Social Security and Medicare: Understanding the Benefits

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MassMutual Financial Group
Social Security and Medicare: Understanding the Benefits

THIS MATERIAL IS FOR CONTINUING EDUCATION TRAINING PURPOSES ONLY. IT IS NOT INTENDED TO BE A SOLICITATION OR OFFER OF ANY COMPANY’S SPECIFIC PRODUCT OR POLICY.
The purpose of this session is to provide generalized background and context about Social Security, Windfall Elimination Provision and the Government Pension Offset, and Medicare. Meeting attendance will not make you a subject matter expert.

- The information provided is not written or intended as specific tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel.

- Final decisions about Social Security filing strategies always rest with the client and should always be based on their unique needs and health considerations.

- A permanent late enrollment penalty may be assessed by Medicare if an individual does not sign up when first eligible.
It is important for pre-retirees to acquire as much information as possible in order to make an informed Social Security claiming decision because one year after a Social Security claiming decision is made, it cannot be changed.

This information is provided to producers for general education purposes only and covers the general workings and costs associated with Medicare for income planning purposes. Producers cannot advise clients on which benefits to elect.

Some employees including State and Local Government workers may be subject to the “Government Pension Offset” or the “Windfall Elimination Provision” which could decrease Social Security Benefits.

Congress has changed laws impacting Social Security and Medicare benefits in the past and can do so at any time in the future.
Agenda

• Social Security Overview
• Various Claiming Strategies
• Windfall Elimination Provision and Government Pension Offset
• Medicare Overview
Social Security Overview

Retirement Income by Source

More than 59 million beneficiaries receive over $73 billion – each month!*

73% of retired workers receive reduced benefits because they filed before their full retirement age.*

... Or down the drain!

Social Security Future
OASDI Trust Fund Still Growing

2013 year-end balance: $2.764 trillion

2014 Activity

IN
$884 billion

OUT
$859 billion

Social Security Trust Fund
2014 year-end balance: $2.789 trillion


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The View from 2015

2089*

If no change in taxes, benefits or other assumptions, revenue covers 73% of benefits due

*The end of the 75-year reporting period.

Source: Social Security Administration Board of Trustees; 2015 Summary of the Annual Reports June 2015
http://www.socialsecurity.gov/OACT/TRSUM/index.html
RAISE REVENUES?
- Lift earnings cap to raise taxes
- Increase future contribution rates

REDUCE BENEFITS?
- Raise retirement age
- Use different CPI formula for COLA

Social Security may change, but it’s not likely to go away!

Important Terms

Full Retirement Age (FRA)
— Currently age 66 for those born between 1943 – 1954
— Slowly rises to age 67 for those born 1960 or later

Primary Insurance Amount (PIA)
— The Retirement Estimator (www.socialsecurity.gov/estimator)
## Full Retirement Age

<table>
<thead>
<tr>
<th>Year of Birth</th>
<th>Full Retirement Age (FRA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1943-1954</td>
<td>66</td>
</tr>
<tr>
<td>1955</td>
<td>66 and 2 months</td>
</tr>
<tr>
<td>1956</td>
<td>66 and 4 months</td>
</tr>
<tr>
<td>1957</td>
<td>66 and 6 months</td>
</tr>
<tr>
<td>1958</td>
<td>66 and 8 months</td>
</tr>
<tr>
<td>1959</td>
<td>66 and 10 months</td>
</tr>
<tr>
<td>1960 and later</td>
<td>67</td>
</tr>
</tbody>
</table>

Source: Social Security Administration
How Individuals Qualify

The amount an individual contributes and how long they work determines how much they get.

1 Source: Social Security Administration Benefits Planner: Retirement Credits at http://www.ssa.gov/retire2/credits.htm
Knowledge Deficit - Workers

- Complex rules (especially for couples)
- Lack of educational resources for pre-retirees
- Social Security Administration clerks answer questions, but many individuals do not know what to ask
Issues

- Clients may fear running out of money – good Social Security filing decisions may help ease pressure on a retirement portfolio.

- Social Security benefits may be a significant financial asset for many retirees yet are often misunderstood.

- Individuals are unaware benefits increase up to 8% for each year benefits are delayed from FRA until age 70.

Source: Social Security Administration
### When Should Individuals File?

