Ep38: Social Security Speed Dating

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PATTI BRENNAN: Patti Brennan: Hi, everybody. Welcome to "The Patti Brennan Show." Hey, whether you have $20 or $20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives. Joining me today is Eric Fuhrman. Eric is our Chief Planning Officer. Again, you've made the commute, haven't you, from your desk over to our podcast studio?

ERIC FUHRMAN: Yeah, all of about 50 feet. It's an arduous journey to get here, but I made it. I couldn't be happier to be here today with you, Patti.

PATTI: Nothing is going to stop you.

ERIC: [laughs]

PATTI: No snow, no sleet, nothing, right?

ERIC: That's right. Uphill both ways to get into this podcast studio.

PATTI: You know what? Do we have an exciting topic. It is Social Security speed dating.

ERIC: I would say more than exciting, Patti. I think we're going to start out 2020 with a bang. If you're going to do it right, you've got to start off with Social Security, which there's no more topic that's bigger than that.

PATTI: I hope it's OK to do this, the speed dating thing. I never know what's OK to say and what's not OK. We're going to hit the ground. We're going to do this, Eric, because there's a lot to talk about in a short period of time.

ERIC: It sure is. This is a big topic. People out there are busy. We're busy. We've got to make sure we cover a lot of ground in a short period of time.

PATTI: The most important thing as you guys listen to this podcast today is that, especially towards the end, we're going to be talking about a new bill that has been proposed, that is really getting some traction.

Eric, we get the question all the time. Is Social Security actually going to be there? If this thing goes through, it will be there. We want to talk about what it's going to mean in terms of your paycheck, your income taxes, and how much you're going to have to contribute.

ERIC: This is really the first major revision since, I want to say, maybe it was 1981 or 1983. I forget exactly. That was the last time Social Security really had a major reform that took place. A lot of exciting stuff in there that really is meant to basically preserve this program for the next 75 years.

PATTI: They're projecting out it's really hard for me to actually say this the year 2100. How about it?

ERIC: We won't be around to see it, I don't think.

PATTI: You might be.

ERIC: [laughs]

PATTI: Let's first talk about the filing strategy. A lot of the strategic things that we used to do, we can't do anymore, but there's still some really interesting opportunities and planning implications for everybody that's listening today.

ERIC: Really, there's basically for most people out there we can't say for everybody because there's a lot of unique situations but for most people, there's really a two track filing path that you can take. Really, the first one you have to think about, this is all driven by the year you were born.

For those that were born before January 1st of 1954 have a unique track that they can take, where some of these advanced filing strategies are still available, versus those who were born after January 1st of 1954. Then, at that point, there's a very limited number of options that you have to consider.

PATTI: There are still some options. Let's talk about the first one. This is the restricted application. Again, we're in 2020. It really is relevant for those people who were born between January of 1951 and January of 1953, right?

ERIC: Right. This subset of people will still be younger than age 70. Benefits can't be delayed beyond age 70. They're going to be old enough to file for benefits where there's no reduction because you're under full retirement age.

PATTI: I suppose you can file later, right, after age 70? Just there's no advantage to that.

ERIC: That's a great question. I don't know why you would wait any longer. It's like leaving money just sitting on the table. Actually, I've never heard of anybody waiting that long. I don't know if the Social Security Administration calls you up and lets you know...

PATTI: Would that be nice, huh?

ERIC: ...or they just automatically start paying. Good question.

PATTI: Given the fact that in our office here locally, you pretty much have to go first thing in the morning and plan to be there all day long. I have a feeling that on top of the meetings and all of that, they're not actually making phone calls out to remind people to come and collect.

ERIC: I would doubt it. I would say I've gone along with several clients, as you have, to the Social Security office. Not a fun place to be. Regardless, you're probably right on that one.

PATTI: Let's go over this restricted application. It's really applicable for people who are pretty much the same age. If there's a wide dispersion between ages, one spouse versus the other, it probably doesn't work quite as well. Why don't you walk everybody through it?

ERIC: Again, just as you pointed out, this is assuming you and your spouse are roughly the same age as one another and, again, both of you are eligible, meaning that you're full retirement age. Essentially, the idea would be is, if you have two spouses, one in the household is the higher earning spouse, and then you have another spouse that has a lower lifetime earnings.

