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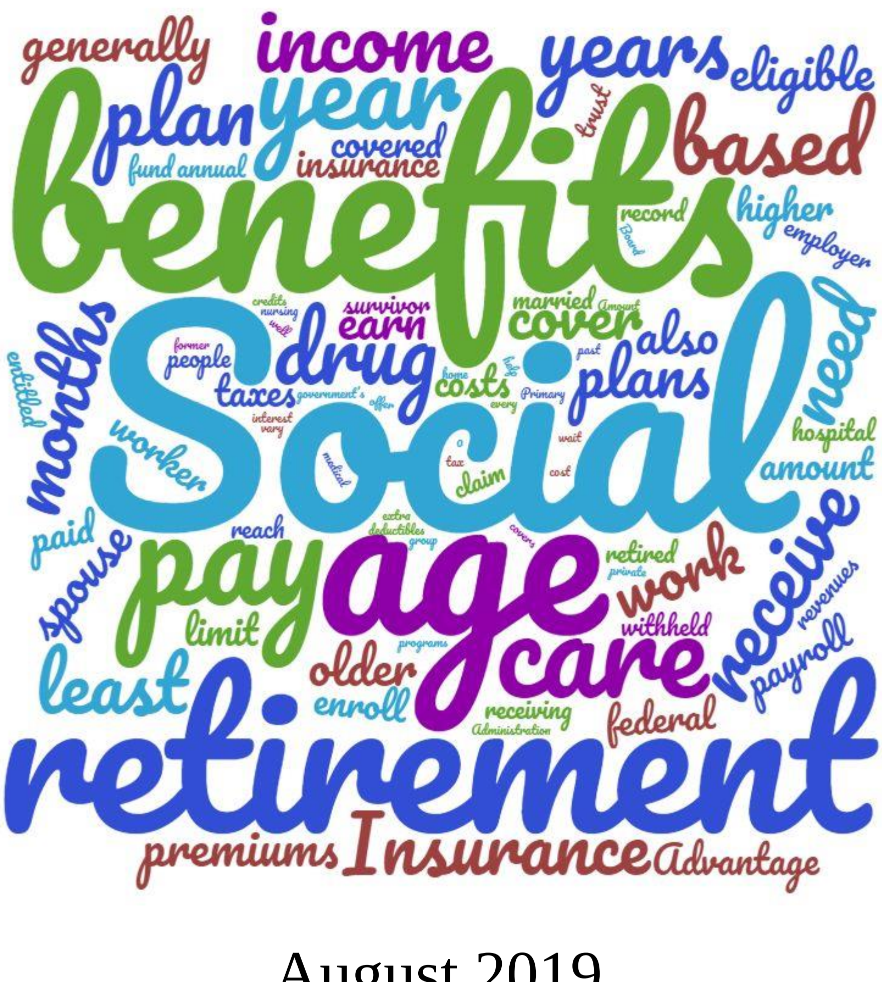
Understanding Social Security and Medicare



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Social security and Medicare are cornerstones of what is sometimes called America's "safety net."

These federal programs were never intended to fund a lavish retirement lifestyle or the most expensive health-care services. Rather, they were created to provide a basic level of support for older people who have left the workforce. Although the programs have been expanded to include other beneficiaries, their primary focus is on older Americans.

Social Security

The Old-Age, Survivors and Disability Insurance (OASDI) program – the official name of Social Security – was created as part of Franklin Delano Roosevelt's New Deal legislation during the Great Depression. It was signed into law in 1935 and is now the federal government's largest single program.

Social Security benefits were intended to "insure the essentials" for retired older workers by paying them a steady, modest income. The program was designed to be a pay-as-you-go system, which means payroll taxes collected from workers and employers are used to fund payments for current retirees.

Over the years, Social Security has been expanded to include dependents and survivors of retired workers, disabled workers and dependents of disabled workers.

Eligibility

When you work and pay Social Security taxes (FICA on some pay stubs), you earn Social Security credits. You can earn up to 4 credits each year. Workers who have accumulated a minimum of 40 work credits, which is 40 fiscal quarters or about 10 years of work, are entitled to receive Social Security retirement benefits. The benefit is based on an average of the highest 35 years of earnings in the workforce (during which payroll taxes were paid).

Spouses of eligible workers can collect Social Security spousal benefits regardless of whether they worked or not. Even the unmarried ex-spouse of an eligible worker may be entitled to Social Security benefits based on the former spouse's work record if they were married for at least 10 years.

Claiming ages

You are eligible to receive your full Social Security benefit (also known as the Primary Insurance Amount) when you reach your "full retirement age." In the past, this was age 65, but now it ranges from 66 to 67 depending on your year of birth.

If you were born in:	Your full retirement age is:
1943 – 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

If you were born on January 1 of any year, refer to the previous year to determine your full retirement age.

