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EXECUTIVE SUMMARY

PART 1. INDIVIDUALS

Social Security Retirement: Understanding the Benefits..... 3

Social Security affects nearly every American, yet many clients lack a clear understanding of how and when to claim benefits. In this segment, Timothy J. Sundstrom, CPA, highlights updates, including recent legislative changes, and planning implications. Designed for tax and financial professionals, this session offers a practical roadmap to help clients make informed Social Security decisions. *[Running time: 1:28:56]*

Learning Objective:

Upon completion of this segment, the user should be able to:

- Understand the key determinants of Social Security eligibility and benefit calculation.
- Evaluate the impacts of legislative changes on Social Security planning.
- Analyze the effects of timing and earnings on Social Security benefit amounts.
- Apply COLA and Trust Fund forecasting knowledge to client scenarios.

PART 2. S CORPORATIONS

S Corporation Stock Basis..... 39

Ian Redpath provides a practical overview of S corporation stock basis, the ordering of loss limitations, and the requirements for nonrecognition treatment under Section 351. Topics include the definition of property, control tests, boot, and annual basis adjustments, along with excess business loss limitations and second class of stock issues. *[Running time: 52:55]*

Learning Objective:

Upon completion of this segment, the user should be able to:

- Identify the ordering rules for S corporation loss limitations, including basis, at-risk, passive activity, and excess business loss provisions, to determine the deductibility of shareholder losses.
- Evaluate the requirements for nonrecognition treatment under Section 351, including the definition of property, the control test, and the treatment of boot.

ABOUT THE SPEAKERS

Timothy J. Sundstrom, CPA and CFP, is a partner at Wealthcare Financial Group, LLC, located in Newtown Square, Pennsylvania. Tim helps entrepreneurs and business executives make sound tax and financial decisions. His firm serves a diverse group of clients, with a specialty in the construction and entertainment industries. Prior to starting his own business, he was a manager at a national accounting firm. Tim is the former president of the Pennsylvania Society of Public Accountants. For the past eighteen years, he has been a lecturer with Gear Up Seminars and has authored several publications on tax and financial planning.

Ian J. Redpath, JD, LLM, is a nationally recognized tax attorney and consultant from Buffalo, New York, and is a principal in the Redpath Law Office. Mr. Redpath has published numerous articles on contemporary tax issues and co-authored several books on tax topics. He has extensive national and international experience developing, writing, and presenting professional CPE programs. In addition to his active tax practice, he serves as Chairman of the Department of Accounting, Director of Graduate Accounting Programs, and Professor of Taxation and Forensic Accounting at Canisius College in Buffalo.

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—From a Declaration of Principles jointly adopted by a *Committee of the American Bar Association and Committee of Publishers and Association*

PART 1. INDIVIDUALS

Social Security Retirement: Understanding the Benefits

In this video, Tim breaks down key updates including the repeal of the Windfall Elimination Provision and Government Pension Offset and presents benefit calculations and planning strategies to help practitioners better advise clients approaching retirement.

Mr. Timothy J. Sundstrom

So, I want to talk to you, a couple of changes that your clients are all going to need to know about, and that was an executive order that was signed into place in March of 2025 on the 25th. And what they basically have done with regard to Social Security is that they have a goal that they're going to eliminate the paper checks coming from any kind of payment by January 1, 2026 associated with Social Security.

Now, what if your client is one of those that got a paper check? Well, SSA is claiming that they're actively contacting beneficiaries to update their payment information. So, what we're really looking at is these folks are ultimately going to get their payments either by direct deposit to their account, which most folks do, or if they do not have accounts, from prepaid debit cards. Now, that's just for Social Security.

One of the things you'll find when we talk about changes that take place in tax law this year, that similar regulations that are being placed on Treasury. In fact, starting on September 30, new paper checks are not going to be issued at all by the federal government, and what they're looking for is that all tax payments, as soon as practically possible, will be in the form of electronic means. So be aware.

When I know that, right now I'm talking to my clients about year-end planning, even discussing some things associated with bills that haven't passed, such as the Big Beautiful Bill, what will happen if it does, what happens if it doesn't. Just want to be aware that it happens to take place here.

So, the idea here is that Social Security, getting back to Social Security, that direct deposit information, it used to take them 30 days to change it. Now it's going to be reduced to 1 day. Now, this is the Social Security system speaking, not Timothy J. Sundstrom.

Another thing is it is possible for people to get overpaid by Social Security. And this one thing you need to be aware of, those clients that maybe took the benefit they shouldn't have taken, or were, maybe they claimed they're disabled, and they weren't and lo and behold, Social Security for that matter made a mistake and they got overpaid.

Now, during the prior administration, the repayment amount for any overpayment was 10%. 10% of your check could be offset against the liability you have with Social Security. Well, then unfortunately that policy was rescinded, and originally they were going back to the old standard.

Traditionally, when you're dealing with Social Security, they would take, and you owe the money, they would take up to 100%, 100% of your check until you got even with them. That was later because of a big uproar that was later revised down to 50%. But, yes, you could see clients that come in, you know, "My check. It's been greatly reduced. What happened?" Just be aware of that.

If you are dealing with people who are government employees, government employees who received pensions for work that they did not pay in the Social Security, you will find starting this year, those folks are going to start having Social Security payments if they paid into the system, and possibly they had small payments in the past will get larger payments.

Why is that? Two things. This was repealed under the old watches at very beginning of the year. The Windfall Elimination Provision and the Government Pension Offset, those were eliminated. Those were eliminated. So, that was signed into law early in January. And it's expected that close to a million people will be impacted by that and they will be government workers. And when I say "government workers," once again, it's federal workers who paid into the civil service retirement program, which they did not pay into Social Security. Maybe they had some side jobs, or they're married to someone that is a Social Security recipient, but this could also include state and local employees. And in many states, groups such as teachers did not pay into Social Security, they will get the benefit of it.

If you do have a problem with Social Security, they're saying there's a much stricter identity verification. Of course, we're all aware of that, and we now have a new commissioner. So, that's my goal. What really has changed in Social Security to date. What has actually changed in Social Security?

Now, I've been involved in this since 2011. And in 2011, a speaker, a great speaker, friend of mine by the name of Tony Johnson, who's a long time Gear Up speaker, said to me, "Hey, Tim, I need you to help me with a project." I said, "Tony, what's the project? He said, "Well, I want you to be the technical reviewer for this publication I'm making on Social Security." I said, "Sure, Tony, no problem."

And so, I started in 2011, and realized that this is a benefit that's almost universal. And a lot of folks don't understand the mechanisms involved here. They don't know what they're entitled to. And this includes even people on the edge of retirement. It's often surprising that they don't know or have an understanding what the benefit is.

So, we're going to talk about why you would even get involved in this. Well, first of all, as I've already said, it's almost the universal benefit. And it's estimated that 10,000 boomers, baby boomers, are turning 65 each day. Now, remember, it's no longer when it comes to Social Security, 65 is full retirement. It's no longer full retirement, but it gives you the idea that we're dealing with people anywhere from say 66 to 67 that are eligible for Social Security, whether they turn around and continue to work or not.

So, this is an area that is going to be a growing trend. 10,000 boomers a day and that's going to last to 2030, and a lot of them have very little understanding when it comes to the Social Security benefit. And what I'm seeing, and maybe you've seen this too, is that some of your clients who didn't care about it when they were in their twenties, now all of a sudden care about it while they're in their fifties or sixties.

This gives us great planning opportunities. I think it's something that we want to discuss with our clients. I know a lot of us have this conversation about taxes, and taxes and what a big part of this for the self-employed is the self-employment tax and how people hate that, but they have to understand the benefits associated with it. So, it gives you another card, if you will, to play with your clients. And of course, if you are dealing in investments, people want to know this. In fact, I've had investment advisors hire me to do presentations on this topic.

Now, this was a study commissioned by Social Security in 2016, and the resource they used, the University of Southern California, determined whether people had enough information concerning Social Security, and lot of folks said that they would really like to receive more information with regard to Social Security. And then some folks they asked them whether they can find information, and the majority around 61% said yes, but still that left what? Yeah, 61%, 61%. So, that left 39% of the population say, "No, I don't." And then do they have enough information? You'll find the majority said, "No. I just do not have enough information."

And of course, if you go on the web and you Google, "When should I take my Social Security?" You're going to get all sorts of opinions, and those opinions are not necessarily tailored to your position. Well, it's a good area. People are confused about it. The number, as you can see by the chart I presented to you here, the number of retirees, when we look at this in the last 10 years has gone up by like 10 million people.

And right now, those folks that are on the, on the Social Security retirement system are close to 54 million people. 54 million people are looking for this or have some questions. What do you do? Where do you start? The ssa.gov website is excellent. The ssa.gov website is excellent. If you haven't looked at it in a while, it is time to take a look at it.

Why do I like it? Well, go back to those bad old days in 2011. In 2011, it was the most clunky, unfriendly website of all. In fact, the only thing you could really garner off of it was a few hyperlink pages to the Social Security handbook, which were not user friendly. They just weren't user friendly.

Now today, that has all changed. And we now have something called a My Social Security Account. My Social Security Account. If you haven't gotten it, and you're listening to this program, make sure you get it. This is very easy, as you can see in the little green box there, to obtain it if you already have an ID.me account.

Now, we as accountants have been using ID.me for several years at least, and that gives us, of course, the access to the IRS online tools. So, if you have that account, it's quite easy to do this and open up My Social Security Account. Now, that My Social Security Account is going to have all your information about your Social Security history. You'll be able to get a detailed, a detailed report on what your earnings were that were reported to Social Security.

And folks, make sure you verify that. Make sure you verify that. Especially for some of us older folks, I'm going to tell you, prior to the electronic reporting days, it was not unusual for some of your earnings maybe to be missed. So, you want to make sure you do that. You look at your My Social Security Account.

This is also great if you're dealing with older individuals. Now this is an individual account. I cannot get power of attorney on this unless I'm appointed by Social Security. And that's a much more involved process than just a power of attorney. But what I've had done with my dad who's now 90 is helped him access the account. Why do we do it? Well, he's moved twice. And when he moves, he misses his Social Security statement for the year. So, we don't have the information. We're able to get that. You'll be able to get income verification. And for you younger folks, I think it's very important that you take a look and decide whether you are going to play with the numbers a little bit. But please, everyone should be looking at it and make sure they understand it.

Cost of living increases. Now, cost of living increases are applied on your payment after they've calculated your payment, and that would be after any, shall I say increase because you have delayed taking Social Security, or the reduction on the reduced amount if you decided to take it early. And the idea here is to keep you up with inflation.

Now I find this kind of funny. The increase for 2025, which is calculated in December of 2024, the December benefits are paid in January, was 2.5%, 2.5%, which is relatively low if you consider the cost of everything that's happened. So, for me, having a hedge or something that is a hedge against inflation, especially these times these last couple of years, and by the way, folks, historically, the cost of living adjustment is closer to 2%. We've had some higher years, but I'm concerned in the long run that payment is really going to keep up with inflation.

Now, Tim, they do this CPI calculation. How can that be? Well, what they're using is they're using the chained CPI for workers, and these calculations are done in the third quarter of the year and they're basically looking at the change. That's how they came up with that 2.5% of giving you the calculation associated with it. But 2.5% for the changes have taken place for 2024 into 2025, just as a cut, you're definitely going to fall behind. So, that's one of the things to make sure when you're dealing with planning, especially during these times where interest rates are going up that you need to make sure that you cover this.

Now, the cost of living increase is called based on the consumer price index changes, but most of the changes that we deal with, with Social Security, are not based on consumer price index. It's based on something called the "Average Wage Index." So, this Average Wage Index is the measurement, the changes from one year to the other in what the average worker makes in the economy. And it's posted, they calculate this for every year.

Now, this change is what drives the taxation of such things as how much the cap is going to be for Social Security in the current year, how much you have to earn to earn a minimum credit for Social Security, how much you can earn in earned income if you take the benefit early. So, there's a lot of things here.

So, and this is also the Average Wage Index is the driver that is used to determine your benefit. Now, that calculation for everyone is done the year that you turn age 62. So, if you're turning age 62 in 2025, that is the year that you're, they're going to give the calculations.

Now, reality, is this: That calculation is done two years prior, the year you turn 60. Why do they wait? Well, it takes them time to do the calculations, and they've always used two years. Now, this average wage index between 2022 and 2023 went up by 4.43%. Ah, the cost of living increase was less than the adjustment in the tax and the amount that we have to earn. So, let's see where this all applies.

If we take a look at, I've given you a list of items that qualify. First of all, the taxable and limited amount, we've mentioned that. The amounts that are exempt for the earned income, the formula is going to be used to calculate your benefits. The formula is going to be used if you have family members taking benefits to the maximum that can be drawn off of your report or your work or record, the earnings that are available in quarter and the thresholds for domestic and election workers.

And I'm giving you some of these statistics, of course, being well into 2025, you all would know that we're now dealing with \$176,100 Social Security limit. That's what you pay in the Social Security. And of course, there is no limitation. There is no limitation for Medicare wages; right? There is no Medicare limit at this point in time.

Now, these next numbers, this \$1,810, that \$1,810 is the amount of earned income you need in 2025 to earn one quarter of Social Security earnings. Now, remember, in order to have a year, you have to have four quarters. If only, you only earn \$1,810 in 2025, whether you did it over a month or over the entire year, you're going to get one quarter. You're to get one quarter of credit. Those are without a doubt, something you need to be aware of.

And sometimes occasionally someone comes in and the people I look at for this are people who have had a couple of things. One, I left the employment market for a significant portion of what would have been my working life. Now this could be due to disability. It could be for the fact that I was a healthcare provider for someone in the family and didn't get any payment.

Often you'll find that these people come very close. They don't have 10 years paid in, but by looking at their record, I had a situation where a gentleman was not receiving any kind of payment. He was not eligible for Medicare, but by looking at his record, we realized he only needed another two quarters to pay in, and he would have made the 10 years. And so, we had him work, do some work. He made that minimum amount of money.

Now, his benefit wasn't big, wasn't big, but what it did do, it gave him Medicare, gave him Medicare. That's a lot better than Medicaid, if you know what I mean. It's Medicaid, you got to qualify.

We'll talk about the earnings limitations, but I've given you those for both the annual and on monthly basis. And of course, one thing is that if you take the benefit prior to your full retirement age, now that we'll show you in a second, that's the age at which you get a hundred percent of your benefit, for each month you take it early, we reduce your benefit, but in addition, we put limitations on what you can earn in earned income.

So, give me those amounts. Be more than glad to talk about it. So, what is the average estimated payment that people are receiving? And I find this shocking. A lot of people find this shocking. First off, when you deal the average workers, now these are for 2025, the average of all retired workers is making about \$1,927. And when you add the cost of living in there, \$1,976 bucks, less than two grand a year.

Your average couple, where they're both receiving benefits. Well, it's a little bit more than \$3,000, \$36,000. Let's round that \$89 up to another \$100. Well, \$37,200 and less than that. Well, that's not a lot of money, and of course you see this. And even if you're a maximum earner, take a look at this last column.

This is somebody who's always paid in the maximum amount of earnings into Social Security. But when they do that analysis, they have 35 years, 35 years paid in at the highest levels, the maximum amount they could be receiving this year is \$4,018. Great. \$4,000, \$48,000. Well, if you've always been a high earner, how far does \$48,000 get? And of course, we all know that a significant portion, at least now, of that is going to be taxed. We need to deal with this.

Now, what happened is, this is one new law, I'm going to just cover this briefly, the Social Security Fairness Act, now this is signed in January 5th, 2025, retroactively eliminated the Government Pension Offset and the Windfall Elimination Provision.

Now the Government Pension Offset was this: Let's say I was a worker. I worked for any of these positions here that he didn't pay in Social Security, but I got a pension. Now, I didn't work at all. Didn't work at all for Social Security. I didn't have any Social Security wages. I was a government worker, but I did marry someone who was a worker.

Well, the Government Pension Offset, which is now, as you can see, eliminated, did the following. They say, "Tim, you did work, and that's pretty much, and you got a pension, that's pretty much the equivalent of Social Security. And if you paid into Social Security, any amounts that you made on your record would offset any kind of benefit off of your spouse's record." So that's how it works. And of course, the spouse is entitled to 50% of your record.

Well, this provision said for that calculation that that government worker would take up to two thirds of their government pension and offset it against any benefit they could get off a spouse. That has been eliminated as of January 1, 2024. So even if I did it, had none, a worker paid into Social Security and I'm married to someone who has a benefit that I can draw off of or was married, I should say, off of someone I could draw off of, I'm going to be entitled to a check. I'm going to be entitled to a check.

The other provision is this. All right, I was a government worker. I paid into the Social Security, but maybe I was a teacher, a teacher. Now, some teachers in some states, such as say Tennessee, excuse me, Texas. I'm sorry, I my, my, my ex's, my ex's are in Tennessee. My ex is in Texas so that's why I'm in Tennessee, is the old song, but in this case, what if I were one of these teachers and I got a job?

Just say being a lifeguard during the summer. Now, I'll be banking wages that would be subject to Social Security. Okay. Well, here's the deal. When we take a look at the analysis, the first part of your Social Security, it's up to about \$12,000, is given a 90% benefit. Well, this Windfall Elimination Provision took that 90% and knocked it down to as low as 40% if you did not have paid in 30 or 30 years of meaningful wages. And it was a sliding scale. So that's been eliminated.

What we're going to see, they started making retroactive because remember now these folks are owed money as of January 1, 2024, they started bringing out the first of the payments in February of this year. It will take some time but be aware of there will be some opportunities for us in planning.

So, Social Security Trust Fund is where they keep all this money and it's all invested in those government bonds. And I'm sure you're really excited about that. Those government bonds made 4.27% last year in 2024. Historically, the returns have been much less, anywhere from 2 to 2.4%. I've given you a website that you can go and deal with it, but they're safe. They're safe. Don't worry. Full backing, full backing of Treasury, and like these are the listings of the amounts of the returns for, say, some 2020 to 2024. And as you can see, 2020 was like less than a point. How these things are all worked out. That's what they're making. That's what they're making.

What was, what was inflation during these periods of time? Are we keeping up with inflation on these returns? So, the money's guaranteed by the U.S. Government. The problem, of course, is there is no account with your name on it. There is no account with your name on it. So, you just can't do the following. Just go off and say, "Oh, you know what? Let me see my account with you."

What they've given you on the Social Security statement, folks, is an estimate that can be changed by any time there's been a change in law and the signature of a president. That's all it takes. Now a lot of old people here, including myself in there. I should say mature people, mature people. We're not old. We're mature.

So, a lot of us mature people might get a little upset if you did something with the benefit, but technically there isn't a change. There's just not enough money to pay everybody. Part of the problem, and you take a look at the old, as we get older, look what's happened into the number of workers per beneficiary. It is dropping. And at this point in time, 2.7, we're halfway here. So, it's probably about 2.4 at this point in time workers for every one of us collecting and you young folks. If we were in a room and you started looking around, the problem is it's just not the number of people, it's how long they are living. That's being an issue with this.

So, as of the 2024 Social Security Trustees Report, and it's a good thing to get your hands on and take a look at it, we are really dealing with issues with both Medicare and with Social Security. And what we'll really have is those costs that we're going to experience are going to be in excess of the growth in GDP.

It is expected that right now the Old-Age Survivors Reserves will be depleted by 2033. That means the reserves we've been stashing and investing with the federal government, they're good for the money, remember it. And Social Security is not allowed to borrow, which means if they only have taxes coming in to cover 79% of the payment. That's all they can deal with. And when we deal with the hospital insurance reserve, that is expected to be depleted somewhere in about 2036.

So, these are things that we need to deal with it. So, let's get into how you get your benefit. And I'm going to get really moving on this. Now once again, your benefits are based on your Social Security earnings. That's your earned income. Social Security does not care about any other types of income, interest, dividends, rents, royalties, any of that other stuff. It's your earned income. It's your wages. It's your Schedule Cs. It's your farms. It's your partner in the partnerships that are subject to the tax, and being tax people, you understand what that means.

Now, in order to receive a benefit, remember that little \$1,810 I was talking to you about, well, you need 10 years or 40 quarters to qualify. It's a relatively low margin. Now remember, this is all you're making in, in a quarter or average in a quarter. Benefits not going to be good, but the key here is it's, you know, after 1974, they can be earned any time of the year. Now, even though you'll get some benefit at 10 years, the benefit for retirement is always calculating the 35 highest years of earnings after an index has been applied to them.

But yeah, that's a small Social Security payment, but one thing it does do it will qualify you for Medicare. It's not something to be poo-pooed. Of course, we deal with the self-employment aspects. Must be self-employed, dealing with people who are self-employed. A lot of them just don't want to hear that self-employment tax and will do anything to cut back that Social Security tax.

One thing I'd be aware of, yes, do -- have I helped people with S Corporations to reduce Social Security/Medicare taxes? Yes, I have. But one thing I do warn them when I do that is yes, you're paying less into the system. Ultimately, you'll have a smaller Social Security payment. And that means more of your retirement will be funded by you, not the system, which if you take those tax savings and invest it wisely, I think you're better off than maximizing it.

Now, one thing to make sure if you are going to use a ploy to reduce the tax, make sure you have a basis for taking a reasonable salary. Meaning you've done some research, you've gone to the Department of Labor and looked at what they are showing for reasonable wage or use some form of program that will help you determine it. And one of the ones that I use, and love is a company called RC Reports. You can see them, rcreports.com. Don't get paid to plug them, but if you are going to do that, make sure you deal with it.

Now fully insured means that you're entitled to get it. So, let's get into the calculation. And these calculations, as you can see, there's been numerous changes to the system over the years. Now, we can take benefits as early as age 62, but that's not always been in the law. For women, it was in law starting in 1956. For men, that started in 1961.

The Medicare program didn't start till 1965, and the first beneficiary was President Harry Truman, who went through hard times after leaving the White House. Presidents are multi, multi, multi-millionaires today. Harry Truman probably one of the more famous presidents was living hand-to-mouth.

Cost of living increases prior to 1972 when they put these in, Congress would have to go back and adjust the Social Security amount. Well, the cost-of-living adjustments kicked in in 1975. 1983, that's when we went from age 65 gradually up to age 67. Now in 1983, this is the great deal, that was done by then President Ronald Reagan and Speaker of the House Tip O'Neill. They thought they had saved Social Security, and they did. 2033 was a long way off in 1983. However, things changed. These people lived. The assumptions need to be trimmed.

One of the things we may see in the future is a gradual increasing of that age, but be aware of it. And then the taxation of the benefit, which was guaranteed to be tax free started in 1984. Don't even get me into it. I won't get you guys into it.

So, of course, Social Security's tracking your wages up to whatever they call the "nominal wage." Well, what is this nominal wage? Well, it's whatever the Social Security threshold is for the year. So, for 2025, they really only care about your main, your first \$176,100. Let's say you make a million dollars of earning. They don't care about that. Now they'll plan to get to the Medicare tax associated with it. But for this, they're just going to track up to whatever that amount of your \$50,000, it's going to be \$50,000.

Now, here's the deal. We're dealing with the working lives of individuals. How do they take those wages? So, for instance, I started working in gas stations as a kid in 1973. My goodness, 1973. I know I'm dating myself here, but how do you take those lower wages at 1973 wages or maybe in your case, the 1980 and 1990 wages and bring them up to the standards? And that's what we call the "indexing function," the indexing function.

Now we've already talked about this, those factors. This is the leveling that's going to be done the year you turn 62. Now, the way this works is your year of first eligibility is age 62 for retirement. Now, disability programs, survivor programs, they're different. The rules change, but let's just stick with retirement at this point in time.

So, your first eligibility for retirement is age 62. That's the earliest I can get it. All right. Well, what they need to do to do these calculations, they take two years. So, the data that's really driving your calculation was two years prior to your 62nd birthday. So, those of you who are turning 62 in 2025, your factors were derived in 2023. Wait a minute, because there's some folks that probably would have wanted to done this day one.

So, what we're really dealing with this whole idea, how do they bring your wages up to current standards. And this is the first part of the process. So, all the wages prior to the year you turn 60 go through something called "indexing." And indexing means that we're taking those changes for the year in question. So, let's say we're dealing with your wages from 1997 and you're turning in age 62 in 2025, what they'll do is they'll take those earnings, your earnings in 1997, and they're going to times them by the wage index for 2023 and divide them by what was the amount in 1997.