The concept of the strategy is basically the lower earning spouse, assuming they're full retirement age, would file for benefits to start receiving their regular benefits based on their lifetime earnings. As soon as they have officially filed, that then allows the higher earning spouse to go and file but file a restricted application to just receive their spousal benefits alone.

PATTI: When you say higher earning spouse, it doesn't mean that they're still at work. It just means that over their lifetime, they earned more money.

ERIC: Exactly right. If you looked on your Social Security benefits statement, which are basically electronic nowadays, if you compared the full retirement age benefit amount between you and your spouse, say at age 66, the spouse that has the higher benefit wants to delay that benefit.

Essentially, as you delay benefits from 66 on to 70, you get something called a delayed retirement credit. That delayed credit mathematically has a higher value when it accrues on the spouse that has the higher lifetime benefit.

PATTI: The best part is you're both receiving some form of Social Security. You've got the cash flow coming in from that.

ERIC: It's a fabulous way. One spouse is receiving benefits. The other spouse is basically getting paid to wait, and there's an investment component because that delayed retirement credit is roughly eight percent that they're earning on delaying benefits.

PATTI: There's no risk.

ERIC: Exactly right. You could always stop and turn it on at any point in time. You're not committed to this idea of delaying until age 70. You can turn it on at any point that you would like depending on your circumstances.

PATTI: Let's take it to age 70. What happens then? What has to happen?

ERIC: What would happen then is the one spouse that was receiving a spousal benefit then switches over to their higher benefit. If you were, again, full retirement age is 66, your benefit from 66 to 70 has now grown by 32 percent. Now you will switch over to your higher benefit.

Then there's a nice little ancillary benefit, which is basically the spouse with the lower benefit might actually get a bump up. Again, they're always going to get the higher of the two, their own or 50 percent of the higher earning spouse when that spouse was age 66. It's possible even the lower earning spouse could see an increase as well as the higher earning spouse.

PATTI: Because they waited till age 66 or full retirement age, there's no disadvantage. There's no penalty. They'll get 100 percent of whatever they're supposed to receive, the higher of the two.

ERIC: Exactly right. You can continue to work as well. Once you're full retirement age or over, there's no earnings limitation. You can earn as much as you want. Your benefits won't be reduced.

PATTI: That's excellent. Let's talk about for those people who were born after that date in 1954.

ERIC: That becomes a little easier in terms of your decision because the restricted application is virtually dead at that point. That might not be the best term. It's essentially gone. Pretty much, when you go to file for benefits, there's no way to get a spousal.

You'll still earn delayed retirement credits if you wait beyond your full retirement age, but, again, you cannot have this arrangement where you're essentially getting paid and earning the eight percent delayed credit.

Really, it just comes down to the idea of if you have financial assets, if you have longevity and health on your side, then the odds would suggest it's probably a pretty good idea to delay benefits.

If you need the income, if there's a health issue that might have some impact on longevity, then you might want to consider turning the benefit on as soon as you're eligible or as soon as there won't be a reduction.

PATTI: There is one exception to this rule, isn't there, Eric? Let's talk about.

ERIC: Yes. Again, just keep in mind you have to run the numbers here. Anything we're talking about today, you've got to run the numbers or find somebody that can run the numbers for you that's qualified to do this.

Let's say, for example, you have a child, an adopted child, a stepchild, or let's say a dependent grandchild that you're taking care of. That individual can also qualify for benefits on your record as long as they are under the age of 18 and a full time student.

PATTI: Let's walk through this for a second. That's a fascinating planning technique or a wonderful opportunity that people may not realize. Let's say, unfortunately, because of the opioid crisis, we actually know several families where the grandparents have taken over the care of the grandchildren.

What you're saying here is that they can begin to receive an additional benefit as long as that grandchild is under the age of 18, based on the grandparent's Social Security.

ERIC: Exactly right. Again, you'll have to go and look at your numbers. Everyone's Social Security benefit statements will lay out your benefits. Underneath that, it will also lay out benefits that are available to, say, a minor in the event of disability, death, things like that.

PATTI: The most important thing, folks, that you should know is that doesn't reduce the amount of the grandparent's benefit. It literally is another cash flow that's coming into the household.

ERIC: Here's something interesting as well with that. Let's say your child is pick an age here 15, 16 years old. Let's say they work. There is an earnings test, but the earnings test only applies to the child's benefit. It has no impact on the grandparent's benefit.

