

**Planning for the Retirement of the Baby Boom Generation and Beyond:  
Social Security Retirement Benefits and Medicare Coverage**

**Francine J. Lipman  
William S. Boyd Professor of Law  
William S. Boyd School of Law  
University of Nevada, Las Vegas**

**May 1, 2017  
Central Arizona Estate Planning Council  
Phoenix, Arizona**

**Noon – 12:05p.m.:** Introduction of Speaker

**12:05- 12:20p.m.:** Social Security Retiree, Spousal, including Survivor Benefits Basics

**12:20p.m. – 12:40p.m.:** Social Security Retirement Benefits options and planning after the Bipartisan Budget Reconciliation Act of 2015

**12:40p.m. – 12:55 p.m.:** Medicare Coverage Basics and Costs

**12:55p.m. – 1:00 p.m.:** Questions, Comments, and Discussions

**I. The Basics of Social Security Retirement Benefits and Medicare Coverage.**

**A. Social Security Benefits Basics.**

1. **Most Successful U.S. Antipoverty Program.** President Roosevelt signed The Social Security Act into law on August 14, 1935. In addition to several provisions for general welfare, the new Act created a social insurance program designed to pay retired workers age 65 or older a continuing income after retirement. The program has been and continues to be the most successful antipoverty government program. The Old Age, Survivors and Disability Income programs (OASDI) lift more individuals out of poverty than any other government program by almost 400%.<sup>1</sup> During the Social Security Administration's 2014 fiscal year, the government delivered \$932 billion to sixty-five million beneficiaries.<sup>2</sup> Just over 70% of the beneficiaries were retired workers and their families, 10% were survivors of deceased workers, and the remaining 20% were disabled workers and their families.<sup>3</sup> In 2015, without OASDI benefits 26.6 million more individuals would be living in poverty, including more than 17 million seniors.<sup>4</sup> Without OASDI benefits the Supplemental Poverty Measure rate would increase by 8.3% from 14.3% to 22.6% overall and from 13.7% to 50% for senior citizens aged sixty-five and older.<sup>5</sup>

---

<sup>1</sup> U.S. Census Bureau, Supplemental Poverty Measure 2015 (SPM 2015), at 11-14.

<sup>2</sup> Social Security, Annual Statistical Supplement to the Social Security Bulletin, 2015.

<sup>3</sup> *Id.* at 2.

<sup>4</sup> SPM 2015, *infra*, at 11-14.

<sup>5</sup> *Id.*

Most seniors rely on Social Security benefits for the majority of their retirement income. Social Security retirement benefits represent more than 50% of income resources for 61% of all beneficiaries.<sup>6</sup> For 33% of all Social Security recipients these benefits provide 90% or more of their income.<sup>7</sup> Social Security retirement benefits are particularly critical for seniors of color who often do not have the opportunity to fund supplemental retirement resources or savings. Social Security retirement benefits represent 90% or more of income for 41% of Asian Americans, 45% of African Americans, and 52% of Latinos, as compared to 32% of White seniors. Older seniors who are living longer, especially women, tend to outlive their spouses and savings and, therefore, are even more reliant on Social Security benefits.<sup>8</sup> Women represent 56% of Social Security beneficiaries aged 62 and older and 66% of beneficiaries aged 85 and older. Ninety-seven percent of Social Security survivor beneficiaries are women.<sup>9</sup> Among those aged 80 or older, Social Security benefits provide more than half of all income for 72% of beneficiaries and 90% or more of their income for 42% of beneficiaries.<sup>10</sup>

In 2014, 3.2 million children received direct OASDI benefits as a surviving dependent or as a dependent of a retiree or disabled worker.<sup>11</sup> Moreover, another 3.2 million children benefited from OASDI indirectly. Thus, 9% of all U.S. children under the age of eighteen are Social Security beneficiaries, representing 11% of all Social Security beneficiaries.<sup>12</sup> Average monthly OASDI benefits for children are about \$548, with 43% of qualifying children receiving the highest average amount of \$821 on behalf of deceased workers, 15% receiving \$621 on average on behalf of retired workers, and 42% receiving only \$335 on behalf of disabled workers.<sup>13</sup>

About 67% of these indirect beneficiaries live in multigenerational families consisting of three or more generations or in households comprised of grandparents and grandchildren only.<sup>14</sup> From 2001 to

---

<sup>6</sup> Center on Budget and Policy Priorities, Policy Basics: Top Ten Facts About Social Security (Aug. 12, 2016).

