



## Finances

### Quick Guide to Taxes and Disability & Retirement Benefits

If you have been diagnosed with a chronic or serious illness and are considering retiring or applying for disability benefits, it is important to consider the potential tax implications of these options.

Based on your age, you may be eligible for retirement benefits. Retirement benefits typically come from the Social Security Administration (SSA), a private retirement account, or through an employer pension. If you are unable to work because of your medical condition, you may be eligible for disability benefits. You may have access to one or more of these options:

**Social Security Retirement Benefits:** if you paid Social Security taxes while you were working, you may be able to begin collecting Social Security retirement benefits. Your monthly retirement payment depends on what you have earned over your work history and when you decide to retire: at your full retirement age, before your full retirement age, or after your full retirement age.

**Employer-sponsored Retirement Accounts:** your employer may offer you a retirement plan that you can contribute to and your employer may also make matching contributions (e.g., 401k plan, SIMPLE IRA, etc.). Your employer may also offer you a pension plan that is funded by the employer and gives you a specific retirement benefit.

Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI): are federal programs that provide financial assistance to people with disabilities, who are unable to work because of their medical condition. Both administered by the SSA (Social Security Administration).

**Private Disability Insurance:** you may also have a private short-term or long-term disability insurance plan that you purchased directly from an insurance company or one that your employer offers you as an employee benefit.

**VA Disability Benefits:** VA disability compensation pays a monthly payment to Veterans who got sick or injured while serving in the military and also to Veterans whose service worsened an existing condition. You may qualify for VA disability benefits for physical conditions as well as mental health conditions.

For more information about the types of disability insurance, visit [TriageHealth.org/disability-insurance](https://TriageHealth.org/disability-insurance).

#### Do I Have to Pay Federal Income Taxes on My Disability Insurance Benefits?

- **Employer-sponsored Disability Insurance Plans:** When your employer pays the full premium for the disability insurance plan, you must pay federal income taxes on the disability benefits income that you receive. If you pay the full premium with after-tax income, you do not have to pay federal income taxes on the disability benefits insurance that you receive. When premium payments are split between you and your employer, the part paid by your employer is taxable and the part you paid with after-tax dollars is not taxed.
- **Individual Disability Insurance Plans:** If you have an individual disability insurance plan, income you receive is typically not taxed, because the premiums are usually paid with after-tax income.
- **Government-sponsored Disability Benefits**
  - **SSDI:** If your income from other sources (e.g., interest, alimony, other disability benefits, etc.), together with your SSDI benefits, is more than a certain amount, part of your SSDI benefits may be taxable.
  - **SSI:** not taxed by the federal government.
  - **VA Disability:** not taxed by the federal government.

# Quick Guide to Taxes and Disability & Retirement Benefits

Annual Income/Individual	Annual Income/Married Filing Jointly	Maximum Part of SSDI to be Taxed
\$0 – \$25,000	\$0 – \$32,000	0%
\$25,000 – \$34,000 50%	\$32,000 – \$44,000	50%
Greater than \$34,000	Greater than \$44,000	85%

## Do I Have to Pay State Income Taxes on My Disability Insurance Benefits?

- **Employer-sponsored Disability Insurance Plans:** Each state has different rules and it may depend on if you or your employer paid the premiums for the policy. It may be helpful to check with your state’s tax website or a tax professional in your area.
- **Individual Plans:** If you have an individual disability insurance plan, the income you receive is typically not taxed, because the premiums are usually paid with after-tax income.
- **Government-sponsored Disability Benefits:**
  - **SSDI:** most states do not tax SSDI benefits. In Connecticut, Colorado, Kansas, and Missouri, SSDI income is taxed according to the taxpayer’s federally adjusted gross income. Some states also exempt recipients whose income falls under certain thresholds.
  - **SSI:** not taxed by state governments.
  - **VA Disability:** not taxed by state governments.

## Do I Have to Pay Federal Income Taxes on My Social Security Retirement Benefits?

Whether you have to pay federal income taxes on your Social Security retirement benefits depends on: your IRS taxpayer filing status and the amount of your “combined income” (adjusted gross income, nontaxable interest, and half your Social Security retirement benefits). Generally, if a taxpayer has other sources of income and a combined income is more than a specified amount, Social Security retirement benefits are treated as income for federal tax purposes.

## Do I Have to Pay State Income Taxes on My Social Security Retirement Benefits?

A majority of states exempt Social Security (SS) retirement benefits from state income taxes, but some do not, or may only partially exclude them. For all state tax considerations, check with your individual state for specific guidelines.

- **States that exempt SS retirement benefits from taxes:** AL, AK, AZ, AR, CA, DE, FL, GA, HI, ID, IL, IN, IA, KY, LA, ME, MD, MA, MI, MS, MO, NV, NH, NJ, NY, NC, ND, OH, OK, OR, PA, SC, SD, TN, TX, VA, WA, WI, WY
- **States that partially exclude SS retirement benefits from taxes:** CO, CT, KS, MN, MT, NE, NM, RI, UT, VT, WV

## Do I Have to Pay Federal Income Taxes on My Pension?

Depending on which state you’re in, you may have to pay state income tax on your pension. For all state tax considerations, be sure to check with your individual state for specific guidance.

- **States that do not tax pension income:** AL, AK, FL, HI, IL, IA, MS, NV, NH, PA, SD, TN, TX, WA, WY
- **States that have limited taxes on pension income:** AZ, AR, CA, CO, CT, DE, DC, GA, ID, IN, KS, KY, LA, ME, MD, MA, MI, MN, MO, MT, NJ, NM, NE, NY, NC, ND, OH, OK, OR, RI, SC, UT, VA, WV, WI



## Do I Have to Pay Taxes on My Military Retirement Benefits?

Military retirement benefits are taxed by the federal government. Taxation under state guidelines varies. For state tax rules, be sure to check with your specific state to find out if they tax military retirement benefits.

- **States that do tax military retirement benefits:** CA, CO, DE, DC, GA, ID, KY, MD, MT, NM, OR, UT, VT, VA
- **States that do not tax military retirement benefits:** AL, AK, AZ, AR, CT, FL, HI, IL, IN, IA, KS, LA, ME, MA, MI, MN, MO, MS, NE, NV, NH, NJ, NY, NC, ND, OH, OK, PA, RI, SC, SD, TN, TX, WA, WV, WI, WY

For information about other strategies for managing finances, visit [TriageHealth.org/navigating-finances](https://www.TriageHealth.org/navigating-finances).

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