Just keep in mind we want to encourage them to go and work, but they can still receive benefits. If they are of sufficient earnings, it wouldn't impact your benefits. It would only impact the child's benefit.

PATTI: That little tidbit is really important. It just goes to show you, to your point earlier, that you really have to go and run the numbers. There are some unintended consequences of something that you would want to encourage. That is go out and get a job and make as much money as you can.

ERIC: Responsibility.

PATTI: Just be careful about how much is enough. Let's go through this next thing, called the redo strategy. I call it the...

ERIC: The oops strategy. [laughs]

PATTI: Or a mulligan. How does that work, Eric?

ERIC: You have to consider you have a couple options. Let's say you, for one reason or another, have filed for benefits. Then you come to the realization that maybe I shouldn't have done that. Is there a way that I can undo this decision?

The question is you always have options that you can consider, but the timing is really relevant here. If you make an election within 12 months of filing, you can actually withdraw the Social Security benefits.

Now the issue with that is let's say you started benefits for nine months. You decide it was the wrong decision. You want to withdraw your application. At that point, you have to repay all the benefits you've been receiving.

PATTI: At no interest though. No interest or penalty, right?

ERIC: That's a very good point. Right. Also, you have to consider if anybody else on your record, say a spouse or, again, a minor child like we just talked about, you will also have to repay the benefits for them as well, and those individuals have to consent in writing that they're OK with this.

Just keep that in mind. The redo is if it's less than 12 months, you can stop your benefits, pay everything. You just have to pay everything back.

PATTI: Why would people do this? What would be the advantage for them to pay all that money back and take that mulligan?

ERIC: You never know. There could always be a change in circumstances, where prior to something happening there could have been a real need to start benefits early. Then conditions on the ground change. Maybe it wasn't as relevant as it was before.

Basically, you have to remember. Starting benefits early there's basically almost a seven percent per year reduction in benefits. Somebody starting benefits early could see a 20, 25 percent lifetime reduction. If you have longevity on your side, that could cost you serious money if you end up living a very long life.

PATTI: Whether it applies to the mulligan or the strategy we're about to talk about in a second, I find that a lot of people, they think that they want to retire. Then once they do retire, they're like, "Wow. This isn't really what I thought it would be." They find themselves bored, unchallenged, a loss of purpose.

They want to go back and get another job. They started Social Security. They're getting the income. Then they go back to work for a company or start something. They start making some real money and think, "Well, I don't need all this cash flow. By the way, I could give the Social Security back because I don't really need it."

ERIC: You know what's so fascinating about that, is that we can talk to that from real world terms. How many meetings have you sat in where, over the years, we've had long term clients, where all they wanted to do is just know that they could? Then they finally got there. It wasn't what they thought. They realized they like being productive and adding value.

PATTI: For those people who we've worked with, it's really fun to see how they figure out that next season of life and how they find new purpose, whether it be another job or in consulting or what have you. They don't have to go back to that corporate...

ERIC: Daily grind, right?

PATTI: Exactly. That's a lot of fun. As part of that counseling, we say, "OK, you elected Social Security. Let's just go ahead and figure a way to take this mulligan. We'll pay it back." Again, you can refile any month of any year. It's a heads you win, tails you break even type of transaction, right?

ERIC: Right. To bring this back full circle, to your point, what if this occurs beyond that 12 month window where you can do the redo? You still have other options. These are interesting.

The first one is basically go back to work. If you're under the full retirement age, there's going to be an earnings limit. If you go back and you earn more money again, we're doing this because we want to eventually, your Social Security benefits will be reduced.

Take a peace of mind in the fact that Social Security will give you credit for any of those benefits that you did not receive because of working. That will come back to you. You'll get a credit from Social Security once you reach full retirement age. All is not lost.

PATTI: All is not lost, but that does take time. That takes time over your lifetime. The takeaway is first and foremost, understand what the earnings limit is before you go back to work. If you've done so, if you collected Social Security early before full retirement age, you decide that you really do want to go back to work.

You've got to make sure you don't earn over a certain amount of money. Again, to your point, Eric, it's OK. You'll eventually get that money back. At least you want to know the rules of the game before you go ahead and do something like that.