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> SPM 2015, *infra*, at 11-14.

<sup>12</sup> Center for Global Policy Solutions, Overlooked But Not Forgotten: Social Security Lifts Million More Children Out of Poverty at 1 (July 2016).

<sup>13</sup> *Id.* at 4-5.

<sup>14</sup> *Id.* at 1.

2014, the number of children living in intergenerational families has risen from 8% to 11% across all racial and ethnic groups.<sup>15</sup> Consistent with this pattern, the number of multigenerational households has increased 70% since 1990, due to an aging population, stagnant wages, increasing unemployment and underemployment, increased immigration, diversity, and rising housing costs.<sup>16</sup> In 2014, 19% of the population or a record 60.6 million individuals lived in multigenerational households including 26.9 million individuals who were living in three-generation households.<sup>17</sup>

2. **How Social Security Works.** The Social Security Administration provides OASDI monthly benefits to qualified retired and disabled workers and their dependents and survivors.<sup>18</sup> Eligibility and benefit amounts are determined by workers' lifetime wages and corresponding contributions to Social Security through earnings taxes.<sup>19</sup> Social Security benefits are not means-tested, but are reduced for individuals below age sixty-five with earned income above a certain threshold and are subject to federal income tax for higher income individuals.<sup>20</sup>

Social Security taxes are regressive, although benefits tend to be progressive.<sup>21</sup> A person contributes to and qualifies for Social Security through payroll taxes or self-employment taxes under the Federal Insurance Contributions Act (FICA) or the Self-Employment Contributions Act (SECA).<sup>22</sup> Employers match employee contributions of 6.2%, while self-employed workers pay both the employer and employee contributions on the maximum yearly amount of earnings, which is indexed annually for inflation and is \$127,200 in

---

<sup>15</sup> *Id.*

<sup>16</sup> *Id.* at 4.

<sup>17</sup> D' Vera Cohn and Jeffrey S. Passel, Pew Research Center, Multigenerational Households (August 11, 2016).

<sup>18</sup> Social Security, Annual Statistical Supplement to the Social Security Bulletin, 2015 at 9.

<sup>19</sup> For a comprehensive overview on the calculation of Social Security benefits, see Francine J. Lipman & James E. Williamson, Social Security Benefits 101, American Bar Association – Section of Taxation, NewsQuarterly, at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1638234](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1638234)

<sup>20</sup> Social Security, Annual Statistical Supplement to the Social Security Bulletin, 2015 at 9; *but see* Francine J. Lipman and James E. Williamson, Shrinking Social Security Benefits, American Bar Association - Section of Taxation, NewsQuarterly, at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1029763](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1029763)

<sup>21</sup> *Id.*

<sup>22</sup> Social Security, Annual Statistical Supplement to the Social Security Bulletin, 2015 at 9.

2017.<sup>23</sup> Average annual benefits for retired workers using January 2017 monthly averages are \$16,320; \$14,052 for disabled workers; and \$15,600 for nondisabled surviving spouses.<sup>24</sup> Average annual family benefits similarly computed were \$32,340 for widowed spouses and two children; \$23,952 for disabled workers, their spouses, and children; and \$27,120 for retired couples.<sup>25</sup> While these benefits are modest compared to other countries' retirement programs and average annual worker wages in the United States of about \$45,000, they are by far the most significant government financial resource presently available.<sup>26</sup>