Now, in reality, they don't do it this manner. The math is there. When you look at the tables I'm going to show you, it's really just a factor that's applied. It's a factor that's applied. But the key here is that these are applied, and they use the 35 highest years to calculate something called your "average index monthly earnings."

Now, remember, Social Security is a program to replace the earned income, and the payments are made on a monthly basis. So, the first step in the process is to figure out what you earned in today's dollars based on Social Security methodology over your working life. In that case, what they do is they look at 35 years, 35 years. Well, "Tim, what if I got 40 years paid in?" Well, 40 years paid in or more than 35, they're going to pick out the 35 highest years regardless of where they fit in the mix after this index. So, they're going to use the 35 highest years.

“Tim, I only paid in 30 years.” Well, 30 years, this is where the statement can be a little confusing. 30 years for you younger folks, what they're going to do is assume that your most recent trend on your statement in earnings is going to continue. That's how they're giving you that number. But let's say you're not going to work any longer. You only have paid in 30 years. They're still going to use 35 years, which means they're going to be what? Five years of zeros in that calculation.

What they do is they total up those 35 highest years, divide it by 420 which is the number of months that is in 35 years and that comes up with your average index monthly earnings. Again, this is their estimate, this is their estimate of what you've earned over your working lifetime in, on a monthly basis in today's dollars.

“All right, Tim you're going to show me the 25 factors. What if I'm one of those people that likes to do his own, his or her own calculation.” I've given you the website here where you can go and grab those factors. “Well, Tim, I'm not turning 62 in 2025. In fact, it may be another 20 years before I turn 62. What do they use for us?” Well, if you go here, they're going to use the trustees' assumptions, the trustees' assumptions.

Now remember, if it's a point in the future, it's an estimate. And so, we don't know what the future will hold, but they will give you at least an idea. So, if we go in, we Google those factors for someone turning 62 in 2025, what you'll see is this amount. Any 2022 wage would be 1.04%. Any, ah, could somebody, that's turning 62 in 2025 ... that's impossible that you had wages as an infant. But you had earned income, you had any earned income, but you were a very, very advanced child. You had earned income for 1964 being 14 times what you earned in it.

So, don't poo-poo the amounts that you made in the 70s and the 80s, because as you can see, in the '70s, we're doing 8%. '80s we're dealing with about five times the amount, then you get into the '90s and you're two and a half times. So, they do give us a factor here. That's what we're going to be using. Remember the calculation.

And one of the things to be aware of, we go back to this slide here, you'll notice 2023 and 2024. Now, I turned 62 in 2025, I was 61 here, I was 60. There is no factor applied after you turn 60. Let's say you make a lot more money now than you ever did in your entire life. They will still calculate those amounts in the calculation, but you're not going to get any adjustment for it. You're not going to get any indexing associated with it.

Now, one thing I'm going to show you a calculation, and the first piece is this wage index normally goes up. But as you can see, there are times where it actually went down. So, if you were turning 62 in 2011, wow, you actually lost because 2009 was worse. The average wages were worse than in 2008.

So, let's take a look at it. I have two cases. I have Case Abe and Case Bob. One of the things you'll notice, there should be a line drawn down here. But remember, look at this. This is what they earn respectively, look at the indexing factor. Bob, we're using 3.21, we're on 3.96. Well, why is that? They turn 62 in different years. So, first thing, we're going to do this calculation. When you turn 62, we're going to do the calculation.

Now in this case, what we've done in this instance, I should have taken that away because this is, I forgot to eraser here. Okay. There you go. that. Oh, I'm doing a bad job. Bad job. Sorry about that, folks. Here we go. I think I've got a better slide on this. So, what in effect happens, let's say we take Abe's case here. Now, Abe has paid in more than 35 years. So, what do they do? Well, they apply those indexes as the first amount. Great. I understand that.

And then they eliminate the, since he's got 40 years in, they eliminated the lowest five after the index. And it just so happens that they are the first five years. Does that necessarily mean it has to be five years? No, the, in a row? No. It can be any factor. And as you can see here, so what they are left with, these five are not included in the 35 total, which is \$2.3 something million.

Now, you take that \$2,333,744 in earnings, that's earned income and you divide it by 420, you end up with \$5,556. Now that's not the benefit. That is not the benefit. That is the first step here in which we're trying to figure out what Abe's average earnings were over his working lifetime, over his working lifetime in today's dollars. And \$5,500, let's see, we bring these up. He's making about \$68,000, but if you take \$5,000 by 12, that's \$60,000. And then you do another \$500 bucks associated, well, it's \$56,000. I think it's pretty close. It's pretty close in this case. So, it gives you a good representation, I believe, in this.

Now, your benefit is something called the primary insurance amount. And like a defined benefit plan, this is the amount that you would receive at your full retirement age, whatever that is. Remember it could be a factor from 66 to age 67. If you decide to take the benefit early, because we know that you can take the benefit as early as age 62, you will get a reduction in that benefit for each month you receive a payment. Each month you receive a payment, and I'm wording it that way in a, in a reason.

Now, if you get to keep those payments, a permanent reduction. If you go beyond your full retirement age for each month you delay, we are going to give you a delayed earnings credit. And for a lot of folks, this is where the game plays in. So, let's take a look at the fact. So, we just came up with that average index monthly earnings, and we're going to try to figure out what Abe's benefit would be at his full retirement age.

Now, those of you returning 62 in 2025, your full retirement age is 67, 67. So, this is not the amount he's going to receive now. This is the amount that he would receive at age 67 if nothing changes. The first \$1,226, you're going to apply a 90% of that you're going to get back of that average index monthly earnings. However, once you go over that \$1,226, that reduces down to 32%. And that runs up to that average index monthly earnings up to \$7,391. Now, \$7,000 a month would be \$8,400. Another, let's call it \$400. So, what do I say? \$7,000, \$8,400, another \$48,000. About \$88,000 would be taken up to the \$32,000 level, and then anything over would be 15%.

Now, when I look at this as a self-employed individual, I know that me and my company combined, what we pay into Social Security Medicare is 15.6%. So, it doesn't excite me. I think something around \$88,000 is the sweet spot for Social Security. If all you're concerning is yourself with Social Security, that would be where I would do it. Unfortunately, you do need to pay reasonable wages. And just because it's the sweet spot for Social Security doesn't mean it's reasonable wage. I've already discussed why you should make sure you have a planning opportunity with this.

When they apply this factor, they always rounded down to the lowest multiple of 10 cents. I tend not to get about aware with this. Now, as you can see, these are the bend points for those people. So, maybe in 2019, you turn 62, these are your bend points. If you turn 62 I 2024, these are your bend points for the calculation to deal with it.

So, we came up with \$ 5,556. Once again, this is what our friend Abe earned over his working lifetime. Somebody earned over his working lifetime. And if you're running through this formula, that comes up with a monthly payment. And we, in this case we didn't have to round down, but we would have round down to the nearest 10th of \$2,489. And one of the things I like to do with this, is say the following to my client, "Abe, you know this \$2,489 works out to be less than 45 percent of this amount here, and if you take into account, Abe, that you've averaged out \$66,672 in earned income over your lifetime and this is only replacing \$29,868. Now, remember, Abe, if you're 62, this would be at age 67. If you decide to take it now, it's going to be worse. How are you going to replace the \$36,000 or \$37,000 you deal with it?"

Now, regardless of what Abe takes his payment, starting at age 63, everybody receives a cost of living increase. It's one thing that you need to do with. So, one thing that people think when I take them through that calculation, it's a static calculation. It's not, ladies and gentlemen.

While the factors that are being used are fixed, what will happen is this, if you continue to have earnings, Social Security will continue to update that calculation. And if it so happens that you've now have increased that average wage, average index monthly earnings, your payment will get bigger and what they'll do once they do the calculation, they'll give you a lump sum to cover the back payment, and in addition, they'll increase the current payment. Keeping working works very well for those folks who really haven't filled in the 35 years. Why? Because you're filling in zeros and replacing with wages.

Now, the impact of any one year it would be, how much are you making and the delta between what your averages were. For most people, if they're just continuing to make what they would have made anyway, it's not going to be a big deal, but if you're now making more money, who knows? Social Security, if you do this, the benefits are refigured annually, and once again, at your full retirement age.

Well, why do they do it your full retirement age? Here's why. It is possible that you took the benefit early, but because you took the benefit early, you now need to abide by what is referred to as the "earned income limitation." And if you don't, well, you might have to repay Social Security, repay Social Security, or tell Social Security, "Hey, look, I'm now, I've decided to go back to work. I'm making more than the \$24,000. I shouldn't be getting these payments any longer."

Well, what they will do at your full retirement age is say, "Hey, Tim, when you did this at age 62, if you're a full retirement age is 67, you had 60 months of a reduction but because of this change that you started working, we didn't pay you on 30 months. What we're going to do is we're going to add back those 30 months into your calculation." And of course it does take them a while to do these calculations. Just be aware. We deal with it. So, if you only have 30 years in, continuing to work will always help.

One benefit here, and most people don't realize, and this is where we're going to get into some of this, is family considerations. Social Security is unique, and here's why it's unique. If you have other qualifying family members, there's a potential for you to get more out of the system rather than less. And what do I like to compare this to? Is it defined kind of a defined benefit plan.

So I'm married, my wife, Karina, if I had defined benefit plan, the way the law works by default, unless she affirms that she's not part of the plan, is when I get a payment out of that retirement plan, it is over a joint lifetime, which means the payment is less than what it would have been on a single lifetime. And that makes sense. That makes sense.

In this case, not only do you get it for the worker, but potentially other workers. Now, everything is going to start with the worker. When I talk about the worker, that's the person that earned the benefit, earned the benefit.

Now, in most families these days, you have two workers, which means, in my case, Tim, I'm a worker, but potentially I'm also a spouse on Karina's record, and potentially I could get a benefit off this. When I -- all we can do this from the reference point of the worker, and everything has to be done with this.

So, the key here is any of your current family, so, this is the current family. This is the worker here, and this is the current family. Even if they qualify, they cannot obtain a benefit off of your record until you apply for the benefit. So, you got to apply for the benefit in that. All right. So, it's not unusual now for both of them to be both workers and spouses so they could have additional payments off of one or the other's work record.

And this would be more common in situations where there's a great disparity between the, the couple. Should I say, you know, one made a lot of money, the other didn't, made less, and so therefore there could be, the one that made less could be brought up to say 50% of the higher worker in this.

So, there's really two sets of rules for spouses and spouse could get up to 50% off the worker's record. There's really two sets of rules. There's a retirement age spouse rule. Now, me and son -- me and Karina are relatively close in age. I'm five months older than her, although I look 10 years older than her and she still gets hit on by young guys. Guys, knock it off. I'm an old guy. Where am I going to go? So anyway, those are the rules we'd be dealing with.

But it's also, and it's not uncommon today for people to get remarried. And you potentially can have a much younger spouse who's taking care of a worker's child that gets a payment. And I've seen this. I've seen it a lot. It's much more common than it was. Now, remember, the maximum benefit is 50% of the primary insurance amount and that would be if the spouse was at their full retirement age.

So, you apply. That opens the door for your spouse unless you pretend that your spouse has no record of their own. That means they're entitled to a 50% benefit on your record provided they're at least their full retirement age. But what if they decide to take it early? Well, it's going to get reduced for each month they take it early. The key here is for a spouse to get a benefit off of your record, the worker has to apply. There's a reduction if they're below full retirement age.

The other piece is this: your spouse cannot access that benefit if you choose to delay. So, let's say you didn't choose to delay, you want to earn that delayed earnings credit, which works out to be about 8% per year. And you do not file for Social Security. Well, anybody could get a benefit off of your record, can't deal with this. And the other piece is the earnings limitation. The earnings limitation applies when anyone gets a benefit before their full retirement age.

The second case, a much younger spouse. As long as they're taking care of a child that's under age 16, well, it's a worker's child under age 16, fine and dandy, that spouse is going to get a check. Another way is for the spouse to be taking care of a child of any age, but that child was certified as disabled before age 22.

Now, this is very important. If you have either disabled physical or mentally challenged children, you really do want to have this process done. Why? Because you want to have it done before age 22, potentially there could be a benefit. So, if you have a mentally challenged child or someone that's not able to function, they're technically disabled that child could be, and you're in your 60s, that child is now 40, that would qualify somebody without a record to take care of that child. It would also qualify the child. Be aware of that when it deals with children.

Now, children under the age of 18, it doesn't really matter where they are in education. Up to 19, 18 and 19, if they're in high school, and if they're certified as disabled at any time, that's potentially up to 50% of what that is.

Now, what happens when you get to grandchildren? This is a tougher road, a tougher road. Now, one thing, let's pretend for some reason, something happened to you, and I hope this never happens to you, your daughter, your son, and your spouse, and there's grandchildren involved, you adopt them, they're children for these roles. However, let's say I have to take my grandchild in. Here's a couple of rules. One, the natural or adopted parent is disabled or deceased at the time the grandparent became eligible for benefits. So, that has to take place right before it, and the child must live with the grandparent before age 18 and receive one-half the support from the grandparent.

Well, if the parents are not disabled and I'm just taking them in, there's not going to be a payment. Probably what I need to do is look into really adopting the child at this point in time. Be aware that your current family is only going to be allowable, they're only going to be able to, when you take your total benefit, to be anywhere from 150 to 188% of it. So, for instance, your benefit's \$2,000, the total cap would be anywhere from \$3,000 to \$3,600. And that's including you in there. Big families, it's not a ticket to ride. You're not going to go more than 180%. I talked about this in other courses a little bit. Deal with it.

Now, ex-spouses are the queens. Your current spouse are the kings, I should say. Your ex-spouse. You know, as long as the marriage lasted 10 years, they've been divorced for at least two years. And this one is that they're at least age 62 and currently unmarried. Now, the key caveat here is as long as you're at least age 62, and this is not readily shown in the website folks, not readily shown in the website. And I only found this one out on a stumble on a case.

I used to think, well, if you're qualified, you qualified. Well, I had a case and one of my friends called and said, here's the deal. My client is, never worked, stayed at home. He's older than his spouse and he is now divorced. They've been divorced for two years. He's at least 62. He wants to collect on the ex-spouse. Can he do it? I said, "Yeah. He should be able to do it." The problem was the ex-spouse was much younger than this individual and was still four years away from being age 62 so they were not entitled to it. So, the worker has to be at least age 62, otherwise, your ex-spouse is in much better shape than if you were a non-spouse.

So, let's say we have somebody that's what we call dual entitlement, meaning I'm entitled to a payment off of my record, but when I go take a look at my spouse's or for that matter, my ex-spouse, which I'm entitled to, I'm entitled to that benefit.

Now, why is this so important? Well, maybe I'm my own benefit. We already know that there's going to be a limit of anywhere from 150 to 180% of whatever that worker's primary insurance amount, payment, if you will, it's going to be limited to the family. But how much is paid off their record?

So, let's just do the difference. Let's say, and I'm not going to discount it at this point in time, that one half of Karina's, my wife, benefit is \$1,000. And I have a benefit that is \$600, \$600. What happens here is I get paid on \$600 off of my record, and then I'm entitled up to half of what Karina's primary insurance amount is, a thousand, they pay me \$400 off of Karina's record.

Now, once again, what if Tim decides to take it early? He's getting paid to get a reduction, but let's keep it at \$600. Karina hasn't applied. Well, the only money I have is the \$600 due to me. When Karina applies, I'm entitled to the additional \$400. I hope that gives you an idea. I've given you an example here with slightly different numbers.

The one thing to be aware of, if you decide to take the benefit early, and this is this paragraph, because I've just illustrated. Let's say I was entitled to a benefit of a thousand dollars, but I took it early and I got reduced down to \$750, but one half of Karina's is \$1,200. When she applies, what are they going to give me? Well, even though I'm only getting \$750 amount of the payment, they figured that they paid me off of a thousand dollar benefit. I just decided to take it early. They'll just give me the additional amount.

So, there is no free lunch, folks. There is no free lunch. If you take the payments and you keep the payments, well then guess what? You are not going to, how should I say it? You're not going to get the full amount when your spouse goes along. I've given you this nice little chart, the surviving spouse.

Now, we don't talk about surviving spouses in this course here. I do talk about them briefly, but be aware the survivors are really handcuffed these days. What do I mean by it? Well, you die; right? And your spouse is entitled to a payment off of your record as a survivor. And that can be up to 100% at the full retirement age, but they can take it as early as age 62, and what happens is this, that this payment doesn't make you whole, doesn't make you whole. So, you got to be very careful that, and also with disability cases.

So, make sure you have adequate disability insurance, because even if you are getting it, they put limitations on earnings, which can be difficult for anybody who is not at their full retirement age.

Let's get an example. We're going to talk about our friend Abe here. These are full retirement ages. So, it depends on the year that you were born. And as you can see, to be age 65, that was 1937 or earlier. Most of the people I'm dealing with now are somewhere in this range. Some of them are at this point in time just delaying to age 70. But as you can see, could this go up? The answer is yes. One of the things that they are talking about is making this the age of first eligibility.

So, what happens here is this, this is the amount, the age at which you attain and what you're entitled to your full amount of Social Security. Now, remember, you don't have to work. I can just stop working if I'm happy with the benefit, let it ride, take it out a bit. If I wait to my full retirement age, I get the full amount. If I delay, I get a delayed amount. Of course, each month I delay, I get a delayed credit. Each month I take it early they reduce it.

So, let's take a look at this. One of the things is this is a nice little chart. Now, we use these various years. So, the 1943 to 1954, those were 66. And it was people that were 40, late 40s or 40s, the last time they increased the ages that were not impacted by this. But as you can see, this is a nice handy chart. As long as somebody has an indication of what their earnings are or what their benefit is, you can work off of this. Very handy table.

So, let's just go through it. Now, we've already told our friend Abe, this is what we're going to get if you wait until you're age 67. But what if he decides to take this benefit prior to age 67? As we said, there is a reduction in the benefit for each month. Each month you take the benefit early. So, the factor for the first 36 months is 0.56%. That's a little bit more than a half percent, and then for the next anything up to 60 is 0.42%. So, in that case, at age 62, Abe's losing 30% of his benefits, \$752 reduction. You take that payment and he's now \$1,736.30. So, he's only receiving 65% of what of this amount here.

Man, that's a big reduction. That's a big reduction. People are living longer. Look at the changes that have taken place. My dad was a heavy smoker, and he turned 90 last week. He turned 90 last week. He's been retired because he was disabled since his fifties, since his fifties. That is crazy.

One thing I want to warn you, and I already mentioned this, these are the factors that are applied to the worker, our friend Abe, but let's say he had a spouse and maybe the spouse's, I don't know what the spouse's name is, maybe the spouse's name is Debbie. Notice that the factors for the spouse are different. In order to get a spousal benefit, the worker has to apply, but this reduction is predicated not for the spouse, not predicated on the age of the worker, but the age of the spouse. So, potentially you're going to have a worker takes it early, they get a reduction when the spouse is older, they're not going to get a reduction on the 50%. So, it does end up being a kind of interesting situation.

So, let's take a look at this earnings limitation. I want to notice that there is three levels here. And the first level is anytime you take it from age 62 up to the year before you reach your full retirement age. So, if you're an individual and we're just going to use 2025, that's taking benefits early and receiving benefits in 2025, and you have been doing, let's assume it's been a couple of years that you've been doing this, the maximum that you can make without a reduction in earned income, now earned income, wages, Schedule C, partnership income, guaranteed payments does not include S earnings at this point in time is \$23,400. If you go over this amount, you lose \$1 for every two over that amount. And notice I'm giving you this annual amount. For most people, it is done on an annual basis.

Let's say you've been collecting the benefit and in 2025, you are sometime in 2025, you are going to hit your full retirement age. Well, that annual test goes up to \$62,160. So, this gives us a way of, let's say 2025 is the year you're going to turn your full retirement age to get out a little early and maybe earn some additional money. And then of course, afterwards, as long as it's not, be careful of non-qualified deferred compensation because that's treated as current income.

After full retirement for this purpose, I should say, for these early retirements, for this purpose there is no limitation, there is no limitation on earnings once you hit your full retirement. So, once I hit my full retirement age, I could get, I could collect and I can get the full amount of the benefit. So, those are always done on an annual basis. But you know, Tim, I'm not going to take my benefit as the beginning of the year. What happens in that instance? Well, in that case, we're going to use the monthly amounts. And just for the sake of brevity, I'm just going to use this amount here. So, in 2025, you decide to take the benefit, let's say June or in July, June, you take it starting in July. What's going to happen? How are they going to calculate this for you?

Well, as long as you don't make more than \$1,950 in that earned income, you will get that full payment. You'll get that full payment. However, if you go over that amount, here's the mid-year rule. So, you've worked until, say, May. Now, in June, you've gone out and you're getting this. You didn't earn \$1,950, you're fine. But if you go over this \$1,950 by \$1, they say, "You know, we want to look at all the earnings you had part of this time."

And so, in that case, what they end up doing is bringing in the earnings prior to this. So, you need to be very careful if you are a mid-year retiree, because they bring into that month any amounts that are that you earn prior to it, prior to your, your full retirement age. So, I go over this by one dollar. All of a sudden they'll bring in that it's five months earnings and say, "Tim, you've to pay us that amount back." Be very careful.

All right. So, let's see it. The amounts are applied annually except for mid-year retirees. The test is counted when the earning, it's earned not paid. So, if you had some retirement flowing through after the fact, it wouldn't burden you. No reduction for any under-earned income, interest, dividends, rents, rentals, retirements, annuities. And here's the key. And I want to change the language because this is the way it is stated.

If you're taking the benefits early, you cannot, you're a business owner. You know it says self-employed, I want to use the word business owner. You're a business owner. You cannot get a payment for early payments of Social Security if you're performing substantial services in your business. And we go into this more detail a little bit later, but essentially that could be providing more than 15 hours a month to your business and for, let's say low skilled businesses possibly up to 45 hours a month.

So, tax pro you're doing more than 15 hours even though you took your wages down to get payments and you're trying to shift it to your spouse, the earnings from the company, that isn't going to work, be careful of it. Big problem with taking the benefits early, Not available to, Medicare is not available to age 65.

I'm giving up working, health insurance is tied to employment. And I had a client who's goofy. Goofy just decided, going to take Social Security at age 62, gave up working and then said, "Where am I getting my health insurance?" And health insurance pretty much is eating up the entire check. Not a good idea. And you have to deal with the earnings limitation. You have to be dealing with the earnings limitation. Of course, the permanent reduction in benefits for taking it early.

One thing, remember taking it early could help some other family members collect off your record. And if you decide to delay, meaning your delay, the only one that benefits you is the worker, you the worker. And while you're alive, no one else is getting any other benefit on it. If you die, your surviving spouse potentially could end up on it.

So, a lot of people are delaying and delaying why? Well, it's an 8% rate of return, which until recently sounded very well good. But one thing you need to be aware of when you decide that you're really hanging the skates up or you're very close to retirement and you're going to have to live off of that pot of money, you really cannot deal with the extremes of the market that you did when you're in your 20s and 30s and maybe even 40s and early 50s. Why? Because the market can have a turn down that could last 5 to 10 years.

If you go back and take a look at those poor suckers that were looking to get out in 2008 and decided, "Well, I'll retire next year. I'll cash out my 401(k)s then and do something with it." A lot of those folks had to put the retirement on a back burner. Safe rates of return are really in this year where you're jeopardizing principles. So, where are you going to get an 8% return? If you looked at it from a risk management point, perspective, and this is an annuity that's paid out over your lifetime. So, if you're very healthy, you know, where are you going to get an 8% return? That would be something to deal with. I have had it.

Now remember the delay and the earnings reductions are based on the number of months. So, even though it's an 8% per year, if you delay one month, technically you're entitled to one month of delay, there is no delayed earnings credit beyond age 70. So, at this point in time, no one, I repeat, no one should be delaying beyond age 70. I did have a case a little bit later.

So, let's do this. It goes out to age 70. All of a sudden based on my math before, before we have any kind of cost-of-living increase, the base payment is \$3,086.30. Of course, don't go beyond age 70. So, when we take a look at Abe, these are his alternatives as of now. That'll change. That'll change. He keeps working.