<table>
<thead>
<tr>
<th>Age</th>
<th>Filing Early</th>
<th>Filing Later</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>$750</td>
<td></td>
</tr>
<tr>
<td>63</td>
<td>$800</td>
<td>$1,000</td>
</tr>
<tr>
<td>64</td>
<td>$866</td>
<td>$1,080</td>
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<tr>
<td>65</td>
<td>$933</td>
<td>$1,160</td>
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<tr>
<td>66</td>
<td>$1,000</td>
<td>$1,240</td>
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<td>67</td>
<td>$1,000</td>
<td>$1,240</td>
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<tr>
<td>68</td>
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<td>$1,240</td>
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<tr>
<td>69</td>
<td>$1,240</td>
<td></td>
</tr>
<tr>
<td>70</td>
<td>$1,320</td>
<td></td>
</tr>
</tbody>
</table>

Assumes a $1,000 monthly benefit at age 66 (FRA). Cost of Living Adjustments are not included in this graph.

Deciding When to take Social Security Benefits

Educated Guess

— Client’s health
— Long-lived family members
— Other sources of income if client delays taking Social Security
— Will client continue to work
— Spouse, widowed or divorced
Filing Strategies
IMPORTANT CHANGES in SOCIAL SECURITY ARE SHOWN IN THIS PRESENTATION

Certain filing strategies previously available to everyone are now limited
Meet Bob and Mary

- Both are age 63 and still working
- Each is in good health; longevity runs in their families
- Full retirement age is 66
- Full retirement age benefit: Bob $2,500; Mary $1,200

Because Bob and Mary turned 62 before the end of 2015 they are protected by a grandfather provision of the Bipartisan Budget Act – 2015.

Hypothetical example used for illustrative purposes only.
Mary files for retirement benefits based on her own earnings record.

Mary continues collecting her own benefit. She does not earn delayed retirement credits.

Bob stops his spousal benefit and files for his own benefit, which includes delayed retirement credits – a 32% monthly increase.

Bob files a restricted application for a spousal benefit.

Bob earns delayed retirement credits of 8% each year.

Age: 66 67 68 69 70

File and Restrict Strategy
File and Restrict Strategy

Monthly Benefits by Year

Assumes annual Cost of Living adjustments

Mary’s benefit starts at $1,292 monthly*

Bob: $3,923
Mary: $1,485
$5,408*

(Combined benefits at age 70)

Bob’s spousal benefit starts at $646 monthly*

* Projections include an annual 2.5% COLA
# Ages for Maximum Benefits

<table>
<thead>
<tr>
<th>Age for Maximum Benefits</th>
<th>66</th>
</tr>
</thead>
<tbody>
<tr>
<td>You start benefits at age</td>
<td>66</td>
</tr>
<tr>
<td>Spouse starts benefits at</td>
<td>66</td>
</tr>
<tr>
<td>Spouse Files; You File Restricted</td>
<td></td>
</tr>
<tr>
<td><strong>Cumulative Lifetime Benefits</strong></td>
<td><strong>$1,618,760</strong></td>
</tr>
</tbody>
</table>

* Projections include an annual 2.5% COLA
Mary

Files for her benefit at age 63

Mary’s monthly benefit is 20% less than she would have received at her FRA

Age 63

Bob

Files for his benefit at age 63

Bob’s monthly benefit is 20% less than he would have received at his FRA

Full Retirement Age = FRA
The Cost of Filing Early

Monthly Benefits by Year

Age 63
Combined Benefit $2,998*

Age 70
Combined Benefit $3,563*

*Projections include an annual 2.5% COLA
### Ages for Maximum Benefits

<table>
<thead>
<tr>
<th>Event</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>You start benefits at age</td>
<td>70</td>
</tr>
<tr>
<td>Spouse starts benefits at</td>
<td>66</td>
</tr>
<tr>
<td><strong>Cumulative Lifetime Benefits</strong></td>
<td><strong>$1,588,571</strong></td>
</tr>
<tr>
<td>You Suspend, Spouse Files Restricted</td>
<td></td>
</tr>
</tbody>
</table>

### Summary at Selected Ages

<table>
<thead>
<tr>
<th>Event</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>You start benefits at age</td>
<td>62</td>
</tr>
<tr>
<td>Spouse starts benefits at</td>
<td>62</td>
</tr>
<tr>
<td><strong>Cumulative Lifetime Benefits</strong></td>
<td><strong>$1,209,484</strong></td>
</tr>
<tr>
<td>File for Benefits</td>
<td></td>
</tr>
</tbody>
</table>

