RETIREMENT LIVING

4 Potential ‘Silver Linings’ for Seniors in 2023

Struggling seniors have had a lot to worry about in 2022. There’s some good news for 2023, though, that may make life a little easier, such as a Social Security raise.

(Image credit: Getty Images)

2022 has been a tough year for many seniors, but the outlook for 2023 shows some potential “silver linings.”

This year, constantly rising prices, the war in Ukraine, a roller-coaster stock market and concerns about job security have made many older Americans who thought they had nothing to worry about financially start questioning their long-term financial security.

But within all of these gloom-and-doom scenarios, there are some nuggets of good news on the horizon, especially for those who are finding it a little harder to make ends meet. Let’s look at four of these “silver lining” situations in greater detail.

1. Social Security Payments Will Rise by the Highest Amount in Decades.

If you rely on Social Security for a good portion of your retirement income, you’re about to get some breathing room. That’s because the annual Social Security cost-of-living adjustment (COLA) will rise 8.7% in 2023. This is the largest increase since 1981.

Of course, there’s a reason for this dramatic increase: inflation. With prices for everything from gasoline to produce to building materials rising at speeds unseen since the early 1980s, the COLA is designed to help preserve the purchasing power of Social Security payments.

And if prices start to fall next year, seniors will benefit even more, since their Social Security checks will stay the same regardless of what happens in the economy — until they're adjusted again in October 2023.

2. Medicare Premiums Will Decline Next Year.

Since Medicare premiums are generally deducted from Social Security checks, an increase in premiums can dilute the benefit of a COLA.

This is exactly what happened in 2022. Initially, many seniors rejoiced when the COLA rose by 5.9%. But their joy was dampened when they discovered that their Medicare Part B premiums would increase from $148.50 to $170.10 per month, a significant jump. By comparison, premiums rose by only $3.90 from 2020 to 2021.

The main reason for this dramatic increase was Medicare's decision to fully cover the $56,000 annual cost for Aduhelm, a controversial drug used to treat Alzheimer's disease.

Initially, Medicare was committed to covering these costs for all subscribers. But doubts over the drug's efficacy allowed Medicare to change its policy to cover costs for only a very small group of patients going through clinical trials. A decrease in COVID-19-related acute care treatments also helped to reduce Medicare costs this year.

These developments didn't compel the Medicare administration to reduce premiums midyear. Instead, they decided to pass on these cost savings to subscribers when new premiums were announced in September 2022.

For those with a modified adjusted gross income of $97,000 or less as single filers ($194,000 as joint filers), monthly Part B premiums will be $164.90, a decrease of more than $5 per month.

For seniors, this combination of higher Social Security payments coupled with a decrease in Medicare premium payments is very good news, especially if they're generally healthy and don't require extensive medical treatment or expensive prescription drugs.

3. RMDs Will Potentially Be Lower in 2023.

Many retirees have seen the value of their retirement assets drop by 20% or more this year. While this has forced many to adjust their spending habits, it may actually result in one benefit for retirees: lower required minimum distributions (RMDs) next year.

Why?

Because RMD amounts for the new year are based on the value of assets in retirement accounts as of the last day of the preceding year.

In other words, your RMD for 2023 will be based on how much your traditional IRA and pre-tax 401(k) or 403(b) accounts are worth as of Dec. 31, 2022.

This process worked against retirees this year, since 2022 RMDs were based on the value of accounts on the last day of 2021, when the stock market was at its peak.

We all know what happened after that.

Unfortunately, RMDs can't be adjusted downward when bear markets occur. So, many retirees faced the double whammy of having to take RMDs that no longer reflected the true value of their nest eggs. And they had to pay taxes on these distributions while they were also paying record-high prices at the supermarket and gas pump.

Now, while it is possible that the market will recover all of its losses by the end of the year, few people are betting on this outcome. While this certainly isn't good news if you're trying to preserve or grow the value of your nest egg, at least you can have a bit of solace in knowing that your 2023 RMD amount may be lower than it was in 2022.

4. Retirement Account Contribution Limits Are Rising Significantly.

If you're still working and want to maximize contributions to your employer-sponsored retirement plan, there's more good news. Next year, the limit on annual employee contributions to 401(k), 403(b) and most 457 plans will increase to $22,500, up from $20,500 in 2022, plus up to $7,500 in additional catch-up contributions for those 50 and older.

If you're still contributing to an IRA, the annual contribution limit will increase from $6,000 in 2022 to $6,500 in 2023, plus an extra $1,000 in annual catch-up contributions if you're over age 50.

Figuring It All Out

All of these "silver linings" won't be of much use if they somehow throw your retirement financial plan out of whack. That's why you may want to seek the services of a financial adviser to help you make the most of these opportunities.

NOTE: Don't let your retirement financial plan get out of whack, reach out to the NYSUT Member Benefits Corporation-endorsed Financial Counseling Program today. As a NYSUT member, you'll have access to a team of Certified Financial Planners® and Registered Investment Advisors that will provide you with unbiased advice customized specifically for you. Visit the website for more information or to enroll today.

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