

## Social Security and Medicare

### Social Security

1935 Social Security Act, funded by 2% of first \$3,000 earnings

Benefits to worker only, 7 workers/retiree, retirement at age 65, expected duration 5 years.

Other benefits added later: Spouse, minor children, COLAs, Medicare, SSI, TANF, etc.

Current funding: 6.2% for OASDI capped at \$128,400 + 1.45% for Medicare + Employer match.

Calculation of Retirement Benefits; must have worked for at least 40 quarters

Income to age 60 adjusted for inflation

**Average Indexed Monthly Earnings, AIME** = Sum of 35 highest years / 420

**Primary Insurance Amount, PIA**, i.e. amount of monthly benefit at FRA

= First \$895 of AIME x 90 % + next \$4,502 x 32% + balance of AIME x 15% (2018)

Full Retirement Age	Year of Birth	FRA	Year of Birth	FRA
	</- 1937	65	1943 - 1954	66
	1938	65 + 2 months	1955	66 + 2 months
	1939	65 + 4 months	1956	66 + 4 months
	1940	65 + 6 months	1957	66 + 6 months
	1941	65 + 8 months	1958	66 + 8 months
	1942	65 + 10 months	1959	66 + 10 months
			1960+	67

**Early Retirement:** Can claim as early as age 62, but .....

..... lose 5/9 of 1% per month early up to 36 months

..... and 5/12 of 1% per month early in excess of 36 months.

Example: If FRA = 66, then lose 25% of monthly benefit if retire at age 62.

**Late Retirement:**

PIA increases by 8% pa for each year delayed up to age 70

Example: If FRA = 66, then monthly benefit is increased by 32% if delayed to age 70.

Can collect up to 6 months retroactive benefits; Beware identity theft; Check with [MySSA.gov](http://MySSA.gov)

**Cost of Living Adjustments, COLA:** 2.0% for 2018

### Spousal Benefits

Worker must be receiving retirement benefits

At FRA spouse can receive the greater of 100% of own benefit, or 50% of worker's benefit

Can take spousal benefits early, but .....

..... lose 25/36 of 1% per month early up to 36 months

..... and 5/12 of 1% per month early in excess of 36 months.

Example: If FRA = 66, then lose 30% of 50% monthly benefit if retire at age 62.

Those born before 1/1/54 can file a **restricted claim** for spousal benefits only, while delaying own benefits to 70. Bipartisan Budget Act of 2015 eliminates this option for younger people.

### Survivor Benefits

Surviving spouse is entitled to the greater of her own benefits or 100% of worker's benefit

Bipartisan Budget Act of 2015 does not affect the survivor's ability to file a restricted claim

Example: Collect survivor benefits of \$1,200/month

and delay own benefits \$1,000/month at FRA (66) to \$1,320/month at age 70

**Widow's warning:** SSA may offer \$1,000 + \$200/month without delaying benefits.

**Benefits for Divorced Spouses:** Must have been married at least 10 years and not remarried

Working ex-spouses benefits are not affected (need not know)

Both an ex-spouse and a widow(er) are entitled to survivor benefits

**Medicare:** Enacted by Lyndon Johnson in 1965

Part A: Major medical, Hospitalization

Part B: Doctor visits, Outpatient care

Part C: Medicare Advantage plans

Part D: Prescription drugs

**Medicare Myth #1:** “I can sign up anytime; there’s no rush”

Do not miss the 7-month sign-up window

Month of your 65<sup>th</sup> birthday (regardless of FRA) plus 3-months before and after

Draconian penalty, never goes away

1% per month for each month late: e.g. 60% penalty for 5-year delay in signing up

Penalty does not apply if you can prove coverage by a “creditable plan”.

**Medicare Myth #2:** “I don’t need any prescription drugs now so I can sign up for Part D later”

Draconian penalty, never goes away

10% pa for each year late: e.g. 50% penalty for 5-year delay in signing up

Penalty does not apply if you can prove coverage by a “creditable plan”.

**Medicare Myth #3:** “I’ve been paying into Medicare all my working life so there’s no charge now”

Part A is indeed “free”

The standard premium for Part B is \$134.00/month in 2018

High earners pay an additional Income Related Monthly Adjustment Amount, **IRMAA** for Parts B and D depending on their Modified Adjusted Gross Income , **MAGI**

MAGI = AGI from 2-year prior Form 1040 + tax-exempt interest

<b><u>MAGI: Single Filers</u></b>	<b><u>MAGI: Married (MFJ)</u></b>	<b><u>IRMAA: Part B</u></b>	<b><u>IRMAA: Part D</u></b>
85,000 - \$107,000	\$170,000 - \$214,000	\$53.50	\$13.00
\$107,001 - \$133,500	\$214,001 - \$267,000	\$133.90	\$33.60
\$133,501 - \$160,000	\$267,001 - \$320,000	\$214.30	\$54.20
More than \$160,000	More than \$320,000	\$294.60	\$74.80

**Medicare Myth #4:** “ Now that I’ve signed up, most of my medical costs are covered”

May need to buy Medigap supplemental insurance from a private insurer

unless covered by a Part C Advantage plan purchased from a private insurer

Covers various gaps in traditional Medicare including deductibles, copayments, etc.

Coverage is standardized for policies A, B, C, D, E, F, F\*, G, K, L, M, N, but not premiums.

**Medicare Myth #5:** “I’m covered by Medicare wherever I go”

Medicare does not cover any illness while travelling outside the United States

Consider an Advantage plan, or Plans C, D, F, F\*, G, M or N, or travel insurance.

**Medicare Myth #6:** “Medicare will cover my Long Term Care, LTC, needs”

Medicare has very limited LTC coverage; 90 days maximum after hospitalization

Consider purchasing a separate LTC policy to avoid a potential “train wreck”

**Medicare Myth #7:** “My Health Savings Account, HSA, is not affected by Medicare”

HSA contributions are tax deductible, Earnings are tax free, Medical withdrawals are not taxed but must own a high-deductible health insurance plan, and not be on Medicare

**Taxes:** April 11<sup>th</sup>, 2018      **Insurance:** May 9<sup>th</sup>, 2018

**Estate Planning:** June 13<sup>th</sup>, 2018

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