Commented [M1]: Citation needed

Commented [M2]: Citation needed

Commented [M3]: Citation needed

Workers become qualified for OASDI benefits through quarterly credits.<sup>27</sup> A quarterly credit is earned with Social Security covered earnings of \$1,300 (in 2017) or up to four quarterly credits a year for at least \$5,200 of covered earnings.<sup>28</sup> All workers need the lesser of (1) six quarters; or (2) a number of quarters equal to the number of years from age twenty-one to the first of: attaining age sixty-two, becoming disabled, or dying to be fully insured.<sup>29</sup> If a worker dies before meeting fully-insured status, benefits will be paid to certain survivors if the worker was "currently insured."<sup>30</sup> Workers are "currently insured" if they have earned six quarterly credits in the thirteen quarters ending with death.<sup>31</sup> Survivor benefits are paid to a worker's children and to a surviving spouse who takes care of the deceased's children who are under age sixteen or disabled and receiving Social Security benefits.<sup>32</sup>

Commented [M4]: Citation needed

Commented [M5]: Who is she? She is the worker

Commented [M6]: Citation needed

A worker receives disability benefits only if she is fully insured and has "recent work activity."<sup>33</sup> Recent work activity for a non-blind

<sup>23</sup> Social Security Administration, Fact Sheet: Social Security Administration 2017 <https://www.ssa.gov/news/press/factsheets/colafacts2017.pdf>

<sup>24</sup> *Id.* (calculating the annual benefits from the monthly stated benefits by multiplying by twelve).

<sup>25</sup> *Id.*

<sup>26</sup> Social Security, Annual Statistical Supplement to the Social Security Bulletin, 2015 at 11.

<sup>27</sup> See also Social Security, Quarters of Credit, at <https://www.ssa.gov/oact/cola/OC.html> (also describing how this dollar amount is computed and indexed for inflation annually).

<sup>28</sup> Social Security Administration, Fact Sheet: Social Security Administration 2017 <https://www.ssa.gov/news/press/factsheets/colafacts2017.pdf>

<sup>29</sup> Social Security Annual Statistical Supplement, *infra*, at 11 (determining that the number of quarters a worker living past age sixty-two who is not disabled is forty quarters (that is, forty years from age twenty-one to attaining age sixty-two)).

<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

<sup>33</sup> *Id.*

individual who is age thirty-one or older means she has earned at least twenty quarterly credits during the forty-calendar quarter period ending with the first quarter of disability.<sup>34</sup> If she becomes disabled before age thirty-one, the number of quarterly credits is basically the lesser of six or one-half of the calendar quarters from age twenty-one until she became disabled.<sup>35</sup> Workers for whom blindness is their disability qualify for benefits if they are fully insured.<sup>36</sup>

**The Social Security Benefits Formula.** The Social Security system was designed to provide a financial retirement safety net for workers and their dependents. Accordingly, lower and middle wage earners receive a much greater percentage benefit (as compared to the cost percentage (or effective tax rate)) than higher wage earners. Social Security benefits are computed using a worker's average wage-indexed monthly earnings (AIME) on which Social Security taxes were paid during the 35 highest qualifying earning years. The Social Security Administration implemented certain changes enacted by Congress in 1983. These changes will increase full retirement age (FRA) from 65 to 67, while the percentage of full benefits paid to people retiring at the earliest retirement age (62) is being reduced over time from 80% to 70% of PIA. These rules are illustrated in Table 1.

**Table 1: Full Retirement Age (FRA) and Early Retirement Discounts**

<u>Year of Birth</u>	<u>FRA &amp; Full Benefits</u>	<u>Age 62 Benefits As % of FRA Benefits</u>
1937 or earlier	65	80
1938 – 1942	Varies (increases by 2 months for each year)	Varies (decreases by 0.83% for each year)
1943 - 1954	66	75
1955 – 1959	Varies (increases by 2 months for each year)	Varies (decreases by 0.83% for each year)
1960 and later	67	70

For those born after January 1, 1943, retirement Benefits deferred beyond FRA receive an annual delayed retirement credit (DCR) increase of 8% per year. For those born before January 1, 1943, the applicable DCR amounts for each month of delayed retirement are as follows:

---

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*

<sup>36</sup> *Id.*

**Monthly Delayed Retirement Credits (DRC)**

<b>If your date of birth is:</b>	<b>The DRC for each month you delay retirement is:</b>
Before 1/2/1917	1/12 of 1%
1/2/1917 - 1/1/1925	1/4 of 1%
1/2/1925 - 1/1/1927	7/24 of 1%
1/2/1927 - 1/1/1929	1/3 of 1%
1/2/1929 - 1/1/1931	3/8 of 1%
1/2/1931 - 1/1/1933	5/12 of 1%
1/2/1933 - 1/1/1935	11/24 of 1%
1/2/1935 - 1/1/1937	1/2 of 1%
1/2/1937 - 1/1/1939	13/24 of 1%
1/2/1939 - 1/1/1941	7/12 of 1%
1/2/1941 - 1/1/1943	5/8 of 1%
After 1/1/1943	2/3 of 1%

A beneficiary's Primary Insurance Amount (PIA) includes 90% of the first level of AIME (up to \$856, indexed annually for inflation). For amounts over the first bend point (\$856) up to bend point two (\$5,157, indexed annually for inflation) this amount of AIME is included in PIA at 32%. The third level of AIME is measured from bend point two (\$5,157) to the Social Security taxable earnings ceiling. PIA includes only 15% of this amount.

**Example 1:**

For example: Assume Jane who was born in 1954 turns 62 in 2016. Further assume that she has earned the maximum amount of Social Security income for the last 35 years. Accordingly, her AIME is \$9,875 (approximately FICA ceiling amount of \$118,500/12 for 2016). Therefore, her PIA would be

$$\begin{aligned} 90\% \text{ of } \$856 &= \$770 \\ 32\% (\$5,157 - 856) &= 1,376 \\ 15\% (\$9,875 - 5,157) &= \underline{708} \\ &= \underline{\underline{\$2,854}} \end{aligned}$$

If Jane elects to take her retirement benefits at age 62 she will receive **\$2,140** (\$2,854 x 75%). Alternatively, if she waits until age 70 she would receive **\$3,767** (132% of the FRA amount or 176% of the discounted amount) plus cost of living adjustments for each year from age 62 through age 70.

For retirees turning age 62 in 1960 and later the FRA is 67 and the early retirement discount increases from 25% to 30% so the benefit amount at age 62 would only be **\$1,998** (\$2,854 x 70%) as compared to the age 70 amount of **\$3,539** (\$2,854 x 124%; 8% from age 67 to age 70) or 177% of the discounted amount (**\$3,539/1,998**).

**Early Retirement Benefits Earned Income Payback.** In addition to the early retirement election discount of up to 30% as described above (for retirees born in 1960 and thereafter), there is an earned income benefits payback penalty for working retirees who elect to take their retirement benefits before their FRA.

Despite the significant financial incentives for deferring Social Security retirement benefits, most retirees elect to start their benefits before FRA. Some of these individuals also continue to work. Recent surveys indicate that most boomers plan to work longer than their predecessors. About 80% of boomers surveyed have indicated that they plan to work beyond early retirement age. This is not surprising given increased life expectancies, better health, and safer, less strenuous work environments. Today an individual would have to retire at age 74 (78 in 2065) to mirror the average retirement age of 68 that existed before Congress provided the early retirement option. For most retirees, Social Security retirement benefits do not even come close to replacing a worker's earnings. The average replacement percentages range from a high of 56% for very low wage workers to



just under 20% for the highest wage workers.<sup>37</sup> Therefore, from a pure cash flow perspective it will always be preferable to work versus to stop working. However, the decision to elect to start benefits does not preclude a worker from continuing to work. Unfortunately, working and drawing benefits before FRA has significant implications regarding the amount of benefits a retiree can retain. In most cases, a retiree should not elect to draw benefits before FRA if she plans to continue working full-time. If a retiree's earnings exceed a certain threshold amount benefits are reduced and must be paid-back even as much as 100% of retirement benefits.