Now, one thing to be aware of, even though we do not index your wages after starting with your 60th year, you are entitled to cross the living increases starting in with age 63. Now, this is a very important piece. This one here and this one here, well, they're going to go back and look at the cost of living increases and put them on these amounts, which means if you take it early and you're getting any reduction, well, yeah, the next year you got to cost a living increase, but it's on a smaller number. It's on a smaller number. So just rest assured that you will be entitled to that.

One thing that used to be big people would take the money early and then say, "Wait a minute. I want to pay it back and I want to get even with you." You can still do that. However, we're given a 12-month window change your mind.

So, let's say the following, and we go through economic times, bad economic times. Here you are. You really want it to delay on your Social Security, but lo and behold, stuff happens. The world falls apart. All of a sudden you need the money, you lose the job or the business goes down and you start taking the benefit. Ah, you're, you're out of luck, but you're the type of person that doesn't give up.

So, you start looking around, you find a great opportunity or created a great opportunity and all of a sudden you're making too much money. Well, one thing you can do there is what we call reset, reset. Now, what that allows you to do, you just turn around and repay Social Security, the total amount of money that you got in terms of what you got personally, any reductions, that includes any withholdings that were paid in, Medicare payments, any amount the wife and the kids or the family and the kids got, I should say, and you're even no interest charge. At one point in time that was unlimited. Now it's a 12-month window.

Be careful. Taking benefits early. It severely handicaps the amount of money if you're making it. My people that are really taking it prior to full retirement age are those who can't continue to work or have so much money and do not trust the U.S. government.

We already talked about Medicare not being available to age 65. Again, yes, Medicare age is younger than Social Security. And there was some talk at one point in time to reduce the Medicare age. Well, why would you want to do that in a program that's going broke? Because younger people are supposedly healthier. But whether that'll happen or not, and of course, one thing is your family can't access the benefits until you do.

Now, what happens if we did the following? You know, it gets a little bit tougher in this decision. It's easy if you're dealing with an individual. Let's pretend there's another person involved. This is where the planning gets a little bit more involved. And we need to spend some time here. Potentially, there could be other people getting benefits. I think the best way to do this is apply online if you're looking at it.

Start three months earlier. Start three months earlier. I'm sorry about that. That is an overflow. I don't know why that happened. This is the information you need. I don't think we need to spend any time. Talk about it. One thing I do want to mention here, I've already kicked this thought. Medicare starts at age 65. But the other part is for those of us who have full retirement ages over 65, you need to be careful. Here's why.

One, there can be a penalty placed on your Medicare at 10% for each 12 months you delay in retiring if you do not have qualified group health coverage. So, once you have qualified group health coverage, you're fine. But, you know, let's say you decide to wait for 70 and that's five years and you don't have that coverage because it doesn't qualify group coverage. I'd be a 50% tack on both Part A and Part D premiums in addition, in addition to what you are going to pay if your income's too high with an IRMA adjustment and dealing with it.

Now everything when you see that form is just an estimate. When I'm dealing with clients I round everything. I don't get bogged down in too many data points, and the other piece is There is no absolute right answer.

When I was doing this planning for my parents, my mom was the family that had all longevity. Mom never smoked, didn't really drink except for a little bit of wine, where pop, you know, he smoked, he drank. Mom's been gone 14 years now, dad's still alive and kicking. And so, there's no guarantee about this. You can plan to what your objectives are. Just want to make you aware of this.

These are the history of the cost of living increases, the COL. Once we get to that factor, and even if they delay, I'm entitled to that delay, or excuse me, the cost of living adjustments. Starting with age 63, I already mentioned this, the average has been 2% since 2000, the year 2000. There have been three years in which there is no cost of living increase.

Unfortunately, the way the government does this calculation, it's very difficult, very difficult for these retirees to keep up on inflation. Why? Well, what costs tend to rise the most? Housing. And that would include such things as nursing homes, medical care and drugs. The legal kind, folks, not the ones that are not legal, legal kind drugs, are much more expensive.

So, cost of living, maybe it does, maybe it doesn't, I don't think it does. So here we go. This would be our alternative, someone who would say could be entitled to \$2,000. These are just made-up numbers based on it. Their full retirement age was 66. They could get \$1,500 here at age 66. Now, what happens is this increases, and these I've adjusted to include a 2% cost of living.

You can see the amounts at age 66. I'm getting an additional \$500 bucks here. Here I got, look at the difference between age 70 and 66 at this point in time. And you have got to be careful. People need to see this. The people who are going to take it early are the spenders. I've had so many member clients that have said, "You know what? I want to do this S Corporation and save the tax." And I've always said to them, "If we're going to do this, let's make sure we do the following: put a 401(k) in and you're going to take the tax savings and you're going to save it in the 401(k)." All right. Well, see how that one does.

So, they get the money in their hands. They may keep it. They may keep it for a few months, but eventually something bright and shiny comes along. And those are the people I'm always worried about, the folks that are spenders.

I have a little process here. Where do you get free stuff? A lot of good stuff, ssa.gov. These are great publications. Now, if you cater, this is an actual government program, if your practice is a majority women, this is a great publication. And what you can do with these things is take these publications and make them your own as if you were the one who created it. You created it because you, as a government, as a voluntary taxpayer, you've paid to have these things in so you can repurpose them. And what I've found a lot of books in Social Security are just repurposed for it.

Another thing is there's some great calculators on the Social Security website. I like the retirement estimate. Now, to do this, it's a little clunky, but you can use your own earnings and do your own calculations on it. One of these calculations, this one here, understanding the benefit, it'll actually take you through your own calculation if you so choose. And just good things for you younger folks that are away from retirement, you know, it's 20 plus years off, the quick calculator will give you a great little estimate with that.

There are commercial calculators available. Social Security Analyzer is one that I used in the past. Unfortunately, I just don't use it as much as I did, and reason being I'm sort of a spreadsheet, sheet maven, and a lot of things that could reproduce. However, it's great for if you're trying to be that advisor in financial, you're going to bring the Social Security in because as a backup to it, they'll answer your questions, maximize your My Social Security. I've heard a lot of good things about it, but I've never used it.

How you deal with this. You're going to help people. You need to ask, get their statements. You need to ask them some questions, and you've got to teach them how to analyze the statements. Keep the statements we've already talked about. They're not mailing the statements to anybody. They need to go on and get their own My Social Security Account. That's where you go. This is the information you can get that you need to do that. It's ssa.gov. This will allow you to replace your Social Security card, apply status of an application. So, I applied, going to let me check on it. Get the Social Security statement.

I maybe am buying or getting a new home or new rental, proof of income and replace the Form 1099. Let's just say Form 1099. These are personal use. We cannot open them up for our clients. These programs, when you deal with these estimates, they're all estimates, the only time you're get the real numbers when you apply, but they are helpful. They really are helpful in this instance.

And older clients, these are the folks I really take a look at. Younger clients, I'm going to take a look at using the quick calculator. One thing, it's always good to take a look and peruse your Social Security statement and read your Social Security statement. People don't read it, they misunderstand it.

Questions I'm asking for people. All right. What's your expectation, your longevity? I let them answer it. And it's kind of comical. I've had some people come in here, they look great. They don't think they're going to make it. And then you got the guy that can't go up three steps and is huffing and puffing and thinks they're going to make it to 110 because their great, great grandfather was an explorer who made it and worked out every day. It's kind of funny. I don't tell them, I don't do this. "You know, dude, I don't think you're going to make it to the end of the day. Take it now." But some of them, maybe you should have considered that life expectancy.

How much money have you? What's your financial position? And this is where we yield. This is where we yield, I know a lot of financial plans. I'm not knocking financial plans because a lot of good ones out there come up with great ideas, but they're not budget oriented, and they rely on what clients tell them. And if you ever listen to a client, how much they really spend in life. They're always way off. They're always way off.

If they're a saver, they think they spend a lot more. The spenders think they save a lot more. And sometimes you have to acid test that. And by looking at the tax return and doing some add backs, you can pretty much figure out whether they're telling you the truth or not. And plus, one of the things that we have to remember, this is going to be taxable income to most of our clients.

Can they give up, can they afford to give up the earnings? Not everybody can afford to give up the earnings at this point in time. It's better to work now, work a little bit longer, or maybe even part-time rather than have to go back in your 80s, your 90s. I ended up taking my father-in-law into the house because by the time he was 79, he just didn't have the cash. It was just, he cashed out early, took early retirement, didn't have any money. He was really scraping by.

So, he came in, he lived with really long time, but actually turned out to be great, great thing because he was so worldly with knowledge about the history of Philadelphia and was just really man, amazing, including things that he told me about Atlantic City back in the day that I thought were great.

Anyway, questions, have you ever been married before? Why do we want to know that? Well, potentially I could have a benefit off of someone else's record. But common law marriages exist because of a common law marriage. So, if you're married for state tax purposes, you're married for Social Security purposes. And one thing, this is something that you want to be aware of, especially if you deal with same sex couples that they're entitled to it. If I'm going through a process and having somebody delay their benefit, is there anybody who's going to be able to collect off of that benefit?

And then finally, when we deal with it, we look at that. I'm talking to clients and talking about that Social Security Fairness Act with government workers. We have this full step here with regard to analyzing the Social Security statement. Please read the statement. Please read the statement. It gives us some good information, but when we take a look at this, it only infers certain things.

First off, when they gave you that calculation, they say retirement benefits, they're always taking the last posted year that you made earnings in, and they're extrapolating that for the rest of your working lifetime. So, if you're \$55,000, they're going to keep you around the \$55,000 equivalent. That's what they're showing you. The problem is, if you're dealing with a year that's an outlier, either too high or too low, that's really impacting the benefit. It's all guesswork associated with it.

Already talked about the Windfall Elimination Provision. This bank statement, excuse me, this statement has a lot less information than the old statement. Notice that the first 30 years in this instance are all bracketed. Well, how am I going to find out if that information is true? Well, you need to have your own My Social Security Account on it.

This last page, it always upsets me, how much money I paid in. Now, the other part is they'll tell you that your benefits at various ages. Great. But even though myself and Ms. Karina have been married for, coming on 40 years, we -- they don't tie Tim and Ms. Karina together. So, any of, you know, your spouse, any benefit you could get off your spouse, it's not including that in your benefit.

People used to, on the old statement, confuse this information because it seemed that this would be the spousal benefit. Please note it is the only time they mentioned your family is either is if you die. That's the only thing they're doing with that and then where to go for more information. So that's it.

SUPPLEMENTAL MATERIALS

Social Security Retirement: Understanding the Benefits

by Timothy J. Sundstrom, CPA and CFP

By Executive Order

Signed on March 25, 2025 – Eliminated the issuance of paper check and is to be implemented by January 1, 2026.

- SSA is to actively contact beneficiaries to update payment information
- Payments to be made by direct deposit or prepaid debit cards.

The order also placed a similar condition on Treasury Effective September 30, 2025– no paper checks for all federal disbursements. Including tax refunds.

The order also stipulates that payments made to the federal government (including taxes, fees, fines and loans must be processed electronically as soon as practicable.

- Limited exceptions for those without banking or electronic payment systems.
- Treasury is tasked with providing guidelines

1

Changes Made By SSA

- SSA has updated its direct deposit processing – reduced the time from 30 days to within one business day.
- Overpayment Policy: SSA initially reinstated a 100% overpayment recovery rate that was later revised to 50%.
- Repeal of the Windfall Elimination Provision and Government Pension Offset – 1 million are still waiting on payment increases.
- Stricter Identity Verification: Individuals applying for benefits must verify their identity in person at a Social Security Office if they cannot use the online portal. This is the elimination of the phone change.
- New SSA Commission – Frank Bisignano.

2

Why Get Involved in Social Security Retirement Planning?

3

Why Do We Want to Know this Information?

It is estimated 10,000 baby boomers are turning 65 each day. The last will turn 65 in 2030.

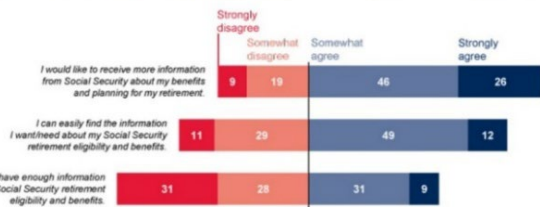
Most Americans nearing or at retirement age have very little understanding of their Social Security benefits and as a result Social Security planning has now come to the forefront.

Social Security planning represents a great opportunity for those practitioners who are seeking year-round counseling and financial planning fees.

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<https://www.ssa.gov/policy/docs/rsnotes/rsn2016-03.html>

Chart 2.
Nonretiree views on availability and adequacy of information on Social Security benefits, 2015 (in percent)

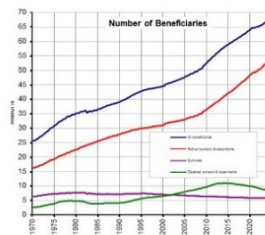


SOURCE: University of Southern California, Understanding America Study (preliminary results for July 2015–January 2016).
NOTE: Rounded components of percentage distributions do not necessarily sum to 100.

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Number of Beneficiaries in Millions

Graph – Indicates the number in millions receiving Social Security Payments.



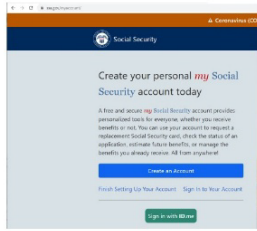
Beneficiaries receiving benefits at the end of June 2024	
All beneficiaries	67,870,379
Retired workers and dependents	53,758,043
Survivors	5,800,319
Disabled workers and dependents	8,312,017

<https://www.ssa.gov/oact/ProgData/icpGraph.html>

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What is the Easiest Way to Become the Expert?

- Start with yourself and your own family.
- Access your own "my Social Security" Account.
- Play with the calculators!
- It is all available at www.ssa.gov



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Cost-of-Living – Adjustment (COLA)

- The latest **COLA** is **2.5** percent for Social Security benefits and SSI payments. Social Security benefits will increase by 2.5 percent beginning with the December 2024 benefits, which are payable in January 2025.
- For 2024 the COLA was 3.2%



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Cost-of-Living – Adjustment (COLA)

COLA measures the changes in the CPI-W for the 3rd QT of 2023 with the 3rd QT of 2024.

	CPI-W for—	
	2023	2024
July	299.899	308.501
August	301.551	308.640
September	302.257	309.046
Third quarter total	903.707	926.187
Average (rounded to the nearest 0.001)	301.236	308.729

$$(308.729 - 301.236) / 301.236 \times 100 = 2.5\%$$

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Average Wage Index

- The Average Wage Index (AWI) is SSA's measurement of the changes in worker wages during the year.
- These statistics are generated by comparing the changes in wages two years prior with the wages three years prior.
- It is a driver for the SSA benefit. –The wage index is used in the benefit calculation.
- The index that applies is two years before the year that you turn age 62 (for retirement).
- The net change in AWI between 2022 and 2023 was 4.43%



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Average Wage Index

Besides the Benefit the Average Wage Index is used in calculating the following:

- OASDI contribution and benefit base (taxable maximum)
- Exempt amounts under the retirement earnings test
- Formula for computing the primary insurance amount (the basis for benefits)
- Formula for computing maximum family benefits
- Amount of earnings needed to earn a quarter of coverage (or credit). Quarters of coverage are needed to become insured.
- "Old-law" contribution and benefit base—used to determine earnings needed for a "year of coverage"
- Coverage thresholds for domestic and election workers
- Substantial gainful activity amounts for disabled beneficiaries

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Annual Adjustments for 2023, 2024 and 2025

	2023	2024	2025
Tax Rate Employee	7.65%	7.65%	7.65%
Tax Rate Self-Employed	15.30%	15.30%	15.30%
Maximum Taxable Earnings SS (OASDI)	\$160,200	\$168,600	\$176,100
Maximum Taxable Earnings Medicare	No Limit	No Limit	No Limit
Quarter of Coverage Earnings	\$ 1,640	\$ 1,730	\$ 1,810
Earnings Limitation 62 to year before FRA – Annual	\$ 21,240	\$ 22,320	\$ 23,400
Earnings Limitation 62 to year before FRA – Monthly	\$ 1,770	\$ 1,860	\$ 1,950
Earnings Limitation – Full Retirement Year – Annual	\$ 56,520	\$ 59,520	\$ 62,160
Earnings Limitation – Full Retirement Year – Monthly	\$ 4,710	\$ 4,960	\$ 5,180
Earnings Limitation Beginning month of FRA	None	None	None

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What can I Expect to Collect?

Estimated Average Monthly Social Security Benefits Payable in January 2025

	Before 2.5% COLA	After 2.5% COLA
All Retired Workers	\$1,927	\$1,976
Aged Couple, Both Receiving Benefits	\$3,014	\$3,089
Widowed Mother and Two Children	\$3,669	\$3,761
Aged Widow(er) Alone	\$1,788	\$1,832
Disabled Worker, Spouse and One or More Children	\$2,757	\$2,826
All Disabled Workers	\$1,542	\$1,580
Maximum Benefit at Full Retirement Age	\$3,822	\$4,018

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New Law – Social Security Fairness Act

- Signed into law on January 5, 2025
- Retroactively eliminated as of 1/1/24 for those who received pensions for work for which they did not pay into Social Security:
 - Government Pension Offset (GPO)
 - Windfall Elimination Provision (WEP)
- Workers Impacted
 - State workers including teachers, firefighters, and police officers,
 - Civil Service Retirement System Employees
 - People covered by a foreign social security system
- Retroactive payments started in February 2025.

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Quick Overview of the System and Funding.

Social Security Act Signed into Law on August 14, 1935



The Social Security Trust Fund

- The trust fund is an account that is held with the US Treasury Department
- The funds are invested in "special" government bonds.
 - Interest-bearing similar to Treasury bills.
 - Pegged to medium/long-term treasury bonds.
 - Not available on the market.
 - Backed by the full faith credit of the US Government.
 - The special bonds are redeemed to make the payments.
- For 2024, the fund average was 4.271% – normally released the following May
- Historically has returned 2.0% to 2.4% (www.ssa.gov/oact/progdata/fundFAQ.html).

The Social Security Trust Fund

Month	2020	2021	2022	2023	2024
January	2.000	0.875	1.625	4.000	4.000
February	1.625	1.125	1.875	3.625	4.125
March	1.250	1.375	2.000	4.125	4.375
April	0.875	1.625	2.500	3.625	4.250
May	0.750	1.500	3.000	3.625	4.750
June	0.750	1.500	3.000	3.875	4.625
July	0.750	1.500	3.125	4.000	4.500
August	0.625	1.250	2.875	4.125	4.125
September	0.750	1.375	3.375	4.250	4.000
October	0.750	1.500	4.000	4.750	3.875
November	0.875	1.625	4.250	5.000	4.375
December	0.875	1.500	3.875	4.500	4.250
Average	0.990	1.396	2.958	4.125	4.271

Social Security Trust Fund Returns since 2020.

Source: <https://www.ssa.gov/oact/progdata/newIssueRates.html>

The Social Security Trust Fund

- That's Great!
- The trouble is that while the investments have the full backing of the US Government, there is no account with your name on it.
- A law can be passed at any time changing your benefit.



Ratio of Workers Per Beneficiary

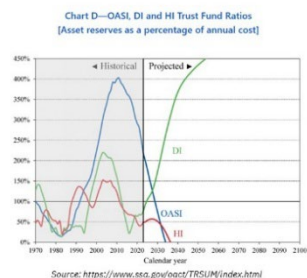
Year	Ratio
1940	159.4
1950	16.5
1960	5.1
1970	3.7
1980	3.2
1990	3.4
2000	3.4
2010	2.9
2020	2.7
2040	2.1

2024 Social Security Trustee' Report

Both Social Security and Medicare will experience cost growth in excess of GDP in the mid 2030's because of Boomers retiring.

The Old-Age and Survivors Insurance(OASI) reserves will be depleted by 2033. Program income sufficient to pay 79% of the benefit.

2024 report HI depleted in 2036



Earning Benefits – <https://www.ssa.gov/oact/cola/QC.html>

- Benefits are earned based on Social Security Earnings.
- To receive a retirement benefit you must have at least 40 quarters or 10 years of earnings.
- After 1974, there is no requirement that the credits be earned in a calendar quarter. Accordingly, four credits can be earned in one day for the entire year.
- Note:** Even though you only need 10 years of credits the benefit is calculated using 35 years. However, the 10 years will also qualify you for Medicare.

Annual Adjustments for 2023, 2024 and 2025

	2023	2024	2025
Tax Rate Employee	7.65%	7.65%	7.65%
Tax Rate Self-Employed	15.30%	15.30%	15.30%
Maximum Taxable Earnings SS (OASDI)	\$160,200	\$168,600	\$176,100
Maximum Taxable Earnings Medicare	No Limit	No Limit	No Limit
Quarter of Coverage Earnings	\$1,640	\$1,730	\$1,819

So, if you earn \$7,240 in earnings during the year you earn 4 quarters of coverage regardless of when they are earned.

How Does the System Work

- System is funded by employer and employee payroll/self-employment taxes.

Payer	OASI	DI	Medicare	Total
Employee	5.3%	0.90%	1.45%	7.65%
Employer	5.3%	0.90%	1.45%	7.65%
Self-Employed	10.6%	1.8%	2.90%	15.30%

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Fully Insured

- Please note the rules for Social Security Disability and Survivor Benefits are different from Retirement.
- When talking with someone about SSA, it is important to know under which program they are collecting.



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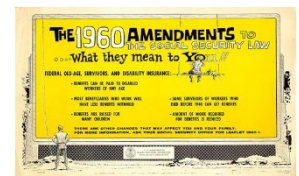
Understanding the Benefit Calculation

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Changes in Social Security

Year	Change
1956	Early retirement for Women
1961	Early retirement for Men
1965	Medicare Program
1972	COLA – to be paid starting in 1975
1983	Gradual raising of retirement age to age 67
1983	Taxation of Benefits beginning 1984



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How is the SSA Retirement Benefit Calculated?

- SSA tracks the earnings history for all workers with SS income – Wages, Self-employment earnings.
- Nominal Wage – The maximum used for any one year is the maximum taxable SS income for that year.
- SSA accounts for changes in earnings level using "indexing".
- The year of first eligibility is the year that the worker turns 62.
- The indexing year is 2 years before the year of first eligibility or year the worker turns 60.**
- For those turning 62 in 2025 the indexing year is 2023.**

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What is Indexing?

- Indexing is SSA way of converting past earnings into present dollars.
- Every year SSA calculates the average SS earnings for all workers for the year as part of it's "National Average Wage Indexing Series".
- To bring past years earnings to the present SSA will take the workers earnings and multiply it by the average wage for their indexing year divided by the average wage for the year being indexed.
- Example:** To index the 1997 wages for someone turning Age 62 in 2025:
 - Nominal Wage for 1997 times Average wage for index year (2023) divided by the average wage index for 1997.

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What is Indexing?

- After the nominal ages are indexed, SSA will use the 35 highest years to calculate the Average Indexed Monthly Earnings (AIME).
- The AIME is SSA's time weighted average monthly earnings for that worker.
- The AIME is used to calculate the worker's Primary Insurance Amount (PIA).
- The PIA is the amount that the benefit the worker will receive at their full retirement age.
- Please note the current group of eligible retirees have full retirement ages from 66 to 70.

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Getting the Wage Indexing

Indexing earnings
When we compute a person's benefit, we use the national average wage indexing series to index that person's earnings. Such indexing ensures that a worker's future benefits reflect the general rise in the standard of living that occurred during his or her working lifetime.

Eligibility and indexing
Wage indexing depends on the year in which a person is first eligible to receive benefits. For retirement, eligibility is at age 62. So if a person reaches age 62 in 2025, then 2023 is the person's year of eligibility.

An individual's earnings are always indexed to the average wage level two years prior to the year of first eligibility. Thus, for a person retiring at age 62 in 2025, the person's earnings would be indexed to the average wage index for 2023 (66,621.80). Earnings in a year before 2023 would be multiplied by the ratio of 66,621.80 to the average wage index for that year; earnings in 2023 or later would be taken at face value.

A person's indexed earnings are used to calculate an average indexed monthly earnings (AIME) amount. We use this AIME amount to compute the person's primary insurance amount.

Year of eligibility
Note: If you select a year after 2025, we will use average wage changes that were estimated under the intermediate assumptions in the latest Trustees Report.

Enter the year of eligibility for which you want indexing factors: 2025

Submit request

www.ssa.gov/OACT/COLA/awifactors.html or Google "Indexing Factors for Earnings".