The earliest you can claim retired worker benefits is age 62, but if you do so the monthly benefit is permanently reduced. For each month you wait to claim benefits after age 62, your benefits increase slightly, so that at full retirement age you are entitled to 100% of your full retirement benefit.

You can delay claiming Social Security up to age 70. For each year you wait after reaching full retirement age, your benefit will increase by about 8%.

Working may affect your retirement benefit

You can work and still receive Social Security retirement benefits, but the income you earn before you reach full retirement age may temporarily affect your benefit. Here's how:

- If you're under full retirement age for the entire year, $1 of your benefit will be withheld for every $2 you earn over the annual earnings limit ($17,640 in 2019).
- A higher earnings limit applies in the year you reach full retirement age, and the calculation is different, too - $1 of your benefit will be withheld for every $3 you earn over the limit ($46,920 in 2019).

Once you reach full retirement age, you can work and earn as much income as you want without reducing your Social Security retirement benefit. If some of your benefits are withheld prior to your full retirement age, you'll generally receive a higher monthly benefit at full retirement age, because after retirement age the Social Security Administration recalculates your benefit every year and gives you credit for those withheld earnings.

Spousal benefits

Spouses are entitled to receive a benefit based on their own earnings history or a spousal benefit that could be as high as 50% of their spouse's Primary Insurance Amount.

To receive a spousal benefit, you must be age 62 or older, you must have been married for at least one year, and your spouse must have claimed or be receiving Social Security retirement benefits. A spousal benefit claimed at your full retirement age would be equal to one-half of your spouse's Primary Insurance Amount. If you elect to receive a spousal benefit before reaching full retirement age, you will receive a permanently reduced benefit, unless a qualifying child is being cared for. The reduction amount is based on your age when claiming the spousal benefit.

An unmarried, divorced spouse may also be eligible to collect a spousal benefit based on a former spouse's work record if they were married for at least 10 years. These benefits have no effect on the former spouse's benefits or on his or her subsequent spouse's benefits.

When you file for Social Security, you will be "deemed" to be applying for the maximum benefit to which you are eligible – whether it's your own retired worker benefit or a spousal benefit. You will not be able to claim a spousal benefit and switch to a higher worker benefit later.

Survivor benefits

Widows and widowers have dual entitlements under Social Security: benefits based on their own earnings history or survivor benefits based on the deceased spouse's earnings record.

To claim a survivor benefit, you must have been married for at least nine months (or for at least 10 years if you are a surviving divorced spouse). The survivor benefit amount is based on the earnings record of the spouse who died. The more the worker paid into the program, the higher the survivor benefit would be.

How Social Security benefits are taxed

If your income exceeds certain thresholds, you may owe federal income tax on up to 50% or 85% of your Social Security Benefits. The IRS uses your "combined income" to determine taxability of benefits. Combined income is defined as your adjusted gross income plus any tax-exempt interest (such as interest from municipal or savings bonds) plus 50% of your Social Security benefit.

Challenges of an aging population

As the population ages, the ratio of workers (paying into Social Security) to retirees (receiving benefits) continues to fall. In most years prior to 2010, Social Security had annual surpluses, but they were not set aside for future benefits. Rather, they were spent as part of the federal government's general revenues, and "IOUs" were issued to the Social Security Administration in the form of financial accounts. These accounts are often referred to as the Social Security "trust funds."

Since 2010, Social Security outlays have consistently exceeded tax revenues. The program's Board of Trustees project that outlays will continue to exceed revenues on a regular basis. This means that Social Security will continue tapping the interest on trust fund assets to cover benefits.

When you include the trust funds, Social security should have enough resources to pay 100% of scheduled retiree benefits until 2034. Once the trust fund reserves are exhausted, payroll tax revenues would be enough to cover about 79% of scheduled retiree benefits (this percentage will decline to 74% by 2092, based on the current benefit formula.)

For more information on retirement benefits, contact the Social Security Administration at 800-772-1213 or visit their website at www.ssa.gov.

Medicare

Medicare is the U.S. government's health insurance program for citizens age 65 and older, as well as some younger individuals with specific disabilities and illnesses, and families of deceased workers.

Generally, to be eligible for Medicare, you need to be age 65 and you (and/or your spouse) must have paid Medicare and Social Security payroll taxes for at least 10 years. The cost for Medicare will depend on your income, the options you choose, and the medical care you need.

There are two ways to receive Medicare coverage: Original Medicare or Medicare Advantage. Original Medicare is divided into two parts: Parts A and B. Participants also have the option of purchasing Part D prescription drug coverage as well as Medicare Supplemental Insurance (Medigap), which helps fill in coverage gaps. Medicare Advantage (Part C) plans combine Parts A and B, offer other benefits and often include prescription drug coverage.