$1,588,571^* - $1,209,484^* = **$379,087^*$$

*Projections include an annual 2.5% COLA
The Impact on Income – Annual Benefits

File “restricted” at age 66

- Combined Benefit: $91,705
- Survivor Benefit: $68,174

Ages: 84 85

File for benefits at age 63

- Combined Benefit: $60,415
- Survivor Benefit: $42,609

Ages: 84 85

Projections include an annual 2.5% COLA
Meet Callie

Callie
Age: 66
Marital Status: Widowed
Work status: Nearing retirement
Monthly Benefit: $1,500

Deceased husband, Bill
Monthly benefit while alive: $1,800

Callie’s options as a survivor are not affected by the Bipartisan Budget Act of 2015.

Projections include an annual 2.5% COLA

Hypothetical example used for illustrative purposes only.
Widow’s Benefits – One Way

Summary at Selected Age

You start benefits at age: 70
File for Benefits
Cumulative Benefits: $669,950

Projections include an annual 2.5% COLA

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Widow’s Benefits – Another Way

Age for Maximum Benefits
- You start benefits at age: 66
- You File Restricted
- Cumulative Benefits: $759,644
- Difference: $89,694

Summary at Selected Age
- You start benefits at age: 70
- File for Benefits
- Cumulative Benefits: $669,950

Projections include an annual 2.5% COLA
Callie’s survivor benefit

Callie’s personal benefit, including delayed retirement credits

Projections include an annual 2.5% COLA
Meet Nancy

Nancy:
Age: 63
Marital Status: Divorced
Work status: Nearing retirement

Because Nancy turned 62 before the end of 2015 she is protected by a grandfather provision of the Bipartisan Budget Act – 2015.

Ex-husband, Alan:
Age: 64
Marital Status: Divorced
Work status: Actively working

Nancy and Allen were married for 18 years and divorced 5 years ago

Hypothetical example used for illustrative purposes only.
Summary at Selected Age

Start benefits at age: 65
File for Benefits
Cumulative Benefits: $562,710

Projections include an annual 2.5% COLA
Divorced Benefits – Another Way

Age for Maximum Benefits
- Start benefits at age: 66
- File Restricted
- Cumulative Benefits: $737,757
- Difference: $175,047

Summary at Selected Age
- Start benefits at age: 65
- File for Benefits
- Cumulative Benefits: $562,710

Projections include an annual 2.5% COLA
At age 66, the individual files a restricted application for spousal benefits.

At age 70, the individual files for their own Social Security benefits with delayed credits.

Nancy qualifies for this strategy because she was 62 by January 1, 2016.
Monthly Benefits by Year

Nancy’s own benefit of $2,197 which includes delayed retirement credits*

Nancy’s spousal benefit: $1,292

* Projections include an annual 2.5% COLA
**Strategy Makes a Difference**

**Age for Maximum Benefits**

<table>
<thead>
<tr>
<th>Start benefits at age</th>
<th>66</th>
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<tr>
<td>Cumulative Lifetime Benefits</td>
<td>$737,757</td>
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<tr>
<td>File Restricted</td>
<td></td>
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**Summary at Selected Ages**

<table>
<thead>
<tr>
<th>Start benefits at age</th>
<th>65</th>
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<tbody>
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<td>$562,710</td>
</tr>
<tr>
<td>File for Benefits</td>
<td></td>
</tr>
</tbody>
</table>

* Projections include an annual 2.5% COLA
Meet Sam and Tai

- Both are age 56 and still working
- Each is in good health; longevity runs in their families
- Full retirement age for each is 67
- Full retirement age benefit: Sam, $2,500; Tai, $2,000

Because Sam and Tai are under age 62 as of 1/1/2016, they are not protected by a grandfather provision of the Bipartisan Budget Act – 2015.

