiary's Part D monthly premium has been based on his or her income. Approximately 8% of people with Medicare Part D pay these income-related monthly adjustment amounts. These individuals will pay the income-related monthly adjustment amount in addition to their Part D premium. Part D premiums vary by plan and, regardless of how a beneficiary pays their Part D premium, the Part D income-related monthly adjustment amounts are deducted from Social Security benefit checks or paid directly to Medicare. Roughly two-thirds of beneficiaries pay premiums directly to the plan while the remainder have their premiums deducted from their Social Security benefit checks. The 2025 Part D income-related monthly adjustment amounts for high-income beneficiaries are shown in the following table:

Beneficiaries who file individual tax returns with modified adjusted gross income:	Beneficiaries who file joint tax returns with modified adjusted gross income:	Income-related monthly adjustment amount
Less than or equal to \$106,000	Less than or equal to \$212,000	\$0.00
Greater than \$106,000 and less than or equal to \$133,000	Greater than \$212,000 and less than or equal to \$266,000	13.70
Greater than \$133,000 and less than or equal to \$167,000	Greater than \$266,000 and less than or equal to \$334,000	35.30
Greater than \$167,000 and less than or equal to \$200,000	Greater than \$334,000 and less than or equal to \$400,000	57.00
Greater than \$200,000 and less than \$500,000	Greater than \$400,000 and less than \$750,000	78.60
Greater than or equal to \$500,000	Greater than or equal to \$750,000	85.80

Planning For The Medicare Part B Premium

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- Tax Adviser, March 2023

Medicare Part B And D Premium Adjustments

- To determine your income-related monthly adjustment amount (IRMAA) the Social Security Administration (SSA) uses the most recent Federal tax return that the IRS provides.
 - For example, to determine the 2025 IRMAA, the SSA uses the return filed in 2024 for the 2023 tax year.
- If a more recent return is available, the beneficiary will want to contact the SSA. (Source: [What You Can Do if You Think Your Medicare Income-Related Premium is Incorrect \(EN 05-10125\)](#)).

MAGI For Medicare Purposes

- MAGI for Medicare premium purposes is defined in Section 1839(i)(4) of the Social Security Act by taking total adjusted gross income from the most recent federal tax return provided to the SSA (for the 2023 Medicare Part B and D premiums, 2021 Form 1040-SR, U.S. Tax Return for Seniors, line 11) and adding back other income that is tax-exempt under the Internal Revenue Code (IRC).

MAGI is defined as the sum of:

- The beneficiary's AGI, plus certain income exempt from tax under the IRC including:
 - Tax-exempt interest income received or accrued; e.g., interest from state and local bonds (Sec. 103);
 - Interest from U.S. savings bonds used to pay higher education tuition and fees (Sec. 135);
 - Earned income of U.S. citizens living abroad that was excluded from gross income (Sec. 911); and
- Income from sources within Guam, American Samoa, the Northern Mariana Islands, or Puerto Rico not otherwise included in AGI (Secs. 931 and 933).

IRMAA Adjustment For Life-Changing Events

- Due to life-changing events, in certain situations, a different appeal process is used.
- Should Medicare beneficiaries experience one of the life-changing events discussed below and their income goes down, they can request a reduction in the monthly IRMAA by filing Form SSA-44, Medicare Income-Related Monthly Adjustment Amount — Life-Changing Event.
 - As an alternative, the form instructions provide that an interview can be scheduled with the local SSA office in lieu of completing and submitting Form SSA-44.
 - However, even if the interview is selected, carefully reading and understanding the Form SSA-44 instructions would increase the likelihood of a successful outcome from the interview process.

Life-Changing Events

- As set forth in Section 2507 of the Social Security Handbook, the list of the eight life-changing events includes:
 - 1. Marriage;
 - 2. Divorce or annulment;
 - 3. Death of your spouse;
 - 4. Work stoppage;
 - 5. Work reduction;
 - 6. Loss of income-producing property;
 - 7. Loss or reduction of pension income; and
 - 8. Receipt of employer settlement payment.

Avoiding Sales And Roth Conversions

- Sale of investments or other assets (e.g., personal residence with gain in excess of the Section 121 limits) may require careful consideration to prevent the income from causing an unexpected Part B premium increase.
 - Structuring sales using the installment method or selling assets over several tax years may be effective.
 - Gifting assets versus selling them might be another option to consider.
- Similarly, the income spike caused by a Roth conversion could trigger a Part B premium increase.

Ten Ways To Increase Your Social Security Payments

- Work at least 40 quarters and preferably 35 years.
- Earn more.
- Work until your full retirement age.
- Delay claiming until age 70.
- Claim spousal payments.
- Consider family in your planning.
- Don't earn too much in early retirement.
- Minimize income tax on your Social Security benefits.
- Maximize survivor's benefits.
- Make sure your work counts by checking the accuracy of your work record periodically.

Thank You For Attending!