In that case, maybe Plan B would be rather than continuing to receive Social Security and have that income limitation, let's say that you could go out and make $70,000 a year but you're getting Social Security. If you make that kind of money, you're going to have to give some of it back. At that point in time, they can suspend their benefit, right?

ERIC: Yeah. Another option…This would be regardless of, say, whether you went back to work or not. It's interesting. I feel like it doesn't get a whole lot of press, I guess. Which is let's say you started taking benefits early. Now, you've finally reached your full retirement age. Let's say it's 66 or 67.

At that point in time, you can actually elect to suspend your benefit. Then you start accruing that eight percent credit. Just think of an example here where, let's say, somebody started at age 63. They had a 20 percent reduction in their benefit because they started early.

Let's say they get to age 66. They defer their benefit for basically the four years between 66 and 70. They can actually increase their benefit from that point, where it would actually be worth more than what they would get at, say, age 66 because they're receiving that eight percent credit. Again, the other important point here is you don't have to pay any of your benefits back.

PATTI: That's key.

ERIC: You don't have to pay any back. It's just strictly getting to age 66, suspending. Then you start accruing that eight percent benefit again. That's another interesting way that you can undo maybe a decision that you regret.

PATTI: A decision that you made, that maybe you look back and say, "Oh, I wish I hadn't."

ERIC: Just keep that in mind. Also keep in mind too if you do that, again, anybody receiving benefits on your record would also see them suspended as well.

PATTI: Although somewhere I saw except for an ex spouse.

ERIC: Anyone out that's been divorced, as long as it's been more than two years, then you don't have to worry. Some of these decisions won't affect you if you're receiving benefits on an ex spouse's record. Great point.

PATTI: Now we've talked about that, what about the concept of retroactive benefits? Let's say that you waited on Social Security. You decide at age 68, "I'm going to go ahead and just start Social Security now." When you go to the office, the wonderful person says, "By the way, we will give you a check for the last six months as a lump sum." What do you think about that idea, Eric?

ERIC: It's interesting. A lot of people don't know of this concept of retroactive benefits until they actually go and file. They didn't file exactly when they would have been eligible to receive benefits, they waited for one reason or another.

Social security is dangling this carrot in front of you, this bag of money, if you will, and who doesn't like that, that they could receive the prior months of benefits? What's important to realize about retroactive benefits is that it only pays for six months.

Let's say you were eligible at 66, you walk in at 66 in four months, you can get a retroactive benefit to pay you those benefits you were to receive for the four months that you've been eligible. Let's say you were eligible at 66 for benefits, you don't file until 67, the retroactive benefit again will only be for a six month period. That's the limitation.

PATTI: There are times when you maybe don't want to take that lump sum, though, aren't there?

ERIC: Right. That carrot that they're dangling in front of you, you have to think about the long term consequences of that decision. It all comes around what our expectation for life expectancy is.

The basic fact is when you think about those benefits, because you filed late, you've been accruing delayed retirement credits. A six month retroactive benefit has the impact of increasing your benefits by four percent for the rest of your life.

Just keep in mind that if you have an average to above average life expectancy, that that retroactive benefit could actually cost you a lot more in terms of what you could receive over your lifetime by taking that.

Sometimes, as long as we're talking about your own retirement benefit, genuinely it might be better to forego the retroactive benefit and make sure that you've earned that delayed retirement credit, because it could be a lot more valuable.

PATTI: I'm going to tee this one up, because you just did. Now, as long as we're talking about your own benefit, what about a spousal benefit? How about if they go back, go in, and you've delayed, etc., and your spouse has also delayed? Should they also say, "Thanks, but no thanks" on that lump sum?

ERIC: Patti, that's an excellent point, because spousal benefits or survivor benefits don't accrue the eight percent delayed retirement credit. You should always accept...

PATTI: That bag of money.

ERIC: Yeah, that bag of money, the retroactive benefit on spousal or survivor benefits, because there is no delayed retirement credit that applies there.

PATTI: Very interesting, so just know the rules of the game before you go into that Social Security office. That is really great information.

Now let's talk about this wonderful new piece of legislation that has been proposed called H.R. 860, very technical name, right?

ERIC: Yeah.

PATTI: It feels like the SECURE Act that just passed. We heard about it for a year or so, and then it died down. It didn't seem like it was going to through, and then, lo and behold, all of a sudden at the end of last year they push it through.