This generates a list of the factors.

If you are estimating for someone after 2025 the program uses the assumptions from the latest Trustee's Report.

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Factors for those Turning 62 in 2025			
Year	Factor	Year	Factor
1960	10.517781	1994	2.809712
1965	10.300045	1995	2.696621
1970	11.676817	1996	2.578705
1967	17.773886	1997	2.426148
1968	16.896016	1998	2.289171
1969	13.353797	1999	2.168483
1970	10.769252	2000	2.070707
1971	10.221411	2001	2.028131
1972	9.338884	2002	2.000537
1973	8.746807	2003	1.985726
1974	8.205828	2004	1.968885
1975	7.712849	2005	1.952882
1976	7.220717	2006	1.722858
1977	6.821235	2007	1.448821
1978	6.311255	2008	1.611754
1979	6.803546	2009	1.846435
1980	6.724311	2010	1.956848
1981	4.837096	2011	1.500079
1982	4.864898	2012	1.503183
1983	4.372727	2013	1.488473
1984	4.122650	2014	1.433197
1985	3.960277	2015	1.385106
1986	3.846117	2016	1.348851
1987	3.635841	2017	1.323913
1988	3.443259	2018	1.277506
1989	3.261392	2019	1.231517
1990	3.168245	2020	1.197018
1991	3.064743	2021	1.096822
1992	2.904786	2022	1.044019
1993	2.879888	2023	1
		2024	1

Explanation at www.ssa.gov/pubs/EN-05-10070.pdf

Warning the factors change annually and differ depend

How is the SSA Retirement Benefit Calculated?

- To be eligible for retirement benefit the taxpayer must have at least 40 quarters or 10 years of credits.
- The benefit is figured on the 35 highest income years (after indexing).
- The total income is divided by 420 (the number of months in 35 years) and rounded down to the lowest dollar to yield the average indexed monthly earnings (AIME).
- Once that AIME is calculated a formula is applied to determine the Primary Insurance Amount (PIA) or the amount the worker would receive at full retirement age.
- After age 60, there is no indexing of wages; however, the payment is adjusted by the cost-of-living adjustment or COLA starting at age 63.

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National Wage Indexing Series

national average wage indexing series, 1953-2021

Year	Index	Year	Index	Year	Index
1953	2,096.32	1975	6,249.44	2001	35,919.33
1952	2,071.32	1977	6,779.44	2002	35,232.02
1951	2,031.32	1978	7,009.44	2003	34,649.03
1950	2,011.32	1979	7,147.44	2004	34,066.04
1949	1,991.32	1980	7,237.44	2005	34,012.04
1948	1,971.32	1981	7,375.44	2006	34,047.04
1947	1,951.32	1982	7,431.44	2007	40,012.04
1946	1,931.32	1983	7,529.44	2008	41,334.97
1945	1,911.32	1984	7,615.44	2009	40,711.61
1944	1,891.32	1985	7,624.44	2010	41,334.97
1943	1,871.32	1986	7,701.44	2011	42,076.01
1942	1,851.32	1987	7,848.44	2012	44,334.97
1941	1,831.32	1988	7,919.44	2013	44,400.00
1940	1,811.32	1989	8,009.44	2014	46,012.04
1939	1,791.32	1990	8,109.44	2015	46,068.04
1938	1,771.32	1991	8,181.44	2016	46,432.04
1937	1,751.32	1992	8,289.44	2017	46,512.04
1936	1,731.32	1993	8,310.44	2018	52,140.04
1935	1,711.32	1994	8,379.44	2019	54,012.04
1934	1,691.32	1995	8,479.44	2020	54,012.04
1933	1,671.32	1996	8,579.44	2021	60,711.61
1932	1,651.32	1997	8,679.44		
1931	1,631.32	1998	8,809.44		
1930	1,611.32	1999	8,909.44		
1929	1,591.32	2000	9,110.44		

- Social Security adjusts past earnings using the National Wage Index.
- The Index does not always increase:
 - 2009 – the average decreased from 2008 – \$41,334.97 to \$40,711.61.
 - Those turning 62 in 2023 received the highest increase.

Example: Calculating Average Indexed Monthly Wages

The indexing is applied up to nominal earnings for each year.

The 35 highest years is selected and totaled.

The 5 being deleted are in Red.

The total for the 35 remaining years was divided by 420 months to come to the average indexed earnings or AIME.

Please note: AIME is not the benefit! The next step is to calculate the Primary Insurance Amount (PIA).

Year	Case Also Born in 1961		
	Nominal Indexed earnings factor	Indexed earnings	Indexed earnings
1985	\$15,729	3,9603	36,2291
1986	16,247	3,9461	62,4489
1987	17,337	3,4615	62,6483
1988	18,248	3,4453	62,3779
1989	19,030	3,3146	63,0777
1990	19,571	3,1682	63,2739
1991	20,763	3,0544	63,8171
1992	21,917	2,9104	63,6661
1993	22,176	2,898	63,6444
1994	22,840	2,8047	64,0060
1995	23,628	2,6966	64,2355
1996	25,070	2,5709	64,4452
1997	26,014	2,4291	64,6499
1998	26,922	2,3083	64,8486
1999	29,747	2,1863	65,0481
2000	31,487	2,0719	65,2538
2001	32,385	2,0236	65,4534
2002	32,718	2,0028	65,6521
2003	33,659	1,9557	65,8528
2004	35,329	1,8689	66,0535
2005	36,792	1,8029	66,2542
2006	38,532	1,7237	66,4548
2007	40,401	1,6483	66,6553
2008	41,562	1,5811	66,8558
2009	40,946	1,8304	67,0565
2010	42,017	1,5958	67,2572
2011	43,481	1,5501	67,3999
2012	44,609	1,5031	67,5955
2013	45,677	1,4842	67,7938
2014	47,435	1,4333	67,9959
2015	49,097	1,3851	68,1985
2016	49,927	1,3696	68,3832
2017	51,799	1,2939	68,5777
2018	53,037	1,2778	68,7754
2019	56,007	1,2315	68,9760
2020	57,754	1,1976	69,1807
2021	60,964	1,0994	69,3844
2022	66,650	1,0443	69,5860
2023	69,756	1	69,756
2024	72,233	1	72,233
Highest 35 total			2,357,744
AIME			5,596

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The 35 highest years is selected and totaled.

The total for the 35 remaining years was divided by 420 months to come to the average indexed earnings or AIME.

Example: Calculating Average Indexed Monthly Wages

The indexing is applied up to nominal earnings for each year.

The 35 highest years are selected and totaled.

The 5 being deleted are in Red.

The total for the 35 remaining years was divided by 420 months to come to the average indexed earnings or AIME.

Please note: AIME is not the benefit! The next step is to calculate the Primary Insurance Amount (PIA).


Case Also Born in 1963						
Year	Nominal Indexing	Indexed earnings	Year	Nominal Indexing	Indexed earnings	
1985	\$15,729	3,9603	2023	35,329	1,8689	16,025
1986	16,247	3,9461	2024	36,730	1,8029	16,620
1987	17,237	3,8155	2025	38,532	1,7237	16,6416
1988	18,248	3,4558	2026	40,482	1,6488	16,613
1989	19,030	3,3146	2027	41,452	1,6118	16,6810
1990	19,571	3,1682	2028	40,946	1,6394	8,0065
1991	20,780	3,0544	2029	42,037	1,5958	8,2202
1992	21,918	2,9048	2030	43,481	1,5501	67,999
1993	22,178	2,88	2031	44,969	1,5031	67,998
1994	22,940	2,8547	2032	45,877	1,4842	87,759
1995	23,828	2,6965	2033	47,435	1,4335	67,998
1996	25,070	2,5709	2034	49,227	1,3851	68,885
1997	26,614	2,4291	2035	49,927	1,3696	68,882
1998	28,092	2,3083	2036	51,799	1,3299	68,885
1999	29,447	2,1865	2037	53,031	1,2776	68,775
2000	31,487	2,0719	2038	56,007	1,2315	68,880
2001	32,335	2,0238	2039	57,754	1,1975	19,167
2002	32,719	2,0038	2040	59,637	1,0999	19,684
2003	33,659	1,9557	2041	66,509	1,0443	59,560
			2042	69,756	1	69,756
			2043	72,238	1	72,238
						2,353,744
						AIME: 5,556

The 35 highest years is selected and totaled.

The total for the 35 remaining years was divided by 420 months to come to the average indexed earnings or AIME.

What is the Primary Insurance Amount?

- The *Primary Insurance Amount* is the monthly benefit the worker will receive at full retirement age.
- Like the indexing the year, the formula for the year of first eligibility is used for the calculation or the year you turn 62.


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PIA Formula – 2025

For an individual who first becomes eligible for old-age insurance benefits or disability insurance benefits in 2025, or who dies in 2025 before becoming eligible for benefits, his/her PIA will be the sum of:

- (a) 90 percent of the first \$1,226 of his/her average indexed monthly earnings, plus
- (b) 32 percent of his/her average indexed monthly earnings over \$1,226 and through \$7,391, plus
- (c) 15 percent of his/her average indexed monthly earnings over \$7,391.

• We round this amount to the next lower multiple of \$.10 if it is not already a multiple of \$.10.

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- (a) 90 percent of the first \$1,226 of his/her average indexed monthly earnings, plus

PIA Formula – 2024


For an individual who first becomes eligible for old-age insurance benefits or disability insurance benefits in 2024, or who dies in 2024 before becoming eligible for benefits, his/her PIA will be the sum of:


- (a) 90 percent of the first \$1,174 of his/her average indexed monthly earnings, plus
- (b) 32 percent of his/her average indexed monthly earnings over \$1,174 and through \$7,078, plus
- (c) 15 percent of his/her average indexed monthly earnings over \$7,078.


We round this amount to the next lower multiple of \$.10 if it is not already a multiple of \$.10.


Age of first eligibility is age 62.

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- (a) 90 percent of the first \$1.174 of his/her average indexed monthly earnings.

- Age of first eligibility is age 62.

Social Security Bend Points

- Can Be found at: <https://www.ssa.gov/OACT/COLA/bendpoints.html#fn>

Year	Dollar amounts in	
	First	Second
2019	926	5,583
2020	960	5,785
2021	996	6,002
2022	1,024	6,172
2023	1,115	6,721
2024	1,174	7,078
2025	1,226	7,391

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Planning Points

- If you continue working you can only increase the benefit, never lower it.
- To increase the AIME you need to replace "zero" or lower indexed amounts with higher wages.
- SSA refigures the benefit annually and once again at your full-retirement age.
- It takes SSA well into the following year to refigure the benefit.
- The benefit is calculated retroactively to the beginning of the year.

EXAMPLE: Jim continued working and earned \$100,000 this year. It took SSA until October of the following year to refigure the benefit. Later, Jim would receive a payment a recalculated payment in November along with an adjustment back to the beginning of the year.

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Family Considerations



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Ancillary Benefits



- It is not unusual for both spouses to be workers which could lead to additional payments from the spouse's worker record.

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Example – ABE Continued Calculation of the Primary Insurance Amount.

- ABE's Primary Insurance Amount
- If Abe were at his full retirement age(FRA) of 67, he would receive the full payment. There is no limit on his earnings!
- If Abe decides to retire at age 62 or prior to his FRA, the benefit will be reduced, and he will be subject to an earnings test. The reductions are done on a monthly basis
- If Abe delays, he will receive a delayed earnings credit for each month he delays. No reason to delay beyond age 70!

Abe's Average Indexed Monthly Earnings				\$ 5,556.00
AIME	Bend Point Range	%	Benefit	
\$ 1,226.00	\$ - - \$ 1,226.00	90.00%	\$ 1,103.40	
\$ 4,430.00	\$ 1,227.00 - \$ 7,391.00	32.00%	\$ 1,385.60	
\$ 5,556.00	\$ 7,392.00 - \$ 15,000.00	15.00%	\$ -	
			\$ 2,489.00	
Payment and Percentage Benefit			44.79%	\$ 2,489.00
Abe average earnings over his life time of			\$66,672.00	
Social Security Replaces			\$79,868.00	
Net Change			\$16,804.00	

No matter what age Abe starts taking benefits he will start receiving COLAs in the year he reaches 63.

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What Happens if ABE Only Has 30 Years of Earnings?

- If Abe only has 30 years of earnings. The 30 years of earnings will be indexed however the average is still based on 35 years.
 - If Abe continues to work, he has an opportunity to increase his benefit since his new earnings will replace years without earnings.
- NOTE:** Continuing to work can never lower your benefit. The benefit will always be based on the 35 highest years. However, it can increase your benefit if you are earning more than one of your indexed earnings years.

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Ancillary Benefits



- Everything starts with the worker.
- What makes Social Security unique is that benefits can be paid to the family and ex-spouse in addition to the worker's benefit.
- For a family member to receive benefits from a worker's record, the Worker must apply for the benefit.

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Spousal Benefit



Two sets of rules for Spouses

- Retirement age spouse
- Spouse of any age taking care of the worker's child.

Up To 50%

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Retirement Age Spouse.



Up To 50%

- Max benefit 50% of workers PIA at Spouse's FRA.
- Worker must apply.
- Reduction of the Spouse is below FRA.
- No delayed earnings credit
- Benefits before FRA have earnings limitation.

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Children



Up To 50%

- Child under age 18,
- 18 – and 19-year-olds still in High School full-time,
- Child of any age certified as disabled before 22.

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Spouse Taking Care of Worker's Child



Spouse takes care of a worker's child that is either:

- Under age 16, or
- A child of any age certified as disabled before age 22.
- Benefits before FRA have earnings limitation.

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Grand Children



Up To 50%

If:

1. Natural or adopted parent is disabled or diseased at the time the grandparent became eligible for benefits.
2. Child must live with grand parent before age 18 and receives $\frac{1}{2}$ support from grandparent

Note: Adopted children qualify.

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The Ex-Spouse



Ex-spouse:

1. Marriage lasted at least 10 years
2. Divorced at least 2 years unless the ex-spouse is already receiving benefits
3. Is at least age 62.
4. Currently unmarried

The worker must be at least age 62 or eligible for benefits.

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Dual Entitlement



Up To 50%

You are eligible for a benefit off of your own record and a spouse/ex-spouse benefit.

1. You are paid on your own record first.
2. If the spouse/ex-spouse is higher, then you top-up on their account.

Note: To receive a spousal benefit, the worker must have applied!

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How Does the Interaction Between Spouses Get Calculated

Tim is married to Carina. His benefit at FRA is \$1,000. The spousal benefit from Carina's account is \$1,200.

- When Carina applies for Social Security, Tim will be entitled to an additional \$200 off of Carina's record. This amount will be reduced if Tim is not at his full-retirement age.
- What if Tim collects benefits early and collects only \$750 per month. When Carina applies Tim will be paid an additional \$200 off of Carina's record assuming he is at his FRA at that time.

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Who Can Collect Benefits Off of a Worker's Account

Who	Basic Rules
Spouse – up to 50% at FRA.	<ul style="list-style-type: none"> Entitled to up to 50% of the worker's benefit at the spouse's full retirement age. Spouse can take benefits as early as age 62 with a reduction. Benefit is not reduced for a spouse taking care of a qualifying child – child is under age 16 or receives SS disability benefits. Worker must file for spouse to get the benefit.
Children – up to 50%	Child is unmarried and: <ul style="list-style-type: none"> Under age 18 or Be ages 18-19, full-time student up to grade 12. 18 and older and disabled before age 22 Worker must file for the children to get the benefit
Ex-spouse	Ex-spouse is unmarried and: <ul style="list-style-type: none"> Marriage lasted at least 10 years or longer Ex-spouse is age 62 or older. Worker does not have to file and not subject to family maximums
Surviving Spouse – up to 100% at FRA	<ul style="list-style-type: none"> Entitled to benefits with reduction as early as age 62. If surviving spouse remarries before age 60 (age 50 if disabled) benefits cease. If survivor remarries after age 60 – they will continue to qualify for the benefit. Surviving divorced spouses are also entitled to the benefit.

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What is Full Retirement Age (FRA)

Birth Date	Full Retirement Age
1937 or earlier	65 years
1/2/38–1/1/39	65 years and 2 months
1/2/39–1/1/40	65 years and 4 months
1/2/40–1/1/41	65 years and 6 months
1/2/41–1/1/42	65 years and 8 months
1/2/42–1/1/43	65 years and 10 months
1/2/43–1/1/55	66 years
1/2/55–1/1/56	66 years and 2 months
1/2/56–1/1/57	66 years and 4 months
1/2/57–1/1/58	66 years and 6 months
1/2/58–1/1/59	66 years and 8 months
1/2/59–1/1/60	66 years and 10 months
1/2/60 and later	67 years

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Example – ABE Continued Calculation of the Primary Insurance Amount.

Abe's Average Indexed Monthly Earnings		\$ 5,556.00
AIIME	Bend Point Range	% Benefit
\$ 1,226.00	\$ - \$ 1,226.00	90.00% \$ 1,103.40
\$ 4,330.00	\$ 1,227.00 \$ 7,391.00	32.00% \$ 1,385.60
\$ 5,556.00	\$ 7,392.00	15.00% \$ 2,489.00
Payment and Percentage Benefit		44.79% \$ 2,489.00
Abe average earnings over his life time of		\$66,577.00
Social Security Replaces		\$29,868.00
Net Change		\$36,804.00

- If Abe were at his full retirement age of 67, he would receive the full amount of the calculation.
- However, if Abe decides to retire at age 62 the benefit will be reduced, and he will be subject to an earnings test.

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Early Retirement. Monthly Reduction Formula

	Worker	Spousal Ben
First 36 Months	5/9 or .0056	25/36 or .0069
After 36 Months	5/12 or .0042	5/12 or .0042

The maximum reduction is for 60 months.

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Full Retirement Age, Retiring Early or Late

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Worker's Early Retirement

- Early retirement as early as age 62, with a reduction
- If you turn 62 in June, the first payment will be for July.
- Delayed credit for those who wait beyond their FRA – 8% per year.

Year of Birth	Normal Age (NRA)	Benefit, as a percentage of PIA, beginning at age--						
		62	63	64	65	66	67	70
1943-54	66	75	80	86 2/3	93 1/3	100	108	132
1955	66, 2 mo.	74 1/6	79 1/6	85 5/6	92 5/6	98 5/6	106 2/3	130 2/3
1956	66, 4 mo.	73 1/3	78 1/3	84 1/6	91 1/6	97 1/6	105 1/3	129 1/3
1957	66, 6 mo.	72 1/2	77 1/2	83 1/3	90	96 2/3	104	128
1958	66, 8 mo.	71 2/3	76 2/3	82 2/3	88 2/3	95 2/3	102 2/3	126 2/3
1959	66, 10 mo.	70 5/6	75 5/6	81 1/6	87 1/6	94 1/6	101 1/3	125 1/3
1960 and later	67	70	75	80	86 2/3	93 1/3	100	124

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Example – ABE Continued Calculation of the Primary Insurance Amount.

ABE starts benefits at age 62

Benefit before Reduction	\$ 2,489.00
60 Months	
Monthly Reduction	0.56% 36 20.16%
	0.42% 24 10.08%
	30.24%
Total Reduction	\$ 752.67
Payment at Age 62 Before Rounding	\$ 1,736.33
Payment at Age 62 After Rounding	\$ 1,736.30
Percentage of benefit received	65.30%

If Abe begins receiving benefits at the earliest possible age, which is age 62. Because case Abe's normal retirement age is 67, the benefit amount for case is reduced for 60 months of early retirement.

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The Earnings Limitation

	Reduction		2023	2024	2025
From age 62 up to the year before you reach your full retirement age (FRA)	\$1 of benefit for every \$2 of earnings over limit.	Annual	\$21,240	\$22,320	\$23,400
		Month	\$1,770	\$1,860	\$1,950
The calendar year worker reaches full retirement age up to FRA	\$1 of benefit for every \$3 of earnings over limit.	Annual	\$56,520	\$59,520	\$62,160
		Month	\$4,710	\$4,960	\$5,180
After Full-Retirement Age	No Limitation				

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The Earnings Limitation

- The amounts are applied annually except for mid-year retirees.
- The income for the test is counted when it is earned not paid. Accordingly, earnings before the retirement date are not included in the calculation.
- No reduction for unearned income – interest, dividends, gains, rentals, retirement, annuities.
- Self-Employed individuals cannot perform substantial services.

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Taking Benefits Early – Where do you get your Medical Insurance?

- Medicare is not available until age 65.
- Most health Insurance is tied to employment.
- And you now have an earnings limitation.

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Other Issues

- If someone such as a spouse or children are eligible for a benefit from the worker's record, the worker must apply before that benefit can be accessed.
- Only the worker benefits from the delayed earning credit while the worker is alive.

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Delaying Retirement

Year of birth	Credit per year
1917-24	3.0%
1925-26	3.5%
1927-28	4.0%
1929-30	4.5%
1931-32	5.0%
1933-34	5.5%
1935-36	6.0%
1937-38	6.5%
1939-40	7.0%
1941-42	7.5%
1943 and later	8.0%

Note: Persons born on January 1 of any year should refer to the credit percentage for the previous year.

- The delayed retirement credit is 8% per year.
- The credit however is calculated by month.
- There is no credit for delaying beyond age 70.

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Example – ABE Continued Calculation of the Primary Insurance Amount.

Abe delays until Age 70			
Benefit before Delayed Earnings Credit			\$ 2,489.00
Months Delayed	36		
Rate Per Year	8.00%	0.6667%	24.00%
Delayed Payment Addition			\$ 597.36
Delayed Amount Before Rounding			\$ 3,086.36
Payment			\$ 3,086.30

If Abe decides to delay benefits until age 70. He will be delaying benefits for 36 months (His normal retirement age is 67 months).

Warning: There is no benefit accrual after age 70.

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Example: ABE Continued Calculation of the Primary Insurance Amount.

AGE STARTING BENEFITS	BENEFIT AMOUNT
Early Retirement Age-62	\$ 1,736.30
Full Retirement Age - 67	\$ 2,489.00
Maximum Age for Benefit- 70	\$ 3,086.30

This choice can be very easy if Abe is a single individual. The choices get more complicated when we start figuring in other factors in this decision.

Please Note: Abe can choose to take benefits at anytime starting with age 62. The benefit amounts will be adjusted for cost-of-living increases that vary annually.

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Things to Consider Taking Benefits Early

Things to consider:

1. The reduction is permanent – limited 12-month window to change your mind. Reduction will affect COLAs that are added after age 62.
2. The earnings test – severely handicaps those who must continue working.
3. Health insurance is expensive. Medicare is not available until age 65.
4. Family benefits are not available until the worker retires. Filing allows other family members to collect. Spouse benefit is not affected by early worker retirement.
 - If spouse takes spousal benefit early, then spouse is also subject to reduction and earnings test based on his/her age.

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Example: ABE Coordination With Other Benefits

AGE STARTING BENEFITS	BENEFIT AMOUNT
Early Retirement Age-62	\$ 1,736.30
Full Retirement Age - 67	\$ 2,489.00
Maximum Age for Benefit- 70	\$ 3,086.30

Let's pretend that Abe's wife Debbie has a SSA benefit of \$5,000. So, when Debbie retires, he would be entitled to \$2,500 off her record. If Debbie applies when he is at FRA, he will get another \$19.00 paid from Debbie's records.

NOTE: These amounts are before Cost-of-Living Adjustments (COLAs)

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Applying for Benefits

- You can apply for benefits
 - On-line at www.ssa.gov or
 - in person at a local SSA office or by
 - Phone: (800)772-1213
- Earliest you can apply is 61 and 9 months – to be sure you get the first payment starting at age 62.

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Medicare

- While the Social Security FRA has increased the age for Medicare remains at age 65.
- Initial enrollment is three months before and three months after your 65th birthday. Sign up at www.socialsecurity.gov.
- Your premium can be permanently increased by 10% for each 12 months you are late on signing up for Part B/D unless you have group coverage.

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Cost of Living Adjustments or COLAs

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Cost of Living Increases

- Cost of Living Increases are applied starting on your 63 year.
 - If you take early retirement – the COLA is applied on the reduced amount starting at age 63. (No increase from age 60 to 62)
 - If you take benefits at your full retirement – it is applied on the full amount, then the COLA is applied.
 - If you delay benefits, it is based on the delayed amount.
- Average COLA has approximately 2% since 2000.
 - There has been 3 years within that period which there was no COLA.