Hypothetical example used for illustrative purposes only.
Social Security Filing Choices

Age for Maximum Benefits

Start benefits at age: 70
Spouse starts benefits at age: 70
File for Benefits
Cumulative Benefits: $2,096,735
Difference: $489,798

Summary at Selected Ages

Start benefits at age: 62
Spouse starts benefits at age: 62
File for Benefits
Cumulative Benefits: $562,710

81 combinations of filing ages
### Ages for Maximum Benefits

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>You start benefits at</td>
<td>70</td>
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<tr>
<td>Spouse starts benefits</td>
<td>70</td>
</tr>
<tr>
<td>**Cumulative Lifetime</td>
<td><strong>$2,096,735</strong></td>
</tr>
</tbody>
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File for Benefits

### Summary at Selected Ages

<p>| | |</p>
<table>
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<tbody>
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<td>You start benefits at</td>
<td>62</td>
</tr>
<tr>
<td>Spouse starts benefits</td>
<td>62</td>
</tr>
<tr>
<td>**Cumulative Lifetime</td>
<td><strong>$1,606,937</strong></td>
</tr>
</tbody>
</table>

File for Benefits

$2,096,735* - $1,606,937* = $489,798*

* Projections include an annual 2.5% COLA
Full Retirement Age Filing

Age for Maximum Benefits

Start benefits at age: 70
Spouse starts benefits at age: 70
File for Benefits
Cumulative Benefits: $2,096,735
Difference: $187,904

Summary at Selected Ages

Start benefits at age: 67
Spouse starts benefits at age: 67
File for Benefits
Cumulative Benefits: $1,908,831
New realities for younger workers

- Maximizing benefits – explore strategies that can make it easier to start Social Security benefits later in life

- Bridging the income gap – find alternative ways to generate retirement income
Same-Sex Unions

From the Social Security Administration*

- **Same-sex marriage** – Same-sex married couples are recognized as married to determine entitlement to Social Security benefits or eligibility for Supplemental Security Income (SSI) payments.

- **Same-sex couples in non-marital relationships** – Social Security is paying benefits for same-sex couples in non-marital legal relationships where they are due.

- **Apply right away** for benefits, even if you aren't sure you are eligible. Applying now protects you against the loss of any potential benefits.

- **Contact the Social Security Administration** toll-free at 1.800.772.1213 or call your local Social Security office

*Source: Social Security Administration, https://www.socialsecurity.gov/people/same-sexcouples/
Three Tiers

Important age-related deadlines

Tier 1
- Age 66

FILE & SUSPEND

Tier 2
- Age 62
- Deadline: 12/31/2015

RESTRICTED FILING

Tier 3
- Under age 62
- Most Baby Boomers

FILE

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If the individual were age 62 by January 1, 2016 and at full retirement age they can use file and restrict.

File and suspend is not available after April 29, 2016

If the individual has already filed and suspended or filed and restricted they are not affected.
ADDITIONAL CONSIDERATIONS
Consider carefully . . .

If an individual has not yet reached full retirement age – One dollar in benefits is withheld for every two dollars earned above the $15,720 earnings limit (2016).

The year an individual reaches full retirement age – One dollar in benefits is withheld for every three dollars earned that exceed the $41,880 (2016) earnings limit.

At full retirement age – No earnings test!
Other Considerations

It’s not always just about the money . . .

- Health
- When to stop working
- Access to other assets
- Immediate financial need
Remember – each person and situation is different. Do not assume that generalities apply when it comes to an individual and their families!
Summary of Important Points

- Know full retirement age – and benefit options
- Create a Social Security personal website account
- Consider life expectancy and health
- Think about income needs in retirement
- When does the individual want to stop working?
- How do taxes impact plans?
Taxation of Social Security Benefits
Social Security Benefits may be Taxable

Filing status is individual or head of household

- Combined income* between $25,000 and $34,000 - Up to 50% may be taxable
- Combined income over $34,000 - Up to 85% may be taxable

Filing status is joint

- Combined joint income between $32,000 and $44,000 - Up to 50% may be taxable
- Combined joint income over $44,000 - Up to 85% may be taxable

Married, filing a separate tax return

- Taxes will probably be due

*Combined income is adjusted gross income + nontaxable interest + 1/2 of Social Security Benefits
Source: Social Security Administration, Benefits Planner: Income Taxes and Your Social Security
Combined Income Calculation

- **Example – Richard and Susan**
  - $45,000 Taxable Income
  - $10,000 Tax Exempt Bond Interest
  - $30,000 from Social Security
  - $85,000 Total Income

- **Combined Income**
  - $45,000 Taxable Income
  - $10,000 Tax Exempt Bond Interest
  - $15,000 1/2 of Social Security*
  - $70,000 Combined Income

*up to 85% of retirement benefits may be taxable.