The SECURE Act is going to affect everybody listening to this podcast. We won't go through all of it, but the real big one is that required minimum distributions which used to have to occur at the age of 70 and a half or begin, that's now delayed until age 72.

You've got 2 extra years theoretically, before you start taking a certain amount out from your 401(k) or IRA or any retirement plan. Right?

ERIC: Right.

PATTI: That's what the SECURE Act is all about. We'll do another podcast on that, because it has some other implications for your beneficiaries.

I wanted to bring that up, as we talk about this legislation that has to do with Social Security, because those two can go hand in hand in terms of some really, really interesting planning opportunities.

ERIC: Yeah, I couldn't agree with you more. I sit there, and we think back over the last couple of years, and it seems like so many major things, whether it's changing the Social Security filing strategies, the SECURE Act, or this piece of legislation, they almost seem to come out of nowhere.

They don't seem to receive any kind of attention, and then all of a sudden they're passed, and there's major changes that affect everybody.

PATTI: Even think about the law that went through at the end of 2017, nobody thought that was going to go through, and then, boom, it happened. Corporations are now paying a lot less tax, many people are paying a lot less tax. Never say never.

Everybody's been worried about Social Security, and it doesn't seem like there's been the political will to do anything about it. Well, you hear some of the things that they're looking at doing as it relates to this, because it could really solve the problem in maybe a way that isn't nearly as painful as we had all feared.

ERIC: I think what's always important is just keep in mind this is not law yet, so anything could still change. This is just a recent example or some of the things that are in this existing bill.

The first thing that people should be aware of is that basically there' s a proposed increase in benefits across the board. There's big important distinguishment with average, but the average person would see a two percent increase in their benefit. Keep in mind that average is not evenly distributed.

People that might have had lower lifetime earnings will probably see a higher increase than two percent, whereas people that have historically been on the higher end of the income scale will probably see less than the two percent increase in their benefit. Overall, across the population of all these recipients, average benefits will increase by about two percent.

PATTI: Let's stop there. The two percent doesn't sound like much to me, so let's put that out there.

It's not a cost of living increase. It's just a one shot, one time perk, if you will, of an increase in the benefits. From there, whatever the cost of living increase, as that occurs, that's also going to increase your benefits over time.

ERIC: Yeah, you're right. It's basically the way that they calculate benefits. We won't get into the weeds of that, but basically the way in which the calculation is done will change, and that's what's leading to this increase for folks.

PATTI: The cost of living increase and the way that it's calculated actually is a potential benefit to everybody listening. It has to do with how they calculate inflation, right?

ERIC: Yeah. Basically that cost of living increase, everyone gets the letter from Social Security informing them of their benefit for the coming year.

PATTI: They tend to evaporate in thin air, because Medicare premiums go up more than whatever it was the Social Security increase. A lot of people don't really feel that in their pockets. Let's put that on the sideline, because maybe the way that they calculate COLAs will help in that area. Sorry, Eric. Go right ahead.

ERIC: I was just going to say right now the way Social Security receives the COLA is based on what's called the CPI for urban and clerical workers. This is the expression of average price increases for people across the country.

There's a different CPI index, CPIE, which is basically used to essentially illustrate cost increases for those who are over age 62, so things like medical and shelter expenses are more heavily weighted. That tends to increase faster for individuals in that cohort.

The discussion is using CPIE rather than the normal CPI, because they feel that might be more representative of how people on Social Security benefits actually experience cost of living increases.

PATTI: Last year, if the increase for Social Security was 1.8 percent, then it's reasonable to think that the CPIE would have been 2.2 percent. It can be meaningful, because it's a compounding effect over time, too.

ERIC: Yeah, yeah. Exactly right.

PATTI: That's interesting. We've got the cost. What about the minimum benefit? That's interesting, especially for people who may have had more modest incomes over their lifetimes. That's important, because there's a new floor, if you will, in terms of how much you can receive.

ERIC: Exactly right. For those individuals that were in the lower income bracket, Social Security is going to replace a much higher percentage of your income in retirement.

The idea here is that you've accrued benefits based on the Social Security's calculation, but there will also be a minimum benefit, which basically takes 125 percent of the federal poverty level.

When you get to retirement, you'll get either your own benefit or this new minimum benefit if your lifetime earnings were low, and that would be higher. That's a benefit there.