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Information Needed to Apply

- Date and place of birth
- Social Security number
- Names, SSN and date of birth of current/former spouses
- Names of qualifying children
- Bank routing and account number – no check just direct deposits.
- Citizenship status
- Please see <https://www.ssa.gov/forms/apply-for-benefits.html> for more information.

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Warning: Everything is an Estimate Until the Worker Applies

- Everything is an estimate.
- The only way to get the actual numbers is to apply.
- Don't get too bogged down in details.
- Unlike taxes there is no absolute right answer!
- Unless a worker can tell you, the timing and amounts of future returns, COLAs and their date of death there is no absolute correct answer.

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Cost of Living Increases

Year	COLA	Year	COLA	Year	COLA
1975	8.19%	1995	2.6	2015	0
1976	4.4	1996	2.9	2016	0.3
1977	5.9	1997	2.1	2017	2
1978	6.5	1998	1.3	2018	1.8
1979	9.5	1999	2.5	2019	1.6
1980	14.3	2000	5.5	2020	1.5
1981	11.2	2001	2.6	2021	5.9
1982	7.4	2002	1.4	2022	8.7
1983	3.5	2003	2.1	2023	3.2
1984	3.5	2004	2.7	2024	2.5
1985	3.1	2005	4.1		
1986	3.3	2006	3.3		
1987	4.2	2007	2.5		
1988	4	2008	5.8		
1989	4.7	2009	0		
1990	5.4	2010	0		
1991	3.7	2011	3.6		
1992	3	2012	1.7		
1993	2.4	2013	1.5		
1994	2.8	2014	1.7		

- Cost of living or COLAs are normally announced in October and published in the Federal Register.
 - Became part of the system in 1975 – prior to that Congress had to authorize the increase.
 - The amount is determined by the “Office of the Chief Actuary”.
 - COLAs are based on increase in the CPI for Urban Wages Earners and Clerical Workers (CPI-W).
- Seniors criticize the CPI-W because it gives less weight to medical care and housing costs which represent a larger portion of a seniors benefit when compared to younger workers.

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Cost of Living Increases

- EXAMPLE: Assume We have a Client who was born in 1954. Her full retirement age is 66 years old. Her PIA is \$2,000. Assume a 2% COLA.

	Age 62	Age 66	Age 70
Payment No COLA	\$ 1,500	\$ 2,000	\$ 2,640
Payment Adjusted For COLA			
Payments at Age 66	\$1,623.65	\$2,164.86	
Payment at Age 70	\$1,757.49	\$2,343.32	\$3,093.18

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A Process for Social Security Planning – What Do You Need to Know and How to Get it?

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Set Up the Office – Other Calculators Available on SSA.gov

- Retirement Estimator – gives an estimate benefit based on actual SS earnings. It cannot be used if you are:
 - Currently receiving or waiting for benefits,
 - Age 62 or older and receiving benefits on another SSA record.
 - Subject to the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO).
- Quick Calculator – estimate based on date of birth and your current earnings. Good for establishing a base line for younger clients.
- Other calculators for including life expectancy, retirement age, and WEP.

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3 Steps to Social Security Happiness

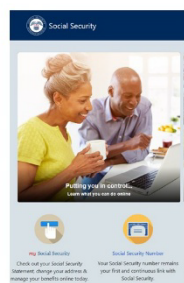
1. Get the Statements
2. 7 Questions – let them do the talking!
3. Analyze the Statements



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Great Sources of Information



- **www.ssa.gov**
 - Social Security Administration has done a great job on their website.
 - Establish a “my Social Security” account.
 - Name, SSN, DOB, residential address and email address required.
 - Must be at least age 18.
 - System is now employing a secondary method by sending an activation code either to a cell phone or email address.
 - Be sure to retain the information – lost passwords etc. can only be reset via “mail”.
 - Can also be established at a SSA office.

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Set Up Office – Get Some Free Stuff

Besides the free calculators and research materials at SSA.gov. There are free brochures.

- Add them to your tax return package for those between 55 to 67
- Keep them in your lobby
- You can get them at your local SSA office.
- Some good ones
 - Understanding the Benefits
 - Retirement Benefits
 - Survivors Benefits
 - What Every Woman Should Know
- You can repurpose any government publication since you paid for it!

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Set Up the Office – Commercial Calculators

- If you really want to dazzle them with analysis.
 - Ssanalyzer.com – great program – multiple levels of analysis packages. - Maximizemysocialsecurity.com
- I have used the SSA Analyzer and liked it – had a full subscription but didn't really use it enough. The subscription has a great information to bootstrap your SSA practice.
- I have not used Maximizemysocialsecurity but have hear good things about the program.

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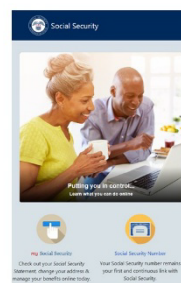
Step 1 – Get the Statements

- For those nearing retirement – Help them and their spouse obtain a copy of their Social Security Statement.
- **Side note:** SSA only mails the statement to those who are 60 years or older and not receiving benefits. Mailed 3 months prior to your birthdate.
- The statement will provide you with the best free estimate of the SSA benefit for the worker, the spouse and potentially for their family.
- So where do you go?

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Great Sources of Information



- With “my Social Security” you can
 - Obtain a replacement SSA card with a valid driver's license.
 - Check the status of an application
 - Get your Social Security Statement
 - Benefit verification – Proof of Income
 - Replace documents – such as SSA-1099
- This is for personal use only – you cannot create an account on behalf of another person.

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Limitations and Concerns

- That all the programs are estimates – the real benefit is only calculated when you apply.
- No SSA investment account with your name on it! The benefits are subject to change at the whim of Congress.
- The SSA calculators do not factor in other benefits the worker is entitled to such as potential spousal benefits/ex-spouse.
- Many calculators use a trends – the program will assume that if you are a top earner you will continue to be a top earner.

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Step 2 – 7 Questions You Should Ask

1. Is the SSA statement, correct?
 - Have the earnings been posted correctly-provide SSA with W2s and tax returns.
 - Are the birthdates and demographic information, correct?

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Step 2 – 7 Questions You Should Ask

3. What is the client's financial position?
 - What have they saved? – IRAs, Retirement Accounts, Pensions and other funds available.
 - How much do they spend?
 - Low savings and higher spending is a sign the client should consider delaying retirement.
 - Also, we need to remember those taxes!

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Step 2 – 7 Questions You Should Ask

5. If the client is unmarried, have they ever been married before?
 - If the client is unmarried and was married to a worker for 10 years or more, they may be entitled to a benefit based on the ex-spouse.
 - For divorced spouses, the benefit is suspended if they remarry.
 - If the client is a surviving spouse, they can be entitled to a benefit as long as they do not remarry before age 60.
 - Potentially, a client could be entitled to benefits because of a common law marriage. This could be especially true for same sex couples.

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My Personal Approach to Clients

- Older Clients – Ages 55 to 67
 - I always start with the SSA benefit statement which is available through the “my Social Security”.
 - The benefit statement you can see:
 - The number of years of qualifying earnings and potential missed reporting.
 - Benefits of for the spouse and other family members.
- Younger Clients that are 10 years or more from retirement – use the quick calculator.

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Step 2 – 7 Questions You Should Ask

2. What is the client's health status and longevity expectations?
 - Does the client have any major health concerns?
 - How long did their parents and grandparents live for?
 - What is the client's life expectancy?
- Health/Life expectancy is by far the most important part of the planning.
- Life expectancy is nearly impossible to predict. – best guess.
 - Longer life expectancy the more likely the client will run out of savings.
 - Health issues may require other planning.

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Step 2 – 7 Questions You Should Ask

4. How much are you currently earning, and can you afford to give up the earnings?
 - Retiring before full-retirement age will subject our client to earnings limitation.
 - For many, the late 50s and early 60's are the prime earnings periods.
 - If you run out of funds in your late 70s/80s your employment options are greatly reduced.
 - Working can increase the benefit by replacing low earnings years with higher earnings years.

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Step 2 – 7 Questions You Should Ask

6. Does the client have any children/family members that can benefit from the workers record?
 - Children under age 18 can receive benefits.
 - Children up to 19 can receive benefits if they are still in high school.
 - Disabled children can receive benefits if the disability began before age 22.
 - Having family members collect on a worker's record can cause the family limit to apply.

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Step 2 – 7 Questions You Should Ask

- Has either the worker or spouse entitled to a pension for work that they did not pay social security taxes on?
 - The Social Security Fairness Act of 2023 – These folks are now looking at

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Step 3 – Analyzing the Social Security Statement & How the Statement is Misinterpreted.

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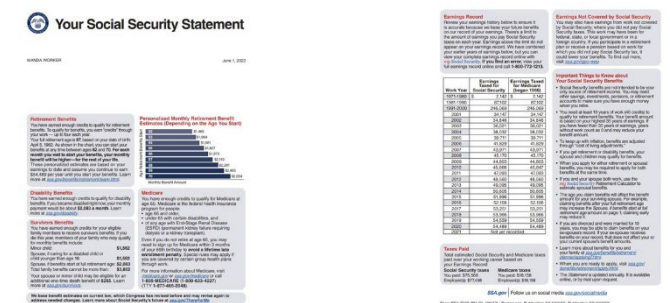
The Social Security Statement

- Social Security Statement will give us the clients' SS nominal earnings history.
 - Wages and self-employment earnings are recorded up to the SS maximum for that year.
- The statement can really help answer some basic questions for the client.
 - Provides the estimated benefit at 62, FRA and age 70.
 - You can infer "spousal and family" benefits
 - Estimate of the survivor's benefits.
 - The family limitation.

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<https://www.ssa.gov/myaccount/assets/materials/statement-redesign-online.pdf>



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The Social Security Statement – Page 2

Retirement Benefits

You have earned enough credits to qualify for retirement benefits. To qualify for benefits, you earn "credits" through your work — up to four each year.
Your full retirement age is 67, based on your date of birth: April 5, 1962. As shown in the chart, you can start your benefits at any time between ages 62 and 70. **For each month you wait to start your benefits, your monthly benefit will be higher—for the rest of your life.** These personalized estimates are based on your earnings to date and assume you continue to earn \$54,489 per year until you start your benefits. Learn more at ssa.gov/benefits/retirement/learn.html.

Assumes: You will continue earnings this income until you start collecting benefits!

- The statement clearly states that it is an estimate not the benefit.
- The benefits are based on your earning trend

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It's All an Estimate – Page 2

If you receive a pension from earnings not covered by Social Security, your benefits may have been reduced prior to January 2024. The *Social Security Fairness Act* ended the Windfall Elimination Provision and Government Pension Offset. Learn more at ssa.gov/benefits/retirement/social-security-fairness-act.html.

The Social Security Fairness Act ended:

- Government Pension Offset and
- The Windfall Elimination Provision

This was retroactive to January 1, 2024

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Earnings Record

Work Year	Earnings Social Security	Earnings Taxed (begin 1996)
1971-1980	2,142	2,142
1981-1990	87,102	87,102
1991-2000	246,069	246,069
2001	34,846	34,846
2002	36,021	36,021
2003	36,021	36,021
2004	36,021	36,021
2005	39,711	39,711
2006	41,829	41,829
2007	43,971	43,971
2008	45,170	45,170
2009	44,603	44,603
2010	45,666	45,666
2011	47,093	47,093
2012	48,560	48,560
2013	49,095	49,095
2014	50,605	50,605
2015	51,996	51,996
2016	52,108	52,108
2017	53,251	53,251
2018	53,966	53,966
2019	54,559	54,559
2020	54,489	54,489
2021	Not yet recorded	

The new statement brackets the earnings. To verify the actually earnings you need a "My Social Security Account".

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Social Security Statement-New

More condensed "Taxes Paid" section". Less Information on the limit.

Taxes Paid

Total estimated Social Security and Medicare taxes paid over your working career based on your Earnings Record:

Social Security taxes
You paid: \$75,568
Employer(s): \$77,498

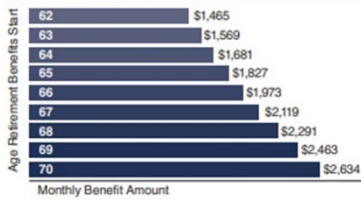
Medicare taxes
You paid: \$18,158
Employer(s): \$18,158

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Social Security Statement New

Personalized Monthly Retirement Benefit Estimates (Depending on the Age You Start)



- More condensed but cleaner than the old statement.
- Old statement taxpayers would confuse the “survivor benefits” with “spousal benefits”.

Social Security Statement New

Disability Benefits

You have earned enough credits to qualify for disability benefits. If you became disabled right now, your monthly payment would be about **\$2,083 a month**. Learn more at ssa.gov/disability.

Survivors Benefits

You have earned enough credits for your eligible family members to receive survivors benefits. If you die this year, members of your family who may qualify for monthly benefits include:

Minor child:	\$1,562
Spouse, if caring for a disabled child or child younger than age 16:	\$1,562
Spouse, if benefits start at full retirement age:	\$2,083
Total family benefits cannot be more than:	\$3,802

Your spouse or minor child may be eligible for an additional one-time death benefit of **\$255**. Learn more at ssa.gov/survivors.

- More condensed but cleaner than the old statement.
- Old statement taxpayers would confuse the “survivor benefits” with “spousal benefits”.

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Social Security Statement New.

Important Things to Know about Your Social Security Benefits

- Social Security benefits are not intended to be your only source of retirement income. You may need other savings, investments, pensions, or retirement accounts to make sure you have enough money when you retire.
- You need at least 10 years of work (40 credits) to qualify for retirement benefits. Your benefit amount is based on your highest 35 years of earnings. If you have fewer than 35 years of earnings, years without work count as 0 and may reduce your benefit amount.
- To keep up with inflation, benefits are adjusted through “cost of living adjustments.”
- If you get retirement or disability benefits, your spouse and children may qualify for benefits.
- When you apply for other retirement or spousal benefits, you may be required to apply for both benefits at the same time.
- If you and your spouse both work, use the ssa.gov/retirementcalculator to estimate future benefits.
- The age you claim benefits will affect the benefit amount for your surviving spouse. For example, claiming benefits after your full retirement age may increase the spouse's benefit rate at full retirement age amount on page 1, claiming early may reduce it.
- If you are divorced and were married for 10 years, you may be able to claim benefits on your ex-spouse's record if your ex-spouse receives benefits on your record, that does not affect your or your current spouse's benefit amount.
- Learn more about benefits for you and your family at ssa.gov/benefitsandmore.
- When you are ready to apply, visit ssa.gov/retirementbenefits.
- The Statement is updated annually. It is available online, or by mail upon request.

Important Things to Know about Your Social Security Benefits.

- Not intended to be your only source of income.
- You need at least 10 years of work or 40 quarters to qualify.
- 35 years are used in the Average Monthly Indexed Earnings. Years without work are “Zeros”
- COLA keeps up with inflation?
- Survivor benefit for your family.
- Disability benefits if you qualify
- Need to get spousal information
- Where you should go for more information.

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GROUP STUDY MATERIALS

A. Discussion Questions

1. What drives the dollar amount a worker must earn to receive a quarter of Social Security coverage, and how does that amount change over time? What role does the Average Wage Index (AWI) play in this process?
2. How would Social Security benefits be impacted starting in 2033 if Congress does not act to restore full funding for the trust fund?
3. When calculating quarters of coverage, what specific factor does SSA consider and why is that distinction important for clients with irregular work histories?
4. At what point does SSA begin applying cost-of-living adjustments (COLAs) to an individual's retirement benefits, and why might some recipients misunderstand this timing?
5. What are the specific requirements for a divorced spouse to be eligible for Social Security benefits based on an ex-spouse's record, and how do those requirements protect the system from abuse?
6. What are the financial implications for a worker who begins receiving Social Security retirement benefits before reaching full retirement age?

B. Suggested Answers to Discussion Questions

1. **What drives the dollar amount a worker must earn to receive a quarter of Social Security coverage, and how does that amount change over time? What role does the Average Wage Index (AWI) play in this process?**

The **Average Wage Index (AWI)** is a key benchmark used by the Social Security Administration (SSA) to adjust several important components of the Social Security program. One of the most direct ways it affects individuals is by determining how much a person must earn in a given year to receive a **quarter of coverage (QC)** toward future benefits.

In 2025, for example, a worker earns one QC for every **\$1,810** of covered earnings, up to **four quarters per year**. This threshold is not fixed. It is indexed annually based on changes in the **AWI**, which measures **nationwide average wage growth**. The AWI reflects the average total wages subject to federal income tax and contributions to retirement systems, including Social Security.

Because the AWI generally increases over time due to inflation and wage growth, the earnings requirement for a QC also rises. This ensures that Social Security eligibility standards stay aligned with broader economic trends. For example:

- In 1978, one QC required just \$250 of earnings.
- By 2000, it was \$780.
- In 2025, it's \$1,810.

The AWI does more than affect QCs. It is also used to:

- Index past earnings for benefit calculation (AIME),
- Set the taxable maximum income limit for payroll tax,
- Determine bend points in the Primary Insurance Amount (PIA) formula,
- And establish earnings limits for retirement benefits before FRA.

2. **How would Social Security benefits be impacted starting in 2033 if Congress does not act to restore full funding for the trust fund?**

According to the 2024 Social Security Trustees Report, if Congress takes no action to address the projected shortfall, the Old-Age and Survivors Insurance (OASI) trust fund will become depleted in 2033. This means that Social Security will no longer have reserve funds to draw from and will need to rely solely on incoming payroll tax revenue to pay benefits.

Even without the trust fund, Social Security will not shut down. The system will still collect payroll taxes from workers and employers, and those funds will be used to pay benefits. However, based on current projections, these payroll taxes will only be enough to cover about 79 percent of scheduled benefits. This would result in a reduction for all beneficiaries unless Congress acts to increase funding or change benefit formulas.

SSA does not have legal authority to borrow money, so any shortfall cannot be covered with loans. The reduction would apply across the board and would affect retirees, survivors, and disabled beneficiaries.

3. When calculating quarters of coverage, what specific factor does SSA consider and why is that distinction important for clients with irregular work histories?

Since 1978, the Social Security Administration has calculated quarters of coverage (QCs) based on total annual earned income, not on calendar quarters or monthly income. A worker can earn all four QCs for a given year at any time during that year, as long as they earn enough to meet the threshold. For 2025, this threshold is \$1,810 per quarter, so \$7,240 in total earnings will result in the maximum of four QCs for the year.

The flexibility of this system benefits individuals with irregular or seasonal employment. For example, someone who works only during the summer but earns more than \$7,240 can still receive four credits, even though they worked for only part of the year. This system also helps those who experience employment gaps or work in industries with fluctuating income.

The SSA's use of annual earnings ensures that a worker's eligibility for future benefits reflects their income over time rather than how evenly that income is distributed. This method reduces disadvantages for people who do not have a consistent month-to-month income stream.

4. At what point does SSA begin applying cost-of-living adjustments (COLAs) to an individual's retirement benefits, and why might some recipients misunderstand this timing?

Cost-of-living adjustments (COLAs) are applied to retirement benefits starting with the benefit for December of the year a worker turns age 62. Although that payment is received in January of the following year, the increase reflects inflation measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of the previous year.

Some recipients mistakenly believe that COLAs begin only once they file for Social Security benefits, but this is not the case. If a person delays claiming benefits until age 66 or 67, the COLAs that occurred after they turned 62 are still factored into their eventual benefit amount. These adjustments help ensure that delayed benefits do not lose purchasing power during the waiting period.

This rule applies to all retirement beneficiaries, regardless of when they begin receiving payments.

5. What are the specific requirements for a divorced spouse to be eligible for Social Security benefits based on an ex-spouse's record, and how do those requirements protect the system from abuse?

A divorced individual may be eligible for spousal benefits based on their ex-spouse's Social Security record if several requirements are met. These include:

1. The marriage lasted at least 10 years.
2. The applicant is currently unmarried.
3. The applicant is at least 62 years old.
4. The former spouse is entitled to Social Security retirement or disability benefits.

If the divorce occurred two or more years ago, the applicant can receive benefits even if the former spouse has not yet filed for their own benefits, as long as they are eligible to do so.

These requirements ensure that spousal benefits are tied to long-term financial partnerships and prevent misuse of the system through short-term marriages or strategic remarriage. Benefits paid to a divorced spouse do not reduce the benefits of the primary beneficiary or anyone else on the same record.

The benefit amount for a divorced spouse can be up to 50 percent of the former spouse's Primary Insurance Amount (PIA), depending on the applicant's age at the time of claiming. This provision provides retirement security to individuals who may not have sufficient work credits of their own due to time spent out of the workforce during the marriage.

6. What are the financial implications for a worker who begins receiving Social Security retirement benefits before reaching full retirement age?

Claiming Social Security retirement benefits before reaching full retirement age (FRA) results in a permanent reduction in the monthly benefit. The size of the reduction depends on how early the benefits begin. For someone with an FRA of 67 who starts benefits at age 62, the reduction is 30 percent.

In addition to this permanent reduction, those who claim early may be subject to the retirement earnings test. In 2025, if a worker under FRA earns more than \$23,400, their benefits are reduced by \$1 for every \$2 earned over that limit. In the year they reach FRA, a more generous earnings limit applies, and the reduction formula changes to \$1 for every \$3 over a higher threshold. Once FRA is reached, no earnings test applies, and benefits are no longer reduced due to earned income.

Importantly, these early reductions are not restored at FRA. However, if benefits are withheld due to the earnings test, SSA may recalculate and increase the benefit amount later to account for the months benefits were not paid. Still, the monthly amount will never match what it would have been if the person had waited until FRA to begin collecting benefits.

PART 2. S CORPORATIONS

S Corporation Stock Basis

Ian Redpath explores S corporation stock basis and outlines the hierarchy of limitations that restrict loss deductions, such as basis, at-risk, passive activity, and excess business loss rules. He also examines Section 351 exchanges, including the requirements for nonrecognition of gain, the definition of property, and the control threshold needed to qualify. He addresses boot recognition, improperly claimed losses, stock issued for services, and the one-class-of-stock rule.

Let's join Ian.

Mr. Ian Redpath

Hi, everybody, welcome to the program. Great to have you here again. As we have in the last few months, we're going to be going over specific topics. So, let's look at S Corporation and basis, and basis in the stock.

Now, one of the big differences between an S Corp and a Partnership is basis. Now, we know that when you have losses, net losses for the year, you have some limitations and a number of hoops to go through, and the first hoop to go through is basis. If you don't have enough basis, you have to suspend it under the basis rules and you don't even go any further.

Well, just because you have enough basis doesn't mean you get to write off those losses or deductions for the year. It means you have to go now to the at-risk rules under Section 465. Then you have to look and say, "Do the passive activity loss rules apply?" Now, they don't apply to a Partnership or an S Corp, but they apply to the owners. So, do they apply?

And now you have another hoop, the excess business losses. Now, that's a little different because losses under that are not suspended. They actually become NOLs. So, they're not suspended until you have enough in that hoop, so enough at risk or enough income in the passive activity loss basket, but those become NOLs and now they're subject to the NOL rules, the 80% and the carryover rules. So, that's a little bit of a different type of limitation, but it all starts with basis.

Now, we know S Corps, one of the major reasons people choose S Corps is the ability to pass through a significant amount not subject to self-employment tax. Everything coming through from the Partnership essentially, you know, unless it's real estate, generally is subject to self-employment tax, but in an S Corp, only the salary is subject to FICA, the distributions are not subject to self-employment tax. And so now we constantly in the S Corp have the argument of unreasonably low compensation.

Now, in a C Corp it's always unreasonably high compensation. Here, it's unreasonably low compensation. So therefore, one of the things we're going to look at then is, well, as long as I have a reasonable amount of compensation, that's a whole other program, but as long as I have a reasonable amount of compensation, I'm going to be able to pass-through a lot of income not subject to self-employment tax. I'm going to save that. I'm going to have the FICA on the salary.

So, remember that since 1969, Revenue Ruling 69-184 said that partners are not employees for purposes of FICA, FUTA, or withholding, and so therefore, even a guaranteed payment, a guaranteed payment for services, well, it kind of like a salary, it's not a salary because they're not employees; therefore, it's subject to self-employment tax. It's not subject to FICA, because they're not employees, but it is subject to self-employment tax.