Taxation of Social Security by State

Source: Tax Foundation, Maps

- Exempt from State Income Tax
- Exempt from State Income Tax to extent they are taxed by Fed
- No broad-based income tax
- Benefit exemption subject to other factors
<table>
<thead>
<tr>
<th>Client’s Age</th>
<th>2016 Earned Income Limits</th>
<th>If client’s earned income exceeds the limit:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Full Retirement Age (FRA)</td>
<td>$15,720/annually</td>
<td>$1 of benefits withheld for every $2 of earnings above annual limit</td>
</tr>
<tr>
<td>Year client reaches FRA</td>
<td>$41,880/annually</td>
<td>$1 of benefits withheld per $3 in earnings above limit for months prior to reaching FRA</td>
</tr>
<tr>
<td>Month client attains FRA and after</td>
<td>No limit</td>
<td>No limit</td>
</tr>
</tbody>
</table>

Windfall Elimination Provision and Government Pension Offset
Background History – In the “Good Old Days”

Correcting Bad Assumptions

Prior to 1983 – An individual worked in a job and paid FICA tax

PLUS

Prior to 1983 – An individual worked in a government job did not pay FICA tax

NO OFFSET /COORDINATION OF BENEFITS
Net Result – By design Social Security pays a higher percentage of income replacement benefits to the lower income beneficiaries.

People who collected both Government Pensions and Social Security were at an unfair advantage of people who qualified for just Social Security because it might appear that the client is a “low income” employee.
Good News and Bad News about WEP & GPO

- Does not apply to most clients
  - Those employed by the government
    - Federal
    - State
    - Local
  - Client affected by WEP/GPO vary by location and job duties
    - State Capitals
    - Teachers in many states – but not all states
    - Some Doctors/Nurses

- Complicated
- Confusing
- Impact can be dramatic
Client Confusion

Prevent identity theft—protect your Social Security number

Your Social Security Statement
Prepared especially for Wanda Worker

January 2, 2014

See inside for your personal information

Table:
<table>
<thead>
<tr>
<th>What's inside...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your Estimated Benefit</td>
</tr>
<tr>
<td>Your Earnings Record</td>
</tr>
<tr>
<td>Some Facts About Social Security</td>
</tr>
<tr>
<td>If You Need More Information</td>
</tr>
</tbody>
</table>

What Social Security Means To You

This Social Security Statement can help you plan for your financial future. It provides estimates of your Social Security benefits under current law and updates your latest reported earnings.

Please read this Statement carefully. If you see a mistake, please let us know. That’s important because your benefits will be based on our record of your lifetime earnings. We recommend you keep a copy of your Statement with your financial records.

Social Security is for people of all ages... We’re more than a retirement program. Social Security also can provide benefits if you become disabled and help support your family after you die.

Work to build a secure future...
Social Security is the largest source of income for most elderly Americans today, but Social Security was never intended to be your only source of income when you retire. You also will need other savings, investments, pensions or retirement accounts to make sure you have enough money to live comfortably when you retire.

Saving and investing wisely are important not only for you and your family, but for the entire country. If you want to learn more about how and why to save, you should visit www.myfederalbenefits.gov, a federal government website dedicated to teaching all Americans the basics of financial management.

About Social Security’s future...
Social Security is a compact between generations. Since 1935, America has kept the promise of security for its workers and their families. Now, however, the Social Security system is facing serious financial problems, and action is needed soon to make sure the system will be sound when today’s younger workers are ready for retirement.

Without changes, in 2013 the Social Security Trust Fund will be able to pay only about 77 cents for each dollar of scheduled benefits. * We need to resolve these issues soon to make sure Social Security continues to provide a foundation of protection for future generations.

Social Security on the Net...
Visit www.socialsecurity.gov on the Internet to learn more about Social Security. You can read publications, including When To Start Receiving Retirement Benefits, use our Retirement Estimator to obtain immediate and personalized estimates of future benefits, and when you’re ready to apply for benefits, use our improved online application—It’s so easy!

Carolyn M. Colvin
Acting Commissioner

* These estimates are based on the intermediate assumptions from the Social Security Trustees’ Annual Report to the Congress.

Source: Social Security Administration
Client Confusion

Source: Social Security Administration
Windfall Elimination Provision (WEP) — In the future, if you receive a pension from employment in which you do not pay Social Security taxes, such as some federal, state or local government work, some nonprofit organizations or foreign employment, and you also qualify for your own Social Security retirement or disability benefit, your Social Security benefit may be reduced, but not eliminated, by WEP. The amount of the reduction, if any, depends on your earnings and number of years in jobs in which you paid Social Security taxes, and the year you are age 62 or become disabled. For more information, please see Windfall Elimination Provision (Publication No. 05-10045) at www.socialsecurity.gov/WEP.