PATTI: Folks, for those of you listening, that minimum benefit from Social Security is now going to be $15,612. I say now if this thing were to go through as it exists. That's important, because we want to lift everybody in our society, and income and cash flow is one way to do that.

ERIC: Yeah, absolutely right.

PATTI: Fine and dandy, all these nice little perks. How are we going to pay for this, Eric?

ERIC: The quintessential question, right? [laughs]

PATTI: Yes. All fine and dandy. Free college for everybody in America, but how are going to pay for it, right?

ERIC: Going to have to be paid from somewhere, remember? Someone's income is usually somebody else's expense. That tends to be how it works.

Right now, what they're proposing is there is basically a taxable wage base that Social Security taxes apply to, if you're, say, a w2 employee or so forth. Right now, for 2020, you pay Social Security taxes in the first $137,700 that you earn. Every dollar after that is no longer encumbered by a Social Security tax.

PATTI: By the way, folks, your employer matches that, so you pay half, your employer pays half.

ERIC: Right. Now there is a proposed second tier, where the first 137 is taxed, then you don't pay anything, but for the one percent of individuals in this country that earn over 400,000, then a Social Security tax will come back in on any income above 400,000.

PATTI: There's a doughnut hole then. Is that a way to look at it?

ERIC: I like the term.

PATTI: Got to compare it to something we already know, right?

ERIC: [laughs] Yeah, I like it.

PATTI: We got the doughnut hole. Between the 137,700 and 400,000 no Social Security will be taken out of your income or your employer's. Over 400,000 you're back to paying Social Security tax.

Let me play devil's advocate. Let's say that you've got somebody, and they're in that income bracket or above. How is that going to be dispersed among our population? Does that go to everybody from the top tier 400,000 and above? [indecipherable 28:45] ?

ERIC: That's an interesting point. The worry would be is it a grab to find a way to shore up the system and pay for it by taxing people in the highest income bracket?

Our understanding of the way it is currently designed is that anybody that second tier tax would apply to, all of the benefits that you pay into will accrue to those individuals that pay it.

It's not like just extra money going into a fund that's dispersed against all recipients of Social Security benefits. Anyone that's a subject to that tax, that tax does come back to those individuals that were subject to it. Great point.

PATTI: It doesn't feel like that alone is going to be enough. There must be more to this bill to pay for this, right?

ERIC: Yeah, yeah.

PATTI: What else is going on? Of course they're going to have to increase the taxes for all of us. Is that right?

ERIC: Yes. Social Security gets its funding primarily from payroll taxes. Basically with those who are working pay in to, basically, fund the benefits for those who are receiving. Right now the payroll tax is basically 12.4 percent, that's 6.2 for the employee, 6.2 for the employer.

The discussion is they will increase that by one percentage point, from 12.4 to 13.4, but that increase is going to be phased in over a 10 year period, so it's not just going to happen all at once. It'll be very subtle, you probably won't even notice it for the most part.

PATTI: It's something that everybody is – there's outcry – "You're increasing our social security taxes, yada, yada, yada."

But really, when we put a calculator to all of this, up to 137,700 basically what it means is an extra $688 per year for the employee and another $688 for the employer. It's not hugely dramatic to shore up the system for another 75 years.

ERIC: The arguments to shore up Social Security have always been the sooner you do it, the less drastic the change has to be. Seems pretty sensible in terms of what they're doing.

PATTI: I like this third one, Eric. Folks, just listen up. This one has very important implications for everybody listening today.

ERIC: We've got to save the best for last, right?

PATTI: Of course.

ERIC: Always. I agree. There are so many downstream effects of what this might do if it ends up passing. Right now, you may or may not pay taxes on your Social Security benefits. Some people pay zero. Some people, 85 percent of their benefits is included for taxation. They use this formula called provisional income.

Basically, right now, for the most part, if you're married filing jointly, as long as you're modified adjusted gross income, or what they call provisional income, is above $44,000, 85 percent of your benefit comes in for taxation.

PATTI: Let's just be real here. Most people are paying taxes on pretty much most of their Social

Security, especially people who are over 70 and a half or, now, 72. Your required minimum distributions are boosting your taxable income. Most people are going to be paying taxes on their Social Security. Is that fair to say?

