

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 \$132,900 + 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 \$926 of AIME x 90 % + next \$5,583 x 32% + balance of AIME x 15% (2019)

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

Cost of Living Adjustments, COLA: 2.8% for 2019

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 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: Worker benefit = \$2,400/month; Survivor benefit = \$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 65th 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 \$135.50/month in 2019

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

<u>MAGI: Single Filers</u>	<u>MAGI: Married (MFJ)</u>	<u>IRMAA: Part B</u>	<u>IRMAA: Part D</u>
85,000 - \$107,000	\$170,000 - \$214,000	\$54.10	\$12.40
\$107,001 - \$133,500	\$214,001 - \$267,000	\$135.40	\$31.90
\$133,501 - \$160,000	\$267,001 - \$320,000	\$216.70	\$51.40
\$160,000 - \$500,000	\$320,000 - \$750,000	\$297.90	\$70.90
More than \$500,000	More than \$750,000	\$325.00	\$77.40

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 Medigap 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

May 8th, 2019: **Estate Planning**

June 12th, 2019: **Philanthropy and Wrap-up Review**

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