Medicare coverage options

<u>Part A – Hospital Insurance</u>

Helps cover inpatient care in a hospital (but not physician's fees), a limited amount of post-hospital care in a skilled nursing facility, hospice care, and some home health care. The annual deductible ($1,364 in 2019) covers hospital stays up to 60 days, after which there are daily copayments for days 61 to 150.

<u>Part B – Medical Insurance</u>

Helps cover physicians' services, inpatient and outpatient medical services, outpatient hospital care, and diagnostic tests. There are some fairly stiff deductibles, copayments and limitations. Beneficiaries will need to meet an annual deductible and after that copays are generally 20% of Medicare-approved amounts for most services.

Part C – Medicare Advantage

These private plans provide all-in-one health care benefits and services covered under Parts A and B. Some plans offer extra coverage for expenses not covered by Original Medicare such as vision, hearing, dental, and/or health and wellness programs. Some plans also may include prescription drug coverage. There is usually a monthly premium in addition to the Part B premium, as well as copayments or coinsurance for covered services.

Part D – Prescription Drug Coverage

These plans help cover the cost of prescription drugs. Participants in Original Medicare Parts A and B – and those enrolled in Medigap or a Part C plan that does not offer prescription drug benefits – can purchase prescription drug coverage for an additional premium.

Parts A and B are administered by the federal government. Parts C and D and Medigap are offered by private, Medicare-approved insurance companies.

Because Medicare covers a limited amount of skilled nursing facility care (after a three-day hospital stay), there is a common misconception that Medicare will pay for long-term care. However, all costs for long-term care – assisted living, nursing home care, personal assistance at home – must be paid for out of pocket.

Costs Associated with Medicare

Medicare generally covers only about 60% of the cost of health care services for beneficiaries age 65 or older. Out-of-pocket costs may include premiums, deductibles, copays, and coinsurance. Costs vary depending on the coverage you choose and the medical services you use.

Medicare Premiums

- Part A is generally premium-free if you or your spouse paid Medicare payroll taxes for at least 10 years. If not, you may pay up to a $437 monthly premium in 2019.
- Part B has a standard monthly premium of $135.50 in 2019 for most people. People with higher incomes may pay more than this amount, while some people will pay less.
- Part C premiums vary by plan.
- Part D premiums also vary by plan, but higher-income individuals must pay an extra charge in addition to the plan's regular premium.

Medigap

If you are enrolled in Original Medicare Parts A and B, you have the option of purchasing Medicare Supplemental Insurance, or Medigap, which is sold by Medicare-approved private insurers. Medigap policies are designed to help cover the deductibles and copayments that the original program doesn't cover, but it will not pay for procedures that aren't covered by Medicare. If you are enrolled in a Medicare Advantage plan, you don't need (and cannot enroll in) Medigap.

Choosing a Medicare plan

When choosing coverage, compare the costs and benefits. Here are a few things to consider.

Original Medicare	**Medicare Advantage**
You can go to any doctor who accepts Medicare, and in most cases don't need referrals to see specialists.	You'll generally need to use a doctor in the plan's network and may need referrals to see specialists.
There's no limit on out-of-pocket costs.	Plans have a yearly limit on out-of-pocket costs.
You pay a monthly premium for Part B.	You pay a monthly premium for the plan and a monthly premium for Part B, but some plans have a zero premium or will pay all or some of your Part B premiums.
You pay extra for Part D prescription drug coverage.	Most plans include Part D prescription drug coverage.

When and how to enroll

If you've been receiving Social Security or Railroad Retirement Board benefits for at least four months before you turn 65, you will be enrolled automatically in Original Medicare Parts A and B. If you're not already receiving Social Security or Railroad Retirement Board benefits and want to sign up for Medicare, you'll need to apply online, by phone or my visiting your local Social Security office.

You can generally wait to enroll in Medicare past age 65 if you have group health insurance through your employer or your spouse's employer. Because it is free for most people, enrolling in Medicare Part A can help fill any coverage gaps in your employer coverage.

If you do not have group health insurance coverage through an employer past age 65, or once that coverage terminates, you should enroll in Medicare B immediately. Failure to do so will result in a permanent penalty on your Medicare premiums of 10% for each full 12 months that you could have been but were not enrolled in Part B and were not covered by an employer-based group insurance plan. A penalty on Part D premiums also exists if you do not enroll in a Medicare prescription drug plan during your initial enrollment period and do not have other "creditable" continuously in place from that time until your enrollment.

You can make coverage changes at certain times during the year. From October 15 through December 7, you can join, switch, or drop a Medicare health or drug plan for the following year.

IMPORTANT DISCLOSURES

The information presented here is not specific to any individual's personal circumstances. To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable—we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.

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