So, currently, you know, that's one of the great advantages, and there's lots of litigation as to whether or not the compensation is reasonable or not. Now, especially in a service space, they say essentially everything is subject to self-employment tax. Obviously in a partnership, but again, you get to the unreasonably low compensation issue in the S corp.

So, those are kind of the hoops that we have to get through, and just because it hits the return, that doesn't mean it's not subject to other limitations. For NOLs, could be a limitation, for example, on a Sec. 179 expense. So again, so, basis, got enough basis, at risk, got enough at risk, passive activity losses. If it either doesn't apply or you've got enough passive income, flows through the excess business loss limitation under Sec. 461, and then that becomes an NOL, but ultimately then things go to the return, and there can be limitations on the return.

So, again, one of the biggest differences with the Partnership then on basis is debt. You know, in a Partnership it's easier to create basis because you get a basis in all of the debt. Now, you don't get at-risk generally for non-recourse debt unless it's what's called qualified non-recourse financing which is limited to real estate, but you get a basis. So, for basis purposes, for that hoop, you get a basis. How much of the debt, well, that's a whole program again in and of itself, but you do get a share. So, whatever your share is, that's added to your equity basis.

That's not the same in an S Corp. In an S Corp, you have two basis, not one. So, in a Partnership, I've got equity, debt, it's one basis. In an S Corp, I've got two bases. I've got my stock basis and my loan basis. Now, I can write off losses to the extent that I have stock basis, or equity basis, and loan basis. Now, if I have loan basis and I get repaid on that loan, I could have income. If it's a note, capital gain. If it's just open account debt, journal entry, it's ordinary income.

So, it's two separate types of debt. And the other thing about the debt, which is really different, is it essentially only is debt where there's an economic outlay, which is what terms of courts have used and the IRS, which means that you, you're economically out something.

So, I guarantee a loan. You go to the bank. I got a small business. I want to borrow money. I'm a corporation. Okay, sign the guarantee; right? Sign the personal guarantee. Signing a personal guarantee does not get you any basis in an S Corp unless you have an actual outlay, which means, "Oh, I got called. I have to pay." Even if you have to pay this month, that gets you some basis in that debt, but until you have an economic outlay, just signing a debt doesn't give you anything. So, very, very different.

Obviously, if it's a highly leveraged business, looking at a Partnership, especially with early startup losses, is a much better entity to look at. LLC for the liability. Partnership taxation.

All right. So, let's look at the S Corporation. And one of the things to remember about S Corporations is if you put a continuum and you say here's a Partnership, here's a C Corp. You know, where is it on that line?

Well, it's actually much closer to a C Corp. Why? The rules for incorporation, the rules for redemptions, the rules for liquidations, reorganizations, all of these things are exactly the same. In fact, it says in Sub-chapter S, all of the rules of Sub-chapter C apply except as otherwise provided herein. So, the pass-through, okay, that is similar, not the same, but similar to a Partnership. So, it's close.

The AAA account on distributions is something that's not in a C Corp, there's no such thing, but a C Corp can issue a dividend if it's got E&P. Well, so can an S Corp if it happens to have E&P. So, there's a lot of similarity.

Well, when you have your initial basis, it's going to be the same, whether it's a C or an S. Remember, legally, it's a corporation. S is a tax option, not a legal option. So, initial basis then, how did you get the stock? Did you inherit it? Fair market value on the date of death from the decedent. You got it through a gift. Carryover basis from the donor plus gift tax on the appreciation. However, if the fair market value is less, you're going to use fair market value if you dispose of it. So, you're kind of keeping a parallel basis here for this purpose, but you're going to use the gain basis for purposes of determining what you can pass through.

The general rule then, Sec. 351 applies. Now, the general rule then is the basis, when you contribute property, it's carryover basis, plus gain, minus boot. Carryover basis, plus gain, minus boot.

So, anytime you have a contribution to capital, this is often misunderstood. It's not just the initial contribution to capital. It's not just the incorporation. It's any time you have a contribution to capital. So, an existing business, a new person comes in and they contribute capital, Sec. 351 applies. So, if they put property in, they're going to have to meet the requirements of Sec. 351 or it's going to be a taxable transaction. So, if it's a taxable transaction, carryover basis, plus gain, fair market value then.

So, what do we look at under Sec. 351? There are certain terms that become important. Property is exchanged solely for stock and immediately thereafter the property givers are in control. The property givers are in control.

Now, "boot" is any property other than stock. If you get back anything other than stock, that's boot. You recognize the lesser of the boot or the gain. Now, if you've got a loss on assets, you may not want Sec. 351, so you may try to fail Sec. 351 because Sec. 351 is mandatory. Both gain and loss are postponed. So, if you want to recognize a loss, structure the transaction and try to structure it to fail Sec. 351.

So, what's "property"? It's really broad. Cash is property, although there's never going to be a gain or loss; right? But secret processes and formulas, know-how, customer lists, other types of intangibles like that, contracts, goodwill, unrealized accounts receivable for a cash basis taxpayer, installment obligations.

Now, services are specifically excluded from the definition of property, and so, services are considered to be paid with, not the fair market value of the service. That's often missed. It's the fair market value of the stock received. So, it's considered that you got the fair market value and contributed it back to the corporation. So, stock, common stock, preferred stock, but it doesn't include stock rights, it doesn't include stock warrants.

And then there's this crazy one called Sec. 351(g) stock. Sec. 351(g) is considered stock for purposes of the Code; however, there are special rules. So, for example, in a Type B reorganization, you could only exchange Sec. 351(g) for Sec. 351(g) stock. But Sec. 351(g), think of it as gain, you may end up having gain if you get back Sec. 351(g) stock. That's going to be considered boot under Sec. 351.

The holder can be required to buy back. The holder can be required, you know, there's a sale back, or the other way around, the issuer has to buy back within 20 years. It's, it's mandatory. And this is going to be treated -- and also it has more, if it looks more, you know, it's got more attributes of debt than stock. So, this is treated as boot for Sec. 351, but for all other purposes, it's going to be treated as stock.

Now, where's one of the big problems? When you put debt in there. So, it's common when you incorporate to take debt because debt's favorable; right? The interest payments are deductible. They're not subject to any self-employment tax. They are, you can pay back the loan without having to worry about whether it's going to be a return of capital or how it's going to be treated.

Well, if you have corporate debt, and I'm not going to say what debt is but I'll tell you what it's not. It's not stock. And one of the biggest things on incorporations, whether it's a C Corp or an S Corp, is when you use debt, that's boot, because it's not stock, and so therefore, you have to report it.

Now, also one of the things that often happens is the Sec. 351 transaction is not reported. Okay, what was transferred? For what? To whom? The value? How much was received in stock? All of these things have to be reported. Well, one of the things where people if they, as IRS says a lot of times it's not being properly reported, but also that this debt is commonly missed and not treated as boot.

And again, you can get in some crazy situations. I had one where the IRS came in and the IRS said, this technology, you know, at the time it was this box, and they said, "Oh, that box. That's a service because you had to train them how to do it."

Now, the company is a very well-known tech company that entered into a transaction. And it was an LLC, by the way, where both parties put in and my client was just essentially putting in the box, the technology, but it's the same concept. What is property? And the IRS said, "Well, that's not property. That's a service because you're teaching them how to do it." And we said, "No. These are otherwise qualified individuals. All we're doing is showing them the technology." He said, "It's no different than showing them the back door." "Oh, the parking lot. Here's the back door. Oh, by the way, the bathrooms are over here. The key's hanging there. We were just kind of showed them through."

Now, the bottom line is, this company, we knew they had reverse engineered it. They wanted the engineers. There was a lot of reasons that they didn't just say, "Fine, we're just going to do it on our own." Now, I will tell you, we lost initially, we lost, but finally on appeals, we won. Now, before we got to appeals, the second time on reconsideration, that box was down to a chip. So, they didn't need us. It was really just, it was property that we had transferred. It was the know-how. It wasn't a service. We didn't teach them. We just showed them. But that's showing you where the IRS will come from sometimes. The amount of money that they were claiming was \$8 million. So, it wasn't a nominal amount, but that they were claiming was totally a service.

All right. So, control. What is control? Transferors have to be in control immediately after the exchange. Property givers. So, only those that give property are included. So, control, 80% of the total combined voting power of all classes entitled to vote, and this is an "and" I've got a, I've got it up on the screen here, and 80% of the total number of all other classes. And that, by the way, is a class-by-class analysis; class-by-class analysis.

So, what does that mean? Well, it means that you have to get 80% of the total. So, let's say you had two, you have A and B classes of voting and there's a hundred in each. Well, all you have to do is get 80% of one -- or excuse me, 60% of one, and 100% of the other. You don't need 80% of each, because if you have the 160%, you got 80% of the 200. That's all you have to have. But if you had A and B classes, and you had 100 shares in one class of non-voting, and 200 in the other, and you got 100 of the one, but you got nothing in the 200, the whole transaction's busted. Why? Because non-voting is class-by-class. And know, it's kind of strange. It's a numerical test, not a value, just a numerical. What's the number of shares in that class?

So, generally, and the IRS will occasionally challenge if there is a prearranged plan to violate Sec. 351, but generally, control is immediately thereafter, therefore, they will generally not challenge a transaction after it, a sale or a gift after the initial exchange. So, again, it's not unusual, for example, to do a transaction and you want to transfer to the children.

Well, I've seen this one. All right, well, I'm going to incorporate my business and I'm going to give to the children. Oh, I'm going to give them 40%. You put in the assets, and you failed. Why? You're the property giver. You're only getting back 60%. So what do you do? You get back 100% and then you gift them 40% after the transaction. Now you're safe. The IRS isn't going to challenge that.

Now, one of the things that can happen, though, is maybe you have a situation where you have a service giver and that service giver wants to have more than 20%. Well, how can you use them? Well, if the service giver gives property, which includes cash, of an amount that equals or exceeds 10% of the value of their service, then you can treat them as a property giver. But if they're a property giver for any shares, they're a property giver for everything. So, therefore, the property givers have 100%.

Now, they're still going to be taxed on the service. They still get taxed on that ordinary income, but that allows the property giver to be brought in and not be taxed. Well, wait a second, this person doesn't have any money. What are they going to do? Well, I'm going to loan it to them. I'm going to loan it to them and they're going to pay me back. It's going to be a legitimate loan. I'm going to have a note and they're going to pay me back. So, they're going to borrow the money, contribute it, and then end up paying me back. I'm getting the tax benefit because I'm the property giver.

The other situation is that someone may decide, "I want to come into the business, and I have an existing business, so, I'm going to transfer the assets of my existing business in, in return for stock." Well, that's a contribution to capital. And so, again, they have to, that person, each transaction stands on its own. That person must have 80% control. If they don't, which they probably won't, how do you get it? Well, existing shareholders can use their existing shares, all of them, if they contribute an amount of property, then cash is property, that equals or exceeds 10% of the value of their existing holdings.

Now, remember, it's fair market value, so it's not your basis of the fair market value. You're considered a property giver. So, let's say, you know, the property givers now have 100%. So, this person gets tax free treatment, and again, you have, you up the basis in the assets. Now this is under Rev. Proc. 77-37.

Now, remember, if you're, if a service giver is giving some property, they're still going to be taxed on that service. You're just really allowing all of the shares they got, including the shares they got for service, to be used towards that 80% control test, and again, this is Rev. Proc. 77-37.

So, now, property solely for stock and immediately thereafter they're in control. So, we talked about control. Now what's immediately thereafter? This is, this one's a little different. The IRS will look at the step transaction and that can be used as a, it's a sword and a shield. So, "immediately thereafter" means an orderly process to complete the transaction, taking into consideration all of the steps under the facts and circumstances. So, the step transaction is facts and circumstances.

It does not require that, you know, everybody's not sitting around a round table and the attorney is there with the stock certificates and this person's over there with the real estate, they've got their deed and this person over there is saying, "Okay, everybody, you got our, one, two, three, exchange." Okay. That doesn't happen; right? This person comes in now, this person comes in later in the day. This person comes in two days later. Everybody, you know, it's an orderly process.

Now, what does that mean? Well, you can look at facts. I had a situation where, and again, because here's the question, where do you test the 80% control? What is immediately thereafter?

So, I had a situation where they, number one, yep, came in, did the transfer. Well, that person immediately thereafter had 100%, okay? They're tax-free. Next person came in the next day. Well, when they transfer, they only got 50%; right? Because the other person had 100, now there's 50, that's half. Well, wait a second, they fail; right? They don't have 80% control. No. It's part of the same transaction, okay? They just came in the next day, one person came in the day before and they came in the next day. That's part of an orderly process. So, both of them get tax-free treatment.

Now, we got a delay of a couple of months. That person comes in, made a transfer of property. Well, wait a second. IRS said, "You can't use that. That's not part. That's a couple of months difference. That's not orderly."

We said, "Wait a second. This was a doctor. The doctor was out of the country with one of those like, you know, Doctors Without Walls or whatever, but he was doing medical services to the poor in another country. We said, "Come on. He wasn't there. As soon as he got back. I mean, immediately after he came back, came in, boom, did the transfer, everything was done."

IRS said, "Okay. We'll go along with that one, but this one we're not because this one, you got a year plus." We said, "Yes, we have a year plus, but this particular property needed EPA approval to be transferred because of where it was located. It was an environmental issues, lot of them, and the EPA was taking forever for us to get this study. We had some independent studies that had to be done. It took a long process."

Now, in our documentation, in the beginning, we had indicated that it was possible that by the time we got this, that the doctor would be out, and as soon as he got back. We put that in there. As far as this building, we indicated in the beginning that it needed to be transferred, to transfer over to the corporation, it needed to have these various environmental approvals, and that immediately upon the approval, we would transfer it. We couldn't transfer it until. We also had a contingency in there that said, if it can't be transferred, then other suitable property, and we actually had named two potential properties that would substitute.

And so, there was an orderly process all along to get all of the approvals to transfer the property. On appeals they said, "Yes, that's a unique circumstance, but it was out of your control." And that's the key. It was out of the control of the individuals. They did everything they could possibly do.

I've also had a case once where it's somewhat similar, but it was a zoning issue. They were fighting, trying to get the zoning to transfer the property into the corporation so it could use it with the proper zoning. So, what's the key to all of this is just the documentation. Document these things to the best that you can up front.

Now, once your basis is established, you have your annual adjustments. So, annually the basis is adjusted upwards, downwards for additional contributions, the results of operations, and any distribution or return of capital, not a dividend.

Now, you might say, "Well, what do mean the dividend?" Well, it's possible for an S Corp to have E&P. It cannot have current E&P, but it can have accumulated if it had E&P when it was a C converted to an S. That becomes the E&P of the S. It was a C and there was a Q sub-election, which became the E&P of the parent. Or a reorganization of a C and an S, the S survived and there was E&P.

So, in all of those scenarios, you can have E&P. A distribution out of E&P is a dividend. And so, the shareholders allocable share of both the separately Scheduled K and the non-separately, Page 1 of the 1120-S, items of income, deduction, and loss are going to adjust.

Now, the basic rule, and I have a slide up here for the annual adjustment, the basic rule, increase for additional contributions, increase for income items and excess depletion, decrease for distributions, note distributions coming out first, decrease for non-deductible, non-capital, and then decrease for items of loss and deduction.

Now, you might be saying to yourself, "Well, well, wait a second here. Decrease for items of loss and deduction after reducing my basis for non-deductible non-capital items?" And the answer is yes, that's the rule, but you can make an election to allow the separately and non-separately stated items of loss or deduction to reduce basis first.

And I have a slide up for you here. And to elect, the shareholder should attach a statement to their timely filed original or amended return stating they agree to the carryover rules of the Regs 1.1367-1(g), the name of the corporation to which the rule applies. It no longer has to be signed, by the way.

Now, once made, the election applies to the year for which it's made and all future years for the S Corp unless the IRS allows. And so what happens? Well, the election increased now for the contributions, increased for income items and excess depletion, decreased for distributions, then decreased for items of loss and deduction, and decreased for non-deductible, non-capital expenses and depletion. You probably have a box in your software that asks if you've made the election or if you want to make that election.

Now, note that S Corporations non-deductible and non-capital expenses allocated to the shareholder that exceed the basis in both the stock and loans do not carry over to the succeeding tax year and do not reduce basis in any succeeding shareholder year unless an election is made under 1.1367-1(g).

Now, keep in mind that, you know, pre-1983 and since there's been a number of changes in how basis has been adjusted, and so, you know, just keep those in mind if you're going back to recreate basis. You should be able to recreate that basis by looking at the K-1s.

Now, reporting the basis, there is Form 7203. And 7203 is filed by the corporate shareholders who, one, are claiming a deduction, and I have a slide up here for you, are claiming a deduction for their share of the aggregate loss from the S Corp, received a non-dividend distribution from the S, disposed the stock in an S, whether or not gain is recognized, or received a loan repayment from an S. So, this reports both your stock and loan basis.

Now, the forms indicate that it might be beneficial for shareholders to complete and retain even for years it's not required to file, although for most years you probably will, but this is going to help keep our basis as being properly kept. So, again, until 2021, there was no specific form or format to report this, and the IRS, they provided a worksheet with the K-1 instructions.

Now, this is usually completed by the corporation, but it's the shareholder's responsibility. So, if you're not the one who is preparing that 7203, I strongly suggest that you don't just automatically rely on it, that you in fact review it, because I have seen many times where the corporation's prepared it, but they don't have all the information, especially depending on how the initial basis was incurred and so, don't assume that it is correct. And you may have differences of opinion on how some things should be handled. So, if you do, you contact the accountant who is preparing the corporate return and see if you can hammer out what their differences are, but you know, don't just automatically rely on that.

All right. So, we've talked, you know, about these basis adjustments, and so what happens if your basis now has become zero and, unfortunately, you've deducted losses or deductions you shouldn't have because you didn't have enough basis?

This is a matter that the IRS has said, "Well, distributions in excess of stock basis are treated as gain from the sale or exchange of property;" right? So, if you get a distribution that is greater than your basis.

Now, remember, you get to adjust your basis upwards first. Then you can take a distribution. So, essentially you can take cash out, for example, and have it as a return of capital, and even thereafter, it, a distribution would generally be capital gain.

Now, I'm going to say this assumes there's no accumulated earnings and profits, which is a dividend, and there's a 1099-DIV for that. This is not, again, we don't have time to get in all the distribution rules and what AAA is, but if you have accumulated earnings and profits, you can distribute essentially up to your AAA, your accumulated adjustments account and have it as a return of capital or capital gain before you have to get to the A&P account or a dividend.

So, the capital gain, long term or short term, depending on the holding period of the stock. The holding period, you know, when you contribute to the extent that you contribute capital or 1231, the holding period carries over from when you held the property. For everything else, it starts new when you contribute it.

So, we said under Section 1366, losses and deductions in excess of basis are suspended until the next year and then carried forward to the succeeding years until you have enough basis.

Now, again, even if you have enough basis, it then goes over into the at-risk rule. Do you have enough at risk? You know, because you don't get the same basis as you do in a Partnership in debt, and especially non-recourse debt, often the at-risk, often in an S Corp, is the same as the basis, and so that isn't much of a worry for you, but it can, under circumstances, it can be different, especially depending on how you got those original shares, inheritance or a gift.

Now, if the shareholder completely disposes of the stock while there's a loss and deduction items are suspended, the loss and deduction items are permanently lost. They're not going to be able to be claimed, they're gone.

Now, any loss and deduction items suspended cannot be used to offset the gain on the sale. This is often done incorrectly. It can't be used. You can't, you don't free up your losses to offset your gain on the sale of your stock.

So, one of the problems when you don't properly limit your deductions and losses is it affects your computation of basis and thus affects things going forward. So, if the statute of limitations on an assessment is still open, you should file an amended return to correct the items of loss and deduction reported.

But what if it's closed? So, you get a new file and you go, "Whoa, wait a second. You took deductions in excess of your basis in the past, I'm going to go file an amended return, I'm going to correct it." No problem. But what if the statute of limitations has closed? What do you do? Well, in a Technical Advice Memorandum 9304004, and there's a Field Service Advice, and also a TAM, by the way, 200619021, the service sets forth its position on the deduction of excess basis taken in closed years.

So, what the IRS says is that you have a zero basis, but you have to establish what they call an excess loss account for the losses and excess of basis taken in the closed year. And so, any year that you have positive adjustments to basis, you have to use the positive adjustment first to eliminate your excess loss account. So, your basis remains at zero, meaning you won't have any losses that you can take, everything would be suspended, until you pick up all of the excess loss account.

Well, this is highly controversial. So, again, the IRS says that losses in excess of basis from closed statute years, we can't go back because the years are closed, and we're not alleging fraud, you have to reduce the basis in the open statute year after considering the positive adjustments to basis, but before, again, considering the non-dividend distributions. Essentially, this account.

So, the IRS relies on Section 6214, which allows facts from a closed year to be considered in computing current year tax items. And Reg. 1.1016-6(a) which provides that adjustments to basis must always be made to eliminate double deductions or their equivalent to reduce basis in the current open year for items improperly claimed in the past.

Essentially, the IRS says, "Well, this is a double deduction because you took a deduction you weren't entitled to there, you didn't reduce your basis, so, now you're getting another deduction."

Well, in the case of Kanwal, and Kanwal challenged this and said, "Well, wait a second. That's not a double deduction because it's not the same deduction and it's not founded in the same facts. That was a deduction taken then. This year's deduction has nothing to do with that other than the fact that we didn't reduce the basis, but that's not a double deduction." The double deduction would be if it related to the same type of fact. We're double deducting the same item, the same depreciation, the same cost of goods, that type of thing. They said that's what a double deduction is. It's not that we over-deducted in prior years.

So, in the Kanwal case, the court did not, and they refused to issue, they were asked and they refused to issue any type of summary judgment to either the taxpayer or not. So, what do we know about this Kanwal case? Well, we don't know much because why? Well, unfortunately with Kanwal, for purposes of knowing what happened is that the case was settled. And so, there was no decision for which we could look at it now and go, "Okay. Here's what the court decided." We know the court didn't buy 100% this concept, but we know that they didn't 100% deny the concept. We know the IRS's current position is if there were losses taken in closed years, you have to set up this excess loss account.

So, do we have anything similar? Well, in a case last year in 2024, in the case of Surk, which is an LLC, in the Partnership, they allowed this excess loss account. And they said, "In a Partnership, yes, that's the appropriate way." However, they relied on the fact that Section 733 of Partnership tax says that the Partnership basis is reduced but not below zero by distributions by the Partnership and by the sum of his distributive share for the taxable year and all prior taxable years of losses of the Partnership, losses, deductions, et cetera.

And they said that wording requires that the basis in the future has to be reduced. Well, you can't reduce it below zero; right? That's a gain. And so, the excess loss account from a Partnership standpoint, Surk, S-U-R-K, said, "Yep, that's correct," but that's using essentially, that's using the rules that are specifically related to Partnerships.

All right. So, if we have, at least questions related to the second class of stock, you know, we know that we now have some relief that we can get because the IRS allows now some self-correction of some of these items. And so, you know, if we follow the concept, the self-correction concept, Rev. Proc. 2022-19, one of the things, basis is one of the things, and especially if there's a second class of stock issue.

And again, with the S Corps, you always have to watch out for this second class of stock. And the second class of stock can create a serious issue in S Corp taxation. So, it's one of the things that you kind of have to look at. Again, Rev. Proc. 2022-19 discusses this.

And, you know, basically the idea is that if you have a, for example, if you have distributions that have been made that could be considered a second class of stock, those can be self-corrected, all right? Those are things that can be self-corrected under these rules.

And so, the way it works is the IRS allows, under this, allows certain transactions to be corrected without having to go through private letter rulings. So, Rev. Proc. 2022-19, it eases the burden on the IRS and it eases the burden on the taxpayers. The estimated cost of a private letter ruling is about \$108,000, is what they say.

So, there's six areas that you can use the Rev. Proc. The one class of stock, and disproportionate distributions are the main ones that would affect what we're talking about now, and the idea is that if you believe that there was a second class of stock. So, again, the governing instrument, which could be a lease, for example, could be a governing instrument or an employment agreement, and it could be argued to be a second class of stock. You can simply change it as long as there's been no, as long as the principal purpose was not to avoid or circumvent the single class of stock rules.