Government Pension Offset (GPO) — If you receive a pension based on federal, state or local government work in which you did not pay Social Security taxes and you qualify, now or in the future, for Social Security benefits as a current or former spouse, widow or widower, you are likely to be affected by GPO. If GPO applies, your Social Security benefit will be reduced by an amount equal to two-thirds of your government pension, and could be reduced to zero. Even if your benefit is reduced to zero, you will be eligible for Medicare at age 65 on your spouse’s record. To learn more, please see Government Pension Offset (Publication No. 05-10007) at www.socialsecurity.gov/GPO.
States where Public Employees are not covered by Social Security

How to Calculate the Primary Insurance Amount - PIA

How benefits are calculated without WEP * (AIME)

First $826 of average earnings  x 90%
+ Next $4,980 of average earnings  x 32%
+ Remaining earnings amount  x 15%

Total monthly benefit amount or PIA

How benefits are calculated with WEP * (AIME)

First $826 of average earnings  x 40%
+ Next $4,980 of average earnings  x 32%
+ Remaining earnings amount  x 15%

Total monthly benefit amount or PIA

<table>
<thead>
<tr>
<th>Years of substantial earnings</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 or more</td>
<td>90 percent</td>
</tr>
<tr>
<td>29</td>
<td>85 percent</td>
</tr>
<tr>
<td>28</td>
<td>80 percent</td>
</tr>
<tr>
<td>27</td>
<td>75 percent</td>
</tr>
<tr>
<td>26</td>
<td>70 percent</td>
</tr>
<tr>
<td>25</td>
<td>65 percent</td>
</tr>
<tr>
<td>24</td>
<td>60 percent</td>
</tr>
<tr>
<td>23</td>
<td>55 percent</td>
</tr>
<tr>
<td>22</td>
<td>50 percent</td>
</tr>
<tr>
<td>21</td>
<td>45 percent</td>
</tr>
<tr>
<td>20 or less</td>
<td>40 percent</td>
</tr>
</tbody>
</table>

Maximum Offset = +/- $413 per month in 2016

*Source: Windfall Elimination Provision, SSA Publication No. 05-10045, August 2015
Case Study – Example of Earning History Record

<table>
<thead>
<tr>
<th>Years You Worked</th>
<th>Your Taxed Social Security Earnings</th>
<th>Your Taxed Medicare Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>235</td>
<td>235</td>
</tr>
<tr>
<td>1972</td>
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<td>1973</td>
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<tr>
<td>1977</td>
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<td>0</td>
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<td>76,200</td>
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<table>
<thead>
<tr>
<th>Years You Worked</th>
<th>Your Taxed Social Security Earnings</th>
<th>Your Taxed Medicare Earnings</th>
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<td>2001</td>
<td>80,400</td>
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<td>84,900</td>
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<td>87,900</td>
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<td>90,000</td>
<td>146,297</td>
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<td>94,200</td>
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<td>97,500</td>
<td>164,038</td>
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<td>102,000</td>
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<td>2009</td>
<td>106,800</td>
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<td>2010</td>
<td>106,800</td>
<td>167,236</td>
</tr>
<tr>
<td>2011</td>
<td>106,800</td>
<td>172,413</td>
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</tbody>
</table>

Retired in 2012 with “Substantial Earnings”

Earning years paying into Social Security (Non FICA Employment)
WEP Reduction (29 Years) = 85% of $816 or $694

Offset = $40 a month
### Government Pension Offset – The 2/3 Rule

**Reduces the following:**

**Spouse’s Benefits, Widow’s or Widower’s Benefits**

<table>
<thead>
<tr>
<th>Step #</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step # 1</td>
<td>Mary’s Government Pension = $600 month.</td>
</tr>
<tr>
<td>Step # 2</td>
<td>Apply 2/3 rule; 2/3 of $600 = $400.</td>
</tr>
<tr>
<td>Step # 3</td>
<td>Mary qualifies for a $1,200 Spousal benefit based on husband’s work record.</td>
</tr>
<tr>
<td>Step # 4</td>
<td>Mary’s Social Security Spousal benefit is reduced because of her own Government Pension. ($1200-$400 = $800).</td>
</tr>
<tr>
<td>Step # 5</td>
<td>Mary’s retirement income = $600 Government Pension + $800 Social Security Spousal benefit.</td>
</tr>
</tbody>
</table>
Generic Coordinated Plan – No WEP/GPO

Monthly Income Required per Year

- No shortfall during retirement
- Bob dies and Mary gets her spousal benefits based on Bob’s record

Needs Analysis Projection: Impact Technologies Group – Retirement Road Map
Generic Coordinated Plan with WEP/GPO

With WEP/GPO income shortage starts at age 88 and becomes even more dramatic at 93 because of GPO offsets.