ERIC: Absolutely. It all depends on your situation, where you're getting income from. Yeah, a lot of people do pay taxes. A lot of people say, "Well, I paid taxes to build this benefit. Now I'm paying taxes on the benefit that I'm receiving."

PATTI: So much for the Boston Tea Party. Double taxation is unconstitutional. That's another subject for another day.

ERIC: I was going to say the big thing here is that they're talking about raising that limit. If you're married, filing jointly, now your benefits will not be taxed until your modified adjusted gross income is above $100,000. That is a game changer in terms of planning opportunities and things you can do.

PATTI: It is absolutely huge, especially because a lot of people, their Social Security could be $50,000, $60,000 at that point in time. It's a very big deal. It really allows for a lot of interesting tax planning.

ERIC: I would say so much when we do our analysis for whether a Roth conversion makes sense, so much of it is predicated on the fact that every dollar we convert in Roth money to get it into this tax free environment could potentially basically bring in more Social Security benefits which will be taxed.

You're getting this Social Security benefit that isn't being taxed. Now it's being taxed because of the conversion. It's really a difficult thing to justify.

PATTI: It's an unintended consequence. Just to frame this, the Roth conversion idea works like this. Let's say that you have money in a 401(k) or an IRA. You're looking at, "Gee, I don't want to have to pay 25 or 30 percent tax on this when I'm 72 years old. Is there a way to get this into an environment at a cheaper overall tax cost and then from there let it grow tax free?"

There's a period of time after someone retires where chances are you might be in a 12 percent tax bracket. I'd much rather pay 12 percent than 25 percent. Wow, you've cut your taxes in half in that scenario, just to keep it simple. It's very difficult under the way the Social Security rules work right now because by doing that we're exposing more money to more Social Security to taxes.

ERIC: Where it wasn't being taxed before.

PATTI: You need software. You need people to really do the analysis to figure out whether or not this works. Fast forward, this new law comes in. Wow, all of a sudden you need $100,000 of income before taxing Social Security is even a consideration. More people are going to be able to do Roth conversions, which is interesting.

It makes me think. Now that I'm thinking about this, Eric...We haven't talked about this. Our federal government, they're not really that stupid. They need revenue. They want revenue sooner versus later.

Why don't we give people an incentive to do Roth conversions so that we can get the taxes on that money sooner instead of waiting until they're 72? More people do Roth conversions. The federal government gets more income. You see the domino effect.

However, Roths are powerful. The government, unfortunately, is often also very short sighted. They'll get their money up front. It'll be at a lower rate. More importantly, on the Roth, that now grows tax free for the rest of your life and for a portion of your family's life, the people who are inheriting it.

ERIC: The really key point here is that if this goes through, there's the opportunity to do significant Roth conversions without having the diminishing effect of pulling Social Security in for taxation. Paired with the SECURE Act, now we have an additional 18 months or so that Roth conversions can be done because required minimum distributions have now been pushed back.

PATTI: This is what in our office I hope it doesn't offend anybody this is what we call a BFD. This is a big deal.

ERIC: [laughs]

PATTI: You really want to know once this thing goes through. By the way, we're talking about Roth conversions. The other way to look at this is if you've got a few years and this thing goes through, maybe you do a Roth conversion one year.

Let's say that you have a security, a stock from the company that you used to work for. It's got a huge capital gain. If you're in a 12 percent tax bracket and you sell that, up to a certain point, then there is no out of pocket outlay.

Whether the Roth conversion makes sense or for risk management purposes selling stock that has appreciated a lot or even just rebalancing the portfolio, those are judgment calls year to year. More people are going to have those opportunities.

It's all about the planning, the planning opportunities. Comes down to Social Security. Comes down to cash flow. What do you need? When do you need it? That's financial planning 101, right, Eric?

ERIC: Exciting stuff. It's what keeps me getting out of bed every day.

PATTI: Me too, absolutely. It's going to keep me getting out of bed for many years to come.

ERIC: You got it.

PATTI: Thank you so much, Eric. This has been a lot of fun. Thanks to all of you for listening. This has been really important information. We will keep you posted as we learn more about this new law. It will affect everybody listening.

If you have any questions, please go to our website. Any ideas, any things that you want to hear about, we'd love to hear from you. Until next time, I'm Patti Brennan. I hope you all have a great day.