Then again, obviously you cannot have preferred stock, but you can't come up with arrangements that look like stock. And if you want to think of what would be a second class of stock, think of it in this context. Think of it in the context of what would create unreasonable compensation. "Oh. No, I'm not getting paid. I'm not getting any distribution of profit. I'm just getting paid an unreasonably high amount of compensation. Oh, I'm leasing property to my corporation at more than fair rental value. They bought my property for more than fair market value or vice versa. I bought corporate property for less than fair market value."

But if you have any agreement that could arguably, in other words, you haven't done anything yet, but could arguably fall into that, and remember, if stock is authorized but unissued or treasury, it doesn't count as a second class of stock, regardless. If you had unissued, authorized unissued or treasury shares that were preferred and you never did anything, that's, that technically that's not a second class of stock.

And so, the other thing is disproportionate distributions, you know, this can happen. You know, clients come into you and they go, "What did you do?" "Well, I took out more money this year." "Well, why did you do that? Why did you take out more money?" "Well, you know, I had to go on a vacation. My kid went to college. I needed money. We'll equalize those later."

Well, in a Partnership, you can get away with that, but in an S Corp, that creates a second class of stock. The IRS says, is no, "If, if there's no intention of doing it, and you correct it within a reasonable period of time, the intent wasn't to circumvent the one class of stock. The intent was simply to say, I needed more money. We're going to change it later. It's fine. Don't worry about it. Just correct it."

There is a case out there where they, they issued preferred stock, they didn't do anything, they didn't issue any distribution. IRS said, "You didn't do anything. Just correct it. Get rid of it, no problem." And so, if you look at, at Rev. Proc. 2022-19, this provides not having to go through this process of a private letter ruling.

So, I want to thank you for joining me as we've gone through the world of stock in an S Corp. Thank you for being here. Please join me next month, and as always, please be safe.

SUPPLEMENTAL MATERIALS

S Corporation Stock Basis

by Ian J. Redpath, JD, LLM

Limitations on Losses, Deductions, and Credits

- There are potential limitations on corporate losses that taxpayers can deduct on their tax returns.
- These limitations and the order in which they must be applied are as follows:
 1. The basis limitations, (IRC §§ 1366 and 1367).
 2. The at-risk limitations (Form 6198; IRC § 465).
 3. The passive activity loss limitations (Form 8582; IRC § 469).
 4. The excess business loss limitations [Form 461; IRC § 461(l)].
 5. The return might have limitations such as NOLs.



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Control

- Transferors must be in control immediately after exchange to qualify for nontaxable treatment.
- To have control, transferors must own—
 - 80% of total combined voting power of all classes of stock entitled to vote, and
 - 80% of total number of shares of all other classes of stock (class by class).



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Election to Change Ordering

1. An S corporation shareholder may elect to allow their separately and nonseparately stated items of loss or deduction to reduce basis prior to the nondeductible expenses under Reg. § 1.1367-1(f)(4).
2. To elect, the shareholder should attach a statement to their timely filed original or amended return stating they agree to the carryover rule of Reg. § 1.1367-1(g) and the name of the S corporation to which the rule applies.
3. Once made, the election applies to the year for which it is made and all future tax years for that S corporation, unless the IRS agrees to revoke the shareholder's election.



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What Is Property?

- Definition of *property* is broad and includes:
 - Cash
 - Secret processes and formulas
 - Know How
 - Customer lists and similar intangibles
 - Goodwill
 - Unrealized accounts receivable (for cash basis taxpayer)
 - Installment obligations
- Code specifically excludes services from definition of property.
 - Services are considered as if paid with the FMV of the stock received and then contributed to the corporation.



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2

Annual Adjustments

1. Increased for additional contributions to capital.
2. Increase for income items and excess depletion.
3. Decreased for distributions.
4. Decreased for non-deductible, non-capital expenses and depletion.
5. Decreased for items of loss and deduction.



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Annual Adjustments—Election to Change Ordering

1. Increased for additional contributions to capital.
2. Increase for income items and excess depletion.
3. Decreased for distributions.
4. Decreased for items of loss and deduction.
5. Decreased for non-deductible, non-capital expenses and depletion.



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Who Must File Form 7203?

- Form 7203 is filed by S corporation shareholders who—
 1. Are claiming a deduction for their share of an aggregate loss from an S corporation (including an aggregate loss not allowed in the prior year because of basis limitations);
 2. Received a non-dividend distribution from an S corporation;
 3. Disposed of stock in an S corporation, whether gain is recognized or not; or
 4. Received a loan repayment from an S corporation.

GROUP STUDY MATERIALS

A. Discussion Questions

1. Section 351 allows certain property transfers to a corporation to be tax-free if the transferors are in “control” immediately after the exchange. What is control?
2. S-corporation shareholders must keep track of their stock basis each year. Which items increase basis, and which items reduce it?
3. Assume a shareholder has \$40,000 of suspended S-corporation losses because their basis was previously reduced to zero. Before they can restore any basis, they sell all of their S-corporation stock. What happens to the suspended losses?

B. Suggested Answers to Discussion Questions

1. Section 351 allows certain property transfers to a corporation to be tax-free if the transferors are in “control” immediately after the exchange. What is control?

Definition of control: Transferors must own at least 80% of total voting power and 80% of every class of non-voting stock immediately after the exchange.

Who counts: Only shareholders who actually transfer property are counted. All stock they hold right after the exchange, whether or not received in the exchange, counts toward the 80% test. Constructive-ownership rules generally don’t apply.

Flexibility in allocations: Different classes or share allocations among transferors are fine so long as the group collectively meets the 80% thresholds.

2. S-corporation shareholders must keep track of their stock basis each year. Which items increase basis, and which items reduce it?

- **Increases:**

- Additional capital contributions and increases in a shareholder loan basis.
- Pro-rata share of taxable income items (ordinary income, capital gains, etc.).
- Tax-exempt income.
- Certain “excess” percentage-depletion deductions (only the amount that exceeds the property’s adjusted basis).

- **Decreases:**

- Distributions (cash or property) not treated as salary or loan repayment.
- The shareholder’s share of deductible losses and expenses (including non-deductible expenses that aren’t capitalized, e.g., 50% meals).
- Deductions for depletion up to the property’s basis.

- **Example:**

- Beginning stock basis = \$50,000.
- Share of ordinary income = \$30,000 → Basis increases to \$80,000.
- Distribution received = \$10,000 → Basis decreases to \$70,000.
- Share of nondeductible fines = \$2,000 → Basis decreases to \$68,000.

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3. **Assume a shareholder has \$40,000 of suspended S-corporation losses because their basis was previously reduced to zero. Before they can restore any basis, they sell all of their S-corporation stock. What happens to the suspended losses?**

The suspended losses are permanently disallowed (Treas. Reg. 1.1366-2(a)(6)(i)). They do not transfer to the buyer, nor can they offset gain on the stock sale.

Rationale: IRC Sec. 1366(d) ties loss deductibility to the shareholder's economic investment. Once that investment (the stock) is disposed of, the shareholder no longer bears the economic risk; allowing the loss would give a tax benefit without an offsetting economic burden. Thus, losses suspended because of a lack of basis expire and are not deductible when stock with no basis is sold.

GLOSSARY

Accumulated Adjustments Account (AAA)—The AAA is the cumulative total of the S corporation's post-1982 income and gains, other than tax-exempt income reduced by all expenses and losses, both deductible and nondeductible, other than those related to tax-exempt income, and any distributions deemed to be made from the account.

Accumulated Earnings and Profits (AEP)—An S corporation only has AE&P if it was previously a C corporation or acquires another corporation that has AE&P.

At-Risk Limitation—The at-risk limitation (IRC Sec. 465) restricts the amount of loss a taxpayer can take from pass-through entities to the amount the taxpayer has at risk at the end of the taxable year. At risk amounts are initially the amount of cash contributed plus the adjusted basis of property contributed as an investment in the activity, then increased for the taxpayer's share of net income and reduced by the taxpayer's share of net losses and taxpayer withdrawals. The amount of debt that the taxpayer is personally liable for also generally increases the at-risk amount. The passive activity loss limitation and the net operating loss limitation are applied after the basis limitation and at-risk limitation.

Average Indexed Monthly Earnings (AIME)—The amount of earnings used in determining the primary insurance amount (PIA) for most workers who attain age 62, become disabled, or die after 1978. A worker's actual past earnings are adjusted by changes in the “average wage index,” in order to bring them up to their approximately equivalent value at the time of retirement or other eligibility for benefits.

Average Monthly Wage (AMW)—The average amount of total wages for each year after 1950, including wages in noncovered employment and wages in covered employment in excess of the OASDI contribution and benefit base. These amounts are used to index the earnings of most workers first becoming eligible for benefits in 1979 or later, and for automatic adjustments in the contribution and benefit base, bend points earnings test exempt amounts, and other wage-indexed amounts.

Excess Business Loss—An excess business loss is the excess (if any) of the taxpayer's aggregate deductions for the tax year that are attributable to trades or businesses of the taxpayer over the sum of: the taxpayer's aggregate gross income or gain for the tax year, which is attributable to those trades or businesses, plus \$250,000 or \$500,000 on a joint return.

Full Retirement Age—The age at which a worker qualifies to receive full social security benefits. The full retirement age is 65 for individuals born in 1937 or earlier and gradually rises to 67 for those born in 1960 and later.

Indexing For Inflation—Adjusting dollar amounts for the destructive effects of inflation.

Medicare—A federal health insurance program for individuals age 65 or older or under age 65 with disability regardless of income or assets. There are four parts to Medicare: Part A-Hospital Insurance; Part B-Medical Insurance; Part C-Medicare advantage; and Part D-Prescription drug plans.

Passive Activity Loss Deduction—The Passive Activity Loss (PAL) deduction (IRC Sec. 469) is limited to passive activity gains for the year, except where a passive activity was disposed of in its entirety. A passive activity loss is any loss from rental activities or activities in which the taxpayer does not materially participate (but not dividend, capital gain or interest income). Net passive losses are suspended and carried forward until they can be used against passive gains or until the passive activity is disposed of in full. The PAL limitation is applied after the basis limitation and at-risk limitation.

Social Security Disability Insurance (SSDI)—Social Security Disability Insurance (SSDI) or “Disability” provides monthly payments to people who have a disability that stops or limits their ability to work.

Choose the best response and record your answer in the space provided on the answer sheet.

1. How are cost-of-living adjustments (COLAs) for Social Security determined?
 - A. Calculated using changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W)
 - B. Based on changes in the Average Wage Index (AWI)
 - C. Determined by Congress each year
 - D. Based on the stock market performance
2. Which law repealed the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO)?
 - A. Medicare Modernization Act
 - B. Social Security Fairness Act
 - C. Retirement Protection Act
 - D. Senior Equity Adjustment Act
3. What is the minimum number of quarters needed to qualify for Social Security retirement benefits?
 - A. 20 quarters
 - B. 30 quarters
 - C. 40 quarters
 - D. 45 quarters
4. What is the earliest age a person can apply for Social Security retirement benefits?
 - A. 60
 - B. 62
 - C. 63
 - D. 65
5. What is indexing in the context of Social Security benefit calculations?
 - A. Applying interest to savings accounts
 - B. Reducing benefits due to early retirement
 - C. Determining annual tax payments
 - D. Adjusting past wages to current values using wage indexes

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6. What is the Primary Insurance Amount (PIA)?
- A. The benefit a worker receives at full retirement age
 - B. The amount of taxes paid into Social Security
 - C. The monthly benefit received at age 62
 - D. A lump sum payment from SSA
7. What must a worker usually do before any family member can collect benefits based on their record?
- A. File for their own Social Security benefits
 - B. Reach age 70
 - C. Stop working
 - D. Establish a Medicare account
8. What is the full retirement age (FRA) for someone born in 1960 or later?
- A. 65
 - B. 66
 - C. 67
 - D. 68
9. What is the impact of delaying Social Security benefits past full retirement age (FRA)?
- A. Benefits decrease monthly
 - B. No changes occur after full retirement age
 - C. Benefits increase by 8% per year up to age 70
 - D. You are penalized for not claiming
10. Why is it beneficial to continue working after age 60 even without indexing?
- A. It avoids income tax.
 - B. It reduces Medicare premiums.
 - C. It prevents COLA reductions.
 - D. It can replace lower-earning years in the benefit formula.

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11. Which of the following is the first limitation that must be applied when determining whether an S corporation shareholder can deduct a loss?
- A. Passive activity loss limitation
 - B. Excess business loss limitation
 - C. At-risk limitation
 - D. Basis limitation
12. Which of the following correctly describes how “boot” is treated in a Section 351 transaction?
- A. It is excluded from gain recognition.
 - B. It causes gain recognition to the extent of the lesser of boot received or gain realized.
 - C. It is taxed only if services are provided.
 - D. It results in automatic loss recognition.
13. Which of the following types of property is **not** included in the definition of “property” under Section 351?
- A. Services
 - B. Cash
 - C. Installment obligations
 - D. Goodwill
14. Which of the following is a requirement for stock received in exchange for services to qualify as part of the Section 351 transaction?
- A. The services must be valued at the FMV of the services performed.
 - B. The service provider must also contribute property worth at least 10% of the value of the services.
 - C. The service must be rendered over five years.
 - D. The stock must be preferred.
15. Which form must be filed by an S corporation shareholder to report stock and debt basis?
- A. Form 1120-S
 - B. Form 6198
 - C. Form 7203
 - D. Form 8582

SUBSCRIBER SURVEY**Evaluation Form**

Please take a few minutes to complete this survey related to **CeriFi CPE Network Tax Report** and return with your quizzer or group attendance sheet to CeriFi, LLC. All responses will be kept confidential. Comments in addition to the answers to these questions are also welcome. Please send comments to grading-cpedge@cerifi.com.

How would you rate the topics covered in this issue of **CeriFi CPE Network Tax Report**? Rate each topic on a scale of 1–5 (5=highest):

	Topic Relevance	Topic Content/ Coverage	Topic Timeliness	Video Quality	Audio Quality	Written Material
Accounting Session	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Auditing Session	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Which segments of this issue of **CeriFi CPE Network Tax Report** did you like the most, and why?

Which segments of this issue of **CeriFi CPE Network Tax Report** did you like the least, and why?

What would you like to see included or changed in future issues of **CeriFi CPE Network Tax Report**?

How would you rate the effectiveness of the speakers in this issue of **CeriFi CPE Network Tax Report**? Rate each speaker on a scale of 1–5 (5 highest):

	Overall	Knowledge of Topic	Presentation Skills
Accounting Speaker	_____	_____	_____
Auditing Speaker	_____	_____	_____

Are you using **CeriFi CPE Network Tax Report** for: CPE Credit ☐ Information ☐ Both ☐

Were the stated learning objectives met? Yes ☐ No ☐ _____

If applicable, were prerequisite requirements appropriate? Yes ☐ No ☐ _____

Were program materials accurate? Yes ☐ No ☐ _____

Were program materials relevant and contribute to the achievement of the learning objectives? Yes ☐ No ☐ _____

Were the time allocations for the program appropriate? Yes ☐ No ☐ _____

Were the supplemental reading materials satisfactory? Yes ☐ No ☐ _____

Were the discussion questions and answers satisfactory? Yes ☐ No ☐ _____

Specific Comments:

Name/Company _____

Address _____

City/State/Zip _____

Email _____

Once Again, Thank You...

Your Input Can Have a Direct Influence on Future Issues!

CPE Group Attendance Sheet

Firm/Company Name: _____
Account #: _____
Location: _____
Program Title: _____ Date: _____

<u>Name</u>	<u>Email</u>	<u>Total Hrs</u>	<u>IRS PTIN ID (if applicable Tax only)</u>	<u>Sign In</u>	<u>Sign Out</u>
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
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_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

I certify that the above individuals viewed and were participants in the group discussion with this issue/segment of the Cerifi CPE Network newsletter, and earned the number of hours shown.

Instructor Name: _____ Date: _____
E-mail address: _____
License State and Number: _____

Course Title	
Course Date:	
Start Time:	
End Time:	
Moderator Name, Credentials, and Signature Attestation of Attendance:	
Delivery Method:	Group Internet Based
Total CPE Credit:	3.0
Instructions:	During the webinar, the moderator must verify student presence a minimum of <u>3 times per CPE hour</u> . This is achieved via polling questions. Sponsors must have a report which documents the responses from each student. The timing of the polling questions should be random and not made known to students prior to delivery of the course. Record the polling question responses below. Refer to the CeriFi CPE Network User Guide for more instructions. Partial credit will not be issued for students who do not respond to at least 3 polling questions per CPE hour.
Brief Description of Method of Polling	Example: Zoom: During this webinar, moderator asked students to raise their hands 3 times per CPE hour. The instructor then noted the hands that were raised in the columns below.

[illegible]

CERIFI CPE NETWORK USER GUIDE

REVISED August 2025

Welcome to CeriFi CPE Network!

CeriFi CPE Network programs enable you to deliver training programs to those in your firm in a manageable way. You can choose how you want to deliver the training in a way that suits your firm's needs: in the classroom, virtual, or self-study. You must review and understand the requirements of each of these delivery methods before conducting your training to ensure you meet (and document) all the requirements.

This User Guide has the following sections:

- **“Group Live” Format:** The instructor and all the participants are gathered into a common area, such as a conference room or training room at a location of your choice.
- **“Group Internet Based” Format:** Deliver your training over the internet via Zoom, Teams, Webex, or other application that allows the instructor to present materials that all the participants can view at the same time.
- **“Self-Study” Format:** Each participant can take the self-study version of the CeriFi CPE Network program on their own computers at a time and place of their convenience. No instructor is required for self-study.
- **What Does It Mean to Be a CPE Sponsor?:** Should you decide to vary from any of the requirements in the 3 methods noted above (for example, provide less than 3 full CPE credits, alter subject areas, offer hybrid or variations to the methods described above), CeriFi CPE Network will not be the sponsor and will not issue certificates. In this scenario, your firm will become the sponsor and must issue its own certificates of completion. This section outlines the sponsor's responsibilities that you must adhere to if you choose not to follow the requirements for the delivery methods.
- **Getting Help:** Refer to this section to get your questions answered.

IMPORTANT: This User Guide outlines in detail what is required for the formats above. Additionally, because you will be delivering the training within your firm, you should review the Sponsor Responsibilities section as well. To get certificates of completion for your participants following your training, you must submit all the required documentation. (This is noted at the end of each section.) CeriFi CPE Network will review your training documentation for completeness and adherence to all requirements. If all your materials are received and complete, certificates of completion will be issued for the participants attending your training. Failure to submit the required completed documentation will result in delays and/or denial of certificates.

IMPORTANT: If you vary from the instructions noted above, your firm will become the sponsor of the training event and you will have to create your own certificates of completions for your participants. In this case, you do not need to submit any documentation back to CeriFi, LLC.

If you have any questions on this documentation or requirements, refer to the “Getting Help” section at the end of this User Guide **BEFORE** you conduct your training.

We are happy that you chose CeriFi CPE Network for your training solutions.

Thank you for your business and HAPPY LEARNING!

Copyrighted Materials

CeriFi CPE Network program materials are copyrighted and may not be reproduced in another document or manuscript in any form without the permission of the publisher. As a subscriber of the **CeriFi CPE Network Series**, you may reproduce the necessary number of participant manuals needed to conduct your group study session.

“Group Live” Format

CPE Credit

All CeriFi CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

***Effective November 1, 2018:** CeriFi CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by CeriFi CPE Network. CeriFi CPE Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures). Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as CeriFi CPE Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template after the executive summary of the transcript). You should circulate (e.g., email) to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance

You must monitor individual participant attendance at “group live” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **attendance sheet**. This lists the instructor(s) name and credentials, as well as the first and last name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant arrives late, leaves early, or is a “no show,” the actual hours they attended should be documented on the sign-in sheet and will be reflected on the participant’s CPE certificate.

Real Time Instructor During Program Presentation

“Group live” programs must have a **qualified, real time instructor while the program is being presented**. Program participants must be able to interact with the instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A “group live” program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Make-Up Sessions

Individuals who are unable to attend the group study session may use the program materials for self-study online.

- If the emailed materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the email address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual CeriFi account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his/their CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded by CeriFi CPE Network after the “group live” documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the “group live” session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to CeriFi CPE Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether CeriFi CPE Network is the sponsor for the “group live” session, it is required that the firm hosting the “group live” session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Group Study Attendance sheets; indicating any late arrivals and/or early departures)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations.

Finding the Transcript

The entire transcript is available as a pdf via the link in the email sent to administrators.

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your “group live” session should be sent to CeriFi CPE Network by the following means:

Email: grading-cpedge@cerifi.com

When sending your package to CeriFi, you must include ALL of the following items:

Form Name	Included?	Notes
Advertising / Promotional Page		Complete this form and circulate to your audience before the training event.
Attendance Sheet		Use this form to track attendance during your training session.
Subscriber Survey Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to CeriFi any evaluations that were completed. You do not have to return an evaluation for every participant.

Incomplete submissions will be returned to you.

“Group Internet Based” Format

CPE Credit

All CeriFi CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

***Effective November 1, 2018:** CeriFi CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by CeriFi CPE Network. CeriFi CPE Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures. Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as CeriFi CPE Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template following the executive summary in the transcript. You should circulate (e.g., email to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance in a Webinar

You must monitor individual participant attendance at “group internet based” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **Webinar Delivery Tracking Report**. This form lists the moderator(s) name and credentials, as well as the first and last name of each participant attending the seminar. During a webinar you must set up a monitoring mechanism (or polling mechanism to periodically check the participants’ engagement throughout the delivery of the program. Participants’ two-way video should remain on during the entire presentation.

In order for CPE credit to be granted, you must confirm the presence of each participant **3 times per CPE hour and the participant must reply to the polling question**. Participants that respond to less than 3 polling questions in a CPE hour will not be granted CPE credit. For example, if a participant only replies to 2 of the 3 polling questions in the first CPE hour, credit for the first CPE hour will not be granted. (Refer to the Webinar Delivery Tracking Report for examples.)

Examples of polling questions:

1. You are using **Zoom** for your webinar. The moderator pauses approximately every 15 minutes and asks that participants confirm their attendance by using the “raise hands” feature. Once the participants raise their hands, the moderator records the participants who have their hands up in the **webinar delivery tracking report** by putting a YES in the webinar delivery tracking report. After documenting in the spreadsheet, the instructor (or moderator) drops everyone’s hands and continues the training.
2. You are using **Teams** for your webinar. The moderator will pause approximately every 15 minutes and ask that participants confirm their attendance by typing “Present” into the Teams chat box. The moderator records the participants who have entered “Present” into the chat box into the **webinar delivery tracking report**. After documenting in the spreadsheet, the instructor (or moderator) continues the training.
3. If you are using an application that has a way to automatically send out polling questions to the participants, you can use that application/mechanism. However, following the event, you should create a **webinar delivery tracking report** from your app’s report.

Additional Notes on Monitoring Mechanisms:

1. The monitoring mechanism does not have to be “content specific.” Rather, the intention is to ensure that the remote participants are present and paying attention to the training.
2. You should only give a minute or so for each participant to reply to the prompt. If, after a minute, a participant does not reply to the prompt, you should put a NO in the webinar delivery tracking report.
3. While this process may seem unwieldy at first, it is a required element that sponsors must adhere to. And after some practice, it should not cause any significant disruption to the training session.
4. **You must include the Webinar Delivery Tracking report with your course submission if you are requesting certificates of completion for a “group internet based” delivery format.**

Real Time Moderator During Program Presentation

“Group internet based” programs must have a **qualified, real time moderator while the program is being presented**. Program participants must be able to interact with the moderator while the course is in progress (including the opportunity to ask questions and receive answers during the presentation). This can be achieved via the webinar chat box, and/or by unmuting participants and allowing them to speak directly to the moderator.

Where individual participants log into a group live program they are required to enable two-way video to participate in a virtual face-to-face setting (with cameras on), elements of engagement are required (such as group discussion, polling questions, instructor posed questions with time for reflection, or a case study with engagement throughout the presentation) in order to award CPE credits to the participants. Participation in the two-way video conference must be monitored and documented by the instructor or attendance monitor in order to authenticate attendance for program duration. The participant-to-attendance monitor ratio must not exceed 25:1, unless there is a dedicated attendance monitor in which case the participant-to-attendance monitor ratio must not exceed 100:1.

Make-Up Sessions

Individuals who are unable to attend the “group internet based” session may use the program materials for self-study either in print or online.