Needs Analysis Projection: Impact Technologies Group – Retirement Road Map
When should Bob and Mary understand the impact of the WEP/GPO offsets on their plans for retirement?

A. Age 50 to 55
B. Age 55 to 60
C. Age 60 to 65
D. None of the Above
Medicare

The following is intended to provide a general overview of the Medicare program. Clients should contact their local Medicare office for details.
What is Medicare?

Medicare is the federal health insurance program for people who are 65 or older, certain younger people with disabilities, and people with End-Stage Renal Disease (permanent kidney failure requiring dialysis or a transplant).

Medicare Components


Social Security Administration, Medicare.
Impact of Health Care Costs on Retirement Planning

- Medicare premiums more expensive for high income individuals
- Minimize cost of Medicare – buy only what you need
- Avoid Medicare penalties (life long)
- Client determines when to file – what if still working
  —Establish Creditable prescription drug coverage

Source: Social Security Administration/Medicare
Medicare Part A – Hospital Insurance

Coverage:
- Inpatient hospital
- Skilled nursing facility (not custodial care)
- Hospice
- Some home health care

Costs:
- Premium-free Part A if Medicare taxes paid while working.
- Hospital stay in 2016: Individual pays $1,288 deductible per benefit period.

Source: Medicare, Coverage-inpatient-care
Medicare Part A – Hospital Insurance

Skilled Nursing Facility stay in 2016: Medicare covers skilled nursing care under certain conditions for a limited time. Individual must have a qualifying hospital stay. Individual pays $0 for first 20 days of each benefit period. For days 21-100 deductible is $161 per day. Each day after 100 of the benefit period is paid for by individual.

Source: Medicare, Coverage-inpatient-care
Medicare Part B - Medical Insurance

Coverage:

--- Doctors’ services
--- outpatient care
--- medical supplies and
--- preventive services

Most preventive care costs nothing if health care provider accepts assignment.

Source: Social Security Administration/Medicare

*Assignment. Health care providers who accept assignment agree to accept payment amount Medicare approves for the covered service and agree not to bill patient for any more than Medicare deductible and co-insurance.
Medicare Part B – Medical Insurance

Costs:

- Many people pay the Part B premium of $121.80 each month.
- Most with Social Security benefits will pay same premium as 2015.
- The deductible for 2016 is $166 per year.

<table>
<thead>
<tr>
<th>Yearly income in 2014 (for what you pay in 2016) was</th>
<th>You pay in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>File individual tax return</td>
<td>File joint tax return</td>
</tr>
<tr>
<td>$85,000 or less</td>
<td>$170,000 or less</td>
</tr>
<tr>
<td>Above $85,000 up to $107,000</td>
<td>Above $170,000 up to $214,000</td>
</tr>
<tr>
<td>Above $107,000 up to $160,000</td>
<td>Above $214,000 up to $320,000</td>
</tr>
<tr>
<td>Above $160,000 up to $214,000</td>
<td>Above $320,000 up to $428,000</td>
</tr>
<tr>
<td>Above $214,000</td>
<td>Above $428,000</td>
</tr>
</tbody>
</table>

If individuals do not sign up for Part B when first eligible, they may be assessed a late enrollment penalty which applies as long as they have Medicare.

Source: Social Security Administration/Medicare
Medicare Part C – Medicare Advantage Plans

Coverage:

— Medicare Advantage Plans cover all Medicare services that would normally be covered through Original Medicare (Parts A and B).

— Advantage Plans may also offer extra coverage like vision, hearing, dental, and/or health and wellness programs.

— Additionally, most Medicare Advantage Plans include prescription drug coverage.