- We are happy to answer questions.
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2025 Tax Thresholds Summary	Single income threshold	Married filing jointly income threshold
Standard deduction – zero tax bracket	\$15,000	\$30,000
Transition from 10% to 12% marginal income tax bracket	\$11,925 of TI	\$23,850 of TI
The Social Security “tax torpedo” increases the marginal income tax rate as the percentage of Social Security benefits subject to income tax increases from 0% to 50% and then to 85% (marriage penalty)	Two thresholds: \$25,000 and \$34,000 of MAGI	Two thresholds: \$32,000 and \$44,000 of MAGI
Transition from 15% to 25% marginal income tax rate bracket under old law, and moving from a 0% to 15% tax rate on qualified dividends and long-term capital gains	\$48,350 of TI	\$96,700 of TI
Transition from 12% to 22% marginal income tax bracket	\$48,475 of TI	\$96,950 of TI
Transition from 22% to 24% marginal income tax bracket	\$103,350 of TI	\$206,700 of TI
MAGI = Modified Adjusted Gross Income; AGI = Adjusted Gross Income; TI = Taxable Income; HI = Household Income		

2025 Tax Thresholds Summary	Single income threshold	Married filing jointly income threshold
Medicare Parts B and D premium thresholds – the higher your income, the higher your monthly premiums. The difference could be as much as \$492.90 $((\$628.90 + 85.80) - (185 + 36.78))$ per month in Medicare Parts B and D premiums.	Five thresholds: \$106,000, \$133,000, \$167,000, \$200,000 and \$500,000 of MAGI	Five thresholds: \$212,000, \$266,000, \$334,000, \$400,000 and \$750,000 of MAGI
Transition from 24% to 32% marginal income tax rate bracket and start of the qualified business income deduction phase out	\$197,300 of TI	\$394,600 of TI
3.8% surtax level on net investment income	\$200,000 of AGI	\$250,000 of AGI
Transition from 32% to 35% marginal income tax rate bracket and start of the phase out of the \$2,000 child tax credit	\$250,525 of TI	\$501,050 of TI
Start of the 20% capital gain rate for qualified dividends and long-term capital gains and the marriage penalty on investment income	\$533,400 of TI	\$600,050 of TI
Transition from 35% to 37% marginal income tax rate bracket and the start of the marriage penalty on ordinary income	\$626,350 of TI	\$751,600 of TI
Start of the phase out of the alternative minimum tax exemption	\$626,350 of AMTI	\$1,252,700 of AMTI

MAGI = Modified Adjusted Gross Income; AGI = Adjusted Gross Income; TI = Taxable Income; AMTI = AMT Income

2024 Tax Thresholds Summary	Single income threshold	Married filing jointly income threshold
Standard deduction – zero tax bracket	\$14,600	\$29,200
Transition from 10% to 12% marginal income tax bracket	\$11,600 of TI	\$23,200 of TI
The Social Security “tax torpedo” increases the marginal income tax rate as the percentage of Social Security benefits subject to income tax increases from 0% to 50% and then to 85% (marriage penalty)	Two thresholds: \$25,000 and \$34,000 of MAGI	Two thresholds: \$32,000 and \$44,000 of MAGI
Transition from 15% to 25% marginal income tax rate bracket under old law, and moving from a 0% to 15% tax rate on qualified dividends and long-term capital gains	\$47,025 of TI	\$94,050 of TI
Transition from 12% to 22% marginal income tax bracket	\$47,150 of TI	\$94,300 of TI
Transition from 22% to 24% marginal income tax bracket	\$100,525 of TI	\$201,050 of TI
MAGI = Modified Adjusted Gross Income; AGI = Adjusted Gross Income; TI = Taxable Income; HI = Household Income		

2024 Tax Thresholds Summary	Single income threshold	Married filing jointly income threshold
Medicare Parts B and D premium thresholds – the higher your income, the higher your monthly premiums. The difference could be as much as \$500.30 $((\$594 + 81) - 174.70)$ per month in Medicare Parts B and D premiums.	Five thresholds: \$103,000, \$129,000, \$161,000, \$193,000 and \$500,000 of MAGI	Five thresholds: \$206,000, \$258,000, \$322,000, \$386,000 and \$750,000 of MAGI
Transition from 24% to 32% marginal income tax rate bracket and start of the qualified business income deduction phase out	\$191,950 of TI	\$383,900 of TI
3.8% surtax level on net investment income	\$200,000 of AGI	\$250,000 of AGI
Transition from 32% to 35% marginal income tax rate bracket and start of the phase out of the \$2,000 child tax credit	\$243,725 of TI	\$487,450 of TI
Start of the 20% capital gain rate for qualified dividends and long-term capital gains and the marriage penalty on investment income	\$518,900 of TI	\$583,750 of TI
Transition from 35% to 37% marginal income tax rate bracket and the start of the marriage penalty on ordinary income	\$609,350 of TI	\$731,200 of TI
Start of the phase out of the alternative minimum tax exemption	\$609,350 of AMTI	\$1,218,700 of AMTI

MAGI = Modified Adjusted Gross Income; AGI = Adjusted Gross Income; TI = Taxable Income; AMTI = AMT Income