- If emailed materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the email address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual CeriFi CPE account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded by CeriFi CPE Network after the “group internet based” documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who may not have answered the required amount of polling questions.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the “group live” session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to CeriFi CPE Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether CeriFi CPE Network is the sponsor for the “group internet based” session, it is required that the firm hosting the session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Webinar Delivery Tracking Report)
- Copy of the program materials
- Timed agenda with topics covered
- Date and location (which would be “virtual”) of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations

Finding the Transcript

The email sent to administrators each month has a link to the pdf for the newsletter. The email may be forwarded to participants who may download the materials or print them as needed.

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your “group internet based” session should be sent to CeriFi CPE Network by the following means:

Email: grading-cpedge@cerifi.com

When sending your package to CeriFi, you must include ALL the following items:

Advertising /		Complete this form and circulate to your audience
Webinar Delivery		Use this form to track the attendance (i.e., polling
Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to CeriFi any evaluations that were completed. You do not have to

Incomplete submissions will be returned to you.

“Self-Study” Format

If you are unable to attend the live group study session, we offer two options for you to complete your Network Report program.

Self-Study—Email

Follow these simple steps to use the printed transcript and video:

- Watch the video.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.
- E-mail your completed quizzer and survey to:

grading-cpedge@cerifi.com

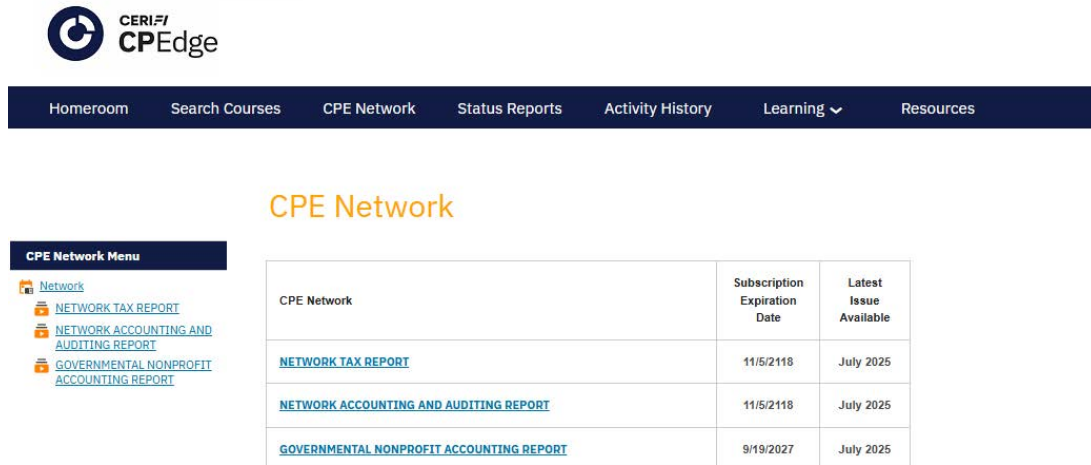
Self-Study—Online

Follow these simple steps to use the online program:

- Go to <https://cerificpedge.com/>.
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).

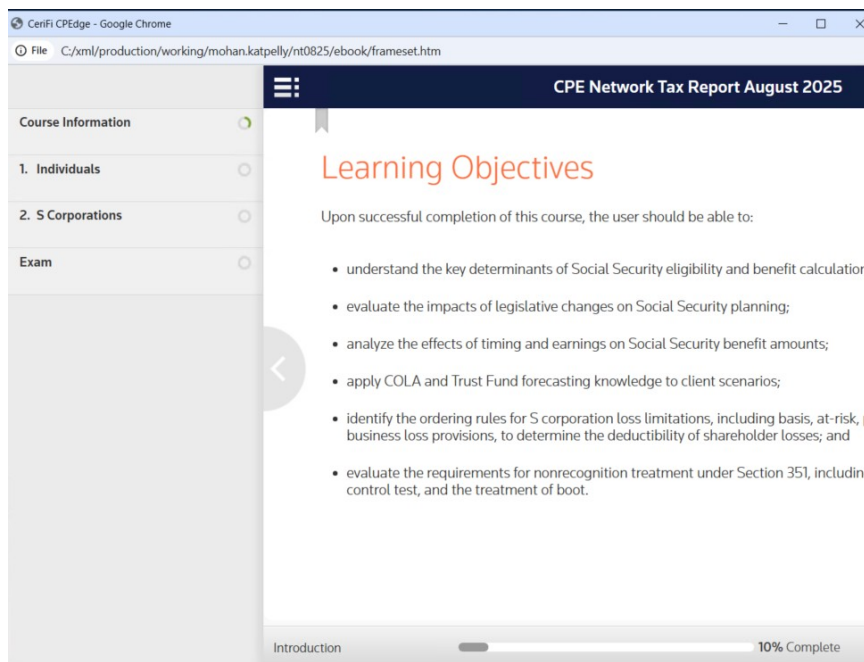
The screenshot shows the CeriFi CPEdge website. At the top, there is a navigation bar with links: "Ways to Learn", "Explore Courses", "CPE Subscriptions", "Buy for Team", and "Support". To the right of the navigation bar are links for "Contact Us", a shopping cart icon, and a "Login" button. Below the navigation bar is a search bar with the placeholder text "Search courses". A blue banner below the search bar reads "Checkpoint Learning is now CeriFi CPEdge!". The main content area features the heading "CeriFi CPEdge CPE for CPAs" and a subheading "The highest quality continuing professional education for CPAs and EAs looking to grow their knowledge in tax, accounting, finance, and more." Below this, there are three columns of content: "Stay up to date" (with a subheading "Dive deep into the details of evolving regulations and best practices, with courses delivered by trusted experts on a wide range of topics."), "Live events" (with subheadings "Webinars and Virtual Conferences", "Seminars", and "Conferences"), and "On-demand courses" (with subheadings "Self Study and Online Grading", "Nano Courses", "Video Learning", and "On-Demand Webinars"). A woman wearing glasses and a headset is visible in the background of the main content area.

- In the **CeriFi CPE Network** tab, select the desired Network Report and then the appropriate edition.



CPE Network	Subscription Expiration Date	Latest Issue Available
NETWORK TAX REPORT	11/5/2118	July 2025
NETWORK ACCOUNTING AND AUDITING REPORT	11/5/2118	July 2025
GOVERNMENTAL NONPROFIT ACCOUNTING REPORT	9/19/2027	July 2025

The Chapter Menu is in the gray bar at the left of your screen:



CPE Network Tax Report August 2025

Learning Objectives

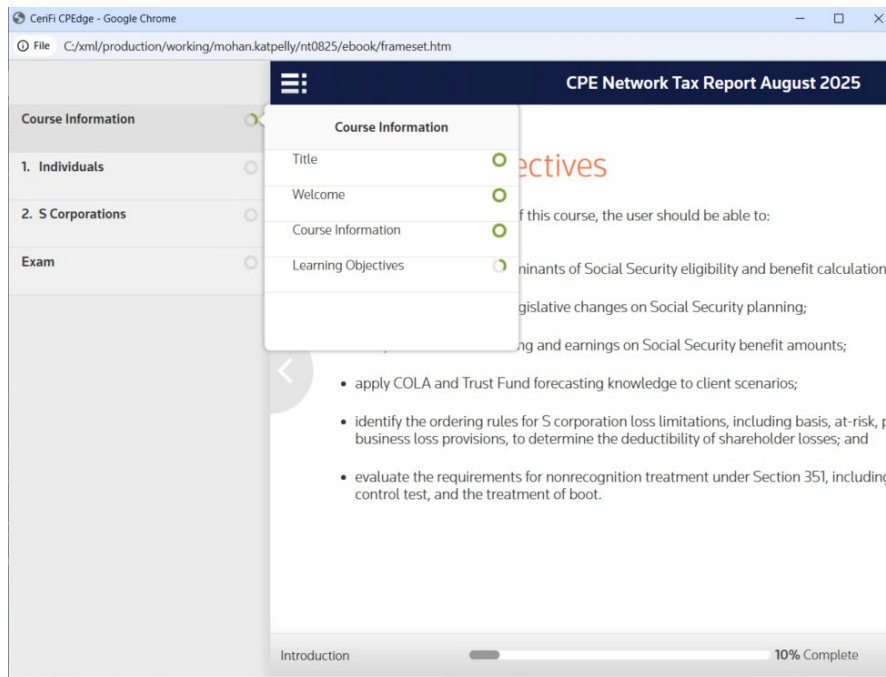
Upon successful completion of this course, the user should be able to:

- understand the key determinants of Social Security eligibility and benefit calculation;
- evaluate the impacts of legislative changes on Social Security planning;
- analyze the effects of timing and earnings on Social Security benefit amounts;
- apply COLA and Trust Fund forecasting knowledge to client scenarios;
- identify the ordering rules for S corporation loss limitations, including basis, at-risk, pe business loss provisions, to determine the deductibility of shareholder losses; and
- evaluate the requirements for nonrecognition treatment under Section 351, including control test, and the treatment of boot.

Introduction 10% Complete

Click down to access the dropdown menu and move between the program Chapters.

- **Course Information** is the course Overview, including information about the authors and the program learning objectives



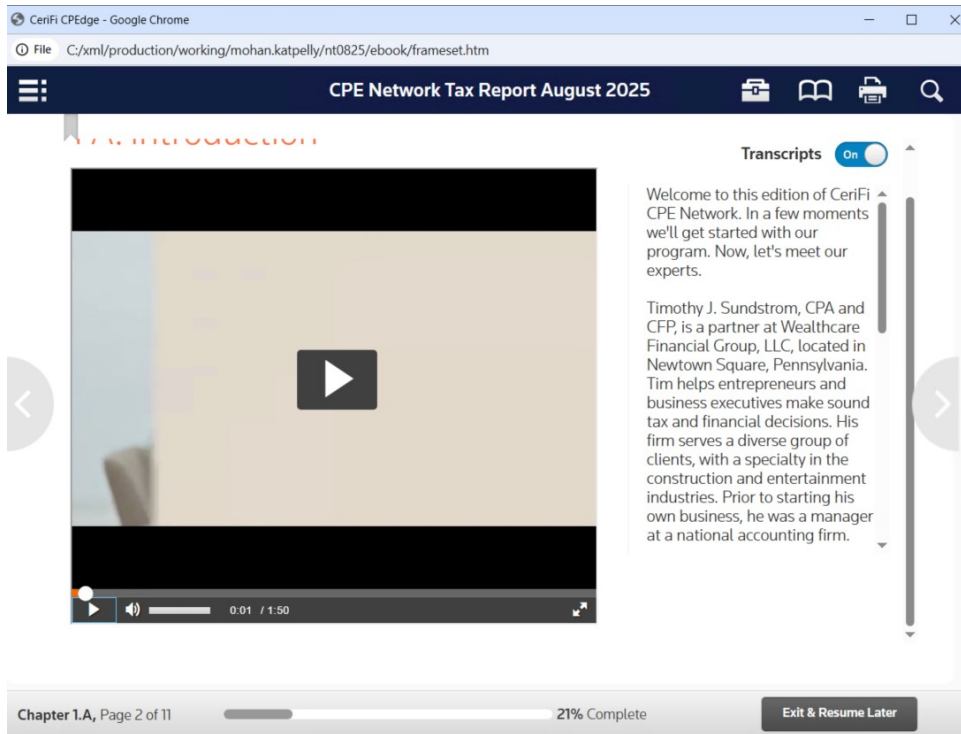
- **Each Chapter is self-contained.** Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the self-study questions. This streamlined approach allows administrators and users to more easily access the related materials.



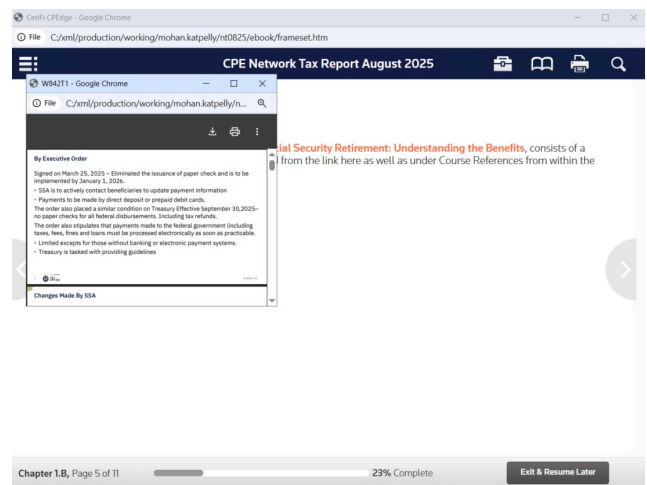
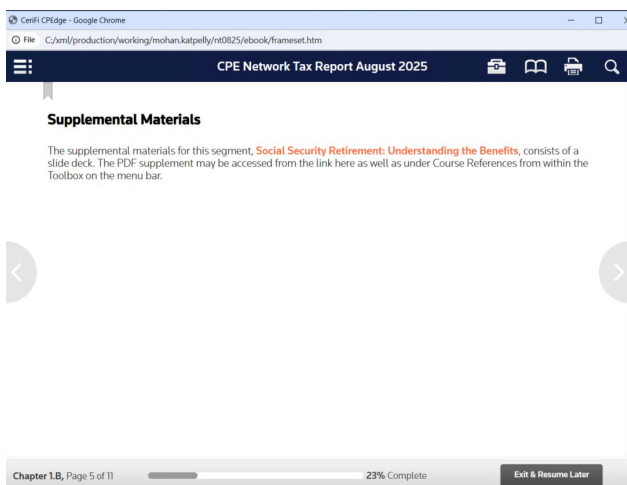
Video segments may be downloaded from the player by clicking on the download button. *Tip: you may need to scroll down to see the download button.*

Transcripts for the interview segments can be viewed at the right side of the screen via a toggle button at the top labeled **Transcripts**

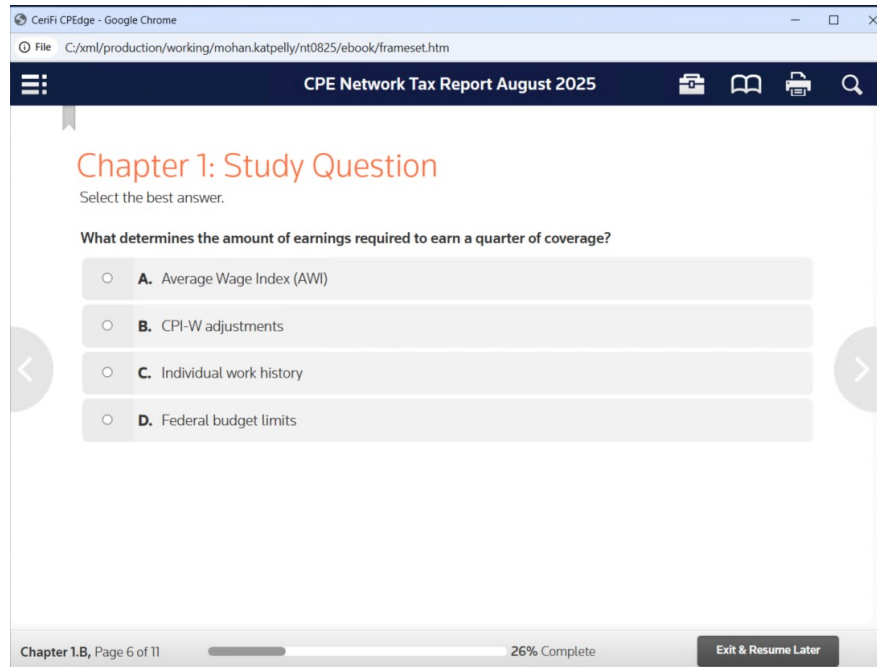
Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material.



The supplemental materials are available via the toolbox and the link will pop up the pdf version in a separate window.

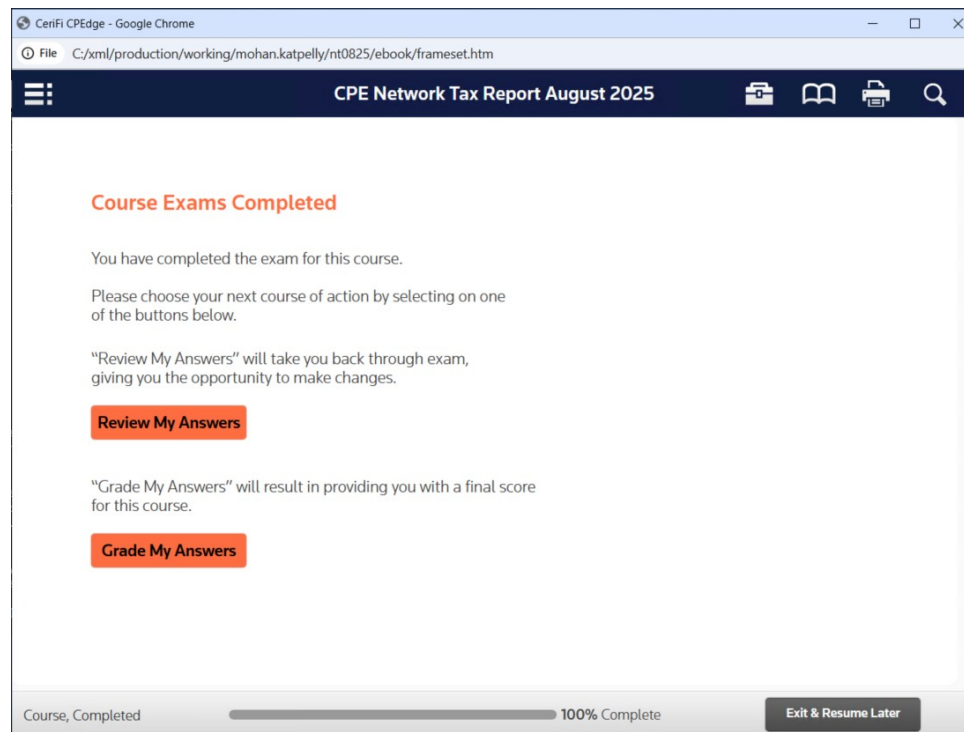


Continuing to click the arrow to the right side of the screen will bring the user to the self-study questions related to the segment.



The **Exam** is accessed by clicking the last gray bar on the menu at the left of the screen or clicking through to it. Click the orange button to begin.

When you have completed the quizzer, click the button labeled **Grade or the Review button**.



- Click the button labeled **Certificate** to print your CPE certificate.
- The final quizzer grade is displayed and you may view the graded answers by clicking the button labeled **view graded answer**.

Additional Features Search

CeriFi CPE offers powerful search options. Click the **magnifying glass** at the upper right of the screen to begin your search. Enter your choice in the **Search For:** box.

Search Results are displayed with the number of hits.

Print

To display the print menu, click the printer icon in the upper bar of your screen. You can print the entire course, the transcript, the glossary, all resources, or selected portions of the course. Click your choice and click the orange **Print**.

What Does It Mean to Be a CPE Sponsor?

If your organization chooses to vary from the instructions outlined in this User Guide, your firm will become the CPE Sponsor for this monthly series. The sponsor rules and requirements noted below are only highlights and reflect those of NASBA, the national body that sets guidance for development, presentation, and documentation for CPE programs. **For any specific questions about state sponsor requirements, please contact your state board. They are the final authority regarding CPE Sponsor requirements.** Generally, the following responsibilities are required of the sponsor:

- Arrange for a location for the presentation
- Advertise the course to your anticipated participants and disclose significant features of the program in advance
- Set the start time
- Establish participant sign-in procedures
- Coordinate audio-visual requirements with the facilitator
- Arrange appropriate breaks
- Have a real-time instructor during program presentation
- Ensure that the instructor delivers and documents elements of engagement
- Monitor participant attendance (make notations of late arrivals, early departures, and “no shows”)
- Solicit course evaluations from participants
- Award CPE credit and issue certificates of completion
- Retain records for five years

The following information includes instructions and generic forms to assist you in fulfilling your responsibilities as program sponsor.

CPE Sponsor Requirements

Determining CPE Credit Increments

Sponsored seminars are measured by program length, with one 50-minute period equal to one CPE credit. One-half CPE credit increments (equal to 25 minutes) are permitted after the first credit has been earned. Sponsors must monitor the program length and the participants' attendance in order to award the appropriate number of CPE credits.

Program Presentation

CPE program sponsors must provide descriptive materials that enable CPAs to assess the appropriateness of learning activities. CPE program sponsors must make the following information available in advance:

- Learning objectives.
- Instructional delivery methods.
- Recommended CPE credit and recommended field of study.
- Prerequisites.
- Program level.
- Advance preparation.
- Program description.
- Course registration and, where applicable, attendance requirements.
- Refund policy for courses sold for a fee/cancellation policy.
- Complaint resolution policy.
- Official NASBA sponsor statement, if an approved NASBA sponsor (explaining final authority of acceptance of CPE credits).

Disclose Significant Features of Program in Advance

For potential participants to effectively plan their CPE, the program sponsor must disclose the significant features of the program in advance (e.g., through the use of brochures, website, electronic notices, invitations, direct mail, or other announcements). When CPE programs are offered in conjunction with non-educational activities, or when several CPE programs are offered concurrently, participants must receive an appropriate schedule of events indicating those components that are recommended for CPE credit. The CPE program sponsor's registration and attendance policies and procedures must be formalized, published, and made available to participants and include refund/cancellation policies as well as complaint resolution policies.

Monitor Attendance

While it is the participant's responsibility to report the appropriate number of credits earned, CPE program sponsors must maintain a process to monitor individual attendance at group programs to assign the correct number of CPE credits. A participant's self-certification of attendance alone is not sufficient. The sign-in sheet should list the names of each instructor and her/his credentials, as well as the name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant leaves early, the hours they attended should be documented on the sign-in sheet and on the participant's CPE certificate.

Real Time Instructor During Program Presentation

“Group live” programs must have a qualified, real-time instructor while the program is being presented. Program participants must be able to interact with the real time instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A “group live” program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded at the conclusion of the seminar. It should reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

CFP credit is available if the firm registers with the CFP board as a sponsor and meets the CFP board requirements. IRS credit is available only if the firm registers with the IRS as a sponsor and satisfies their requirements.

Seminar Quality Evaluations for Firm Sponsor

NASBA requires the seminar to include a means for evaluating quality. At the seminar conclusion, evaluations should be solicited from participants and retained by the sponsor for five years. The following statements are required on the evaluation and are used to determine whether:

1. Stated learning objectives were met.
2. Prerequisite requirements were appropriate (if any).
3. Program materials were accurate.
4. Program materials were relevant and contributed to the achievement of the learning objectives.
5. Time allotted to the learning activity was appropriate.
6. Individual instructors were effective.
7. Facilities and/or technological equipment were appropriate.
8. Handout or advance preparation materials were satisfactory.
9. Audio and video materials were effective.

You may use the enclosed preprinted evaluation forms for your convenience.

Retention of Records

The seminar sponsor is required to retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (the original sign-in sheets, now in an editable, electronic signable format)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name(s) and credentials
- Results of program evaluations

Appendix: Forms

Here are the forms noted above and how to get access to them.

Delivery Method	Form Name	Location	Notes
"Group Live" / "Group Internet Based"	Advertising / Promotional Page	Transcript	Complete this form and circulate to your audience before the training event.
"Group Live"	Attendance Sheet	Transcript	Use this form to track attendance during your training session.
"Group Internet Based"	Webinar Delivery Tracking Report	Transcript	Use this form to track the 'polling questions' which are required to monitor attendance during your webinar.
"Group Live" / "Group Internet Based"	Evaluation Form	Transcript	Circulate the evaluation form at the end of your training session so that participants can review and comment on the training.
Self Study	CPE Quizzer Answer Sheet	Transcript	Use this form to record your answers to the quiz.

Getting Help

Should you need support or assistance with your account, please see below:

Support Group	Phone Number	Email Address	Typical Issues/Questions
Technical Support	844.245.5970	cpedgesupport@cerifi.com	<ul style="list-style-type: none">• Browser-based• Certificate discrepancies• Accessing courses• Migration questions• Feed issues
Product Support	844.245.5970	cpedgesupport@cerifi.com	<ul style="list-style-type: none">• Functionality (how to use, where to find)• Content questions• Login Assistance
Customer Support	844.245.5970	cpedgesupport@cerifi.com	<ul style="list-style-type: none">• Billing• Existing orders• Cancellations• Webinars• Certificates