Source: Social Security Administration/Medicare
Medicare Part C - Advantage Plans

Cost:

- Out-of-pocket costs depend on:
  - Whether the plan charges a monthly premium.
  - Whether the plan has a yearly deductible or any additional deductibles.
  - How much is paid for each visit or service (copayment or coinsurance). For example, the plan may charge a copayment, like $10 or $20 every time a doctor is seen. These amounts can be different than those under Original Medicare.
  - The type of health care services needed and how often.
  - Whether an individual follows the plan's rules, like using network providers.
  - Whether extra benefits are needed and if the plan charges for them.
  - The plan's yearly limit on out-of-pocket costs for all medical services.

Source: Social Security Administration/Medicare
Medicare Part D – Prescription Drug Coverage

Coverage:

- Prior authorization for medically necessary prescription drugs.
  - Quantity limits
  - Step therapy
  - Vaccine coverage
  - Mail order service for prescription drugs

- Two ways to get drug coverage
  - Part D – add drug coverage to Original Medicare OR
  - Medicare Advantage Plan (Part C) (like an HMO or PPO) or other Medicare health plan may include drug coverage. These plans include Part A, Part B, and may include Part D.

Source: Medicare, Part D, Coverage, Rules
Medicare Part D - Prescription Drug Coverage

Cost

- Most people pay only their Part D premium.
  - Premiums by Income for higher income individuals. For 2016 the IRS furnishes Medicare with adjusted gross income for 2014 (always 2 years ago).
  - Income above a certain limit, triggers a Part D income-related monthly adjustment amount in addition to the monthly plan premium.

- MAGI includes total adjusted gross income, including the taxable portion of Social Security benefits, and tax-exempt interest.

- Premiums can be deducted from monthly Social Security payments.

If an individual does not sign up for Part D when first eligible, there may be a Part D late enrollment penalty.

Source: Medicare, Monthly premiums for drug plans
### Medicare Part D – Prescription Drug Coverage

<table>
<thead>
<tr>
<th>Yearly income in 2014 (for what you pay in 2016) was</th>
<th>You pay in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>File individual tax return</strong></td>
<td></td>
</tr>
<tr>
<td>$85,000 or less</td>
<td>Your plan premium</td>
</tr>
<tr>
<td>Above $85,000 up to $107,000</td>
<td>$12.70 + your plan premium</td>
</tr>
<tr>
<td>Above $107,000 up to $160,000</td>
<td>$32.80 + your plan premium</td>
</tr>
<tr>
<td>Above $160,000 up to $214,000</td>
<td>$52.80 + your plan premium</td>
</tr>
<tr>
<td>Above $214,000</td>
<td>$72.90+ your plan premium</td>
</tr>
<tr>
<td><strong>File joint tax return</strong></td>
<td></td>
</tr>
<tr>
<td>$170,000 or less</td>
<td></td>
</tr>
<tr>
<td>Above $170,000 up to $214,000</td>
<td>Not applicable</td>
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<td>Not applicable</td>
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<tr>
<td>Above $320,000 up to $428,000</td>
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</tr>
<tr>
<td>Above $428,000</td>
<td></td>
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<tr>
<td><strong>File married &amp; separate tax return</strong></td>
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<td>$85,000 or less</td>
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<tr>
<td>Above $85,000 and up to $129,000</td>
<td>$12.70 + your plan premium</td>
</tr>
<tr>
<td>Above $129,000</td>
<td>$32.80 + your plan premium</td>
</tr>
</tbody>
</table>

Source: Medicare, Monthly premiums for drug plans

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Medicare Donut Hole

- Happens when client and their insurance company have spent $3,310 in 2016 on covered drugs
- During coverage gap: Client will pay 45% of brand name costs (mail or at pharmacy) or 58% of generics; Medicare pays the rest (42%).
- What counts toward getting out of coverage gap?
  - Yearly deductible, coinsurance and copayments
  - The discount you get on brand-name drugs in the coverage gap
  - What the individual paid in the coverage gap

Source: Medicare, Monthly premiums for drug plans
Medicare Supplement (Medigap)

- Sold by private companies helps pay some of health care costs like copayments, coinsurance and deductibles.
- Individuals must have Medicare Part A and B.
- Monthly premium for Medigap policy in addition to the monthly Part B premium paid to Medicare.
- Part D Medicare Prescription Drug Plans must be purchased if client wants gap coverage for prescription drugs.

Source: Medicare, What's Medicare Supplement Insurance (Medigap)?
Resources

Social Security Benefit
https://www.ssa.gov/

Medicare
https://www.medicare.gov/
What questions do you have?