From age 62 to FRA, a retiree's benefits are reduced if she earns more than \$16,920 (2017 amount, but indexed annually). She will lose \$1 in benefits for each \$2 of earnings above this limit. Therefore, a retiree receiving \$10,000 in Social Security retirement benefits would lose 100% of her benefits if she earned \$36,920 or more. The year an individual reaches full retirement age her benefits are reduced by \$1 for every \$3 she earns above \$44,880 a year (\$3,740 per month). There is no limitation on earnings for the month and, thereafter, that an individual reaches full retirement age.

Lost benefits are typically withheld from future distributions, but they will increase gross benefits after a retiree reaches FRA. Retirees who work continue to pay FICA taxes and will possibly increase future benefits (that is, if earnings increase every year (at a rate greater than wage inflation) or if a retiree did not already have 35 years of earnings).

**Income Tax on Social Security Benefits.** Many boomers will face federal (and state (but not California)) income tax liabilities on their Social Security retirement benefits. Since 1983, benefits above certain threshold amounts are subject to federal income tax. Presently, up to 50% of benefits are included in taxable income if a beneficiary's modified adjusted gross income (MAGI) plus one-half of their benefits exceed \$25,000 (\$32,000 for married filing jointly, \$0 married filing separately couples). If that total exceeds \$44,000 (\$54,000 for married filing jointly couples, \$0 for married filing separately couples), then up to 85% of the excess are included in taxable income. While Social Security benefits increase annually in dollar amount based upon a cost of living index, the gross income inclusion thresholds have not been indexed for inflation since 1983. Consequently, more and more seniors are paying federal income taxes on their benefits. These income tax

---

<sup>37</sup> Michael Clingman, Kyle Burkhalter, and Chris Chaplain, Social Security Administration, *Replacement Rates for Hypothetical Retired Workers (July 2014)*.

liabilities reduce after-tax benefits and will continue to do so— capturing more and more seniors for larger amounts every year.

3. **Spousal Benefits.** The spouse of an eligible worker can receive benefits based upon his own work record or based upon his spouse’s work record. If retirement benefits are taken before FRA, worker and spousal benefits are reduced permanently. For boomers retiring at age 62 from 2008-2016, the worker benefit reduction is 25% and the spousal benefit reduction is 30% increasing gradually to 30% and 35%, respectively, for individuals retiring at age 62 in 2022 or later.

**Table 2: Full Retirement Age (FRA) and Early Retirement Discounts for Spousal Benefits**

<u>Year of Birth</u>	<u>FRA &amp; Full Benefits</u>	<u>Age 62 Benefits As % of FRA Benefits</u>
1937 or earlier	65	75
1938 – 1942	Varies (increases by 2 months for each year)	Varies (decreases by 0.83% for each year)
1943 - 1954	66	70
1955 – 1959	Varies (increases by 2 months for each year)	Varies (decreases by 0.83% for each year)
1960 and later	67	65

Spousal benefits do not accrue DRCs so they should be taken no later than FRA.

Before FRA the spousal benefit is the excess of one-half of the spouse’s worker benefit at FRA or PIA over his own benefit, or PIA. If benefits are taken at or after FRA, the spousal benefit is 50% of the spouse’s PIA. Spousal benefits are also available to any former spouse from a marriage that lasted at least 10 years. However, if a former spouse remarries (anyone other than the former spouse) and remains married, he cannot claim spousal benefits on any former spouse’s record. Spousal benefits from a current spouse can be taken only after the primary worker files for benefits. This requirement and the fact that spousal benefits do not accrue DRCs have motivated many retirees to claim Social Security spousal and worker benefits earlier than age 70.

The 2000 Senior Act included a provision that significantly changed this analysis. Under the 2000 Senior Act, upon reaching FRA a worker could file for and then suspend her worker benefit, allowing her spouse to claim spousal benefits, while her worker benefit continued to accrue DRCs up to age 70. If her spouse was at least FRA and claimed only his spousal benefit (and not his worker benefit), his worker benefit

would continue to accrue DRCs up to age 70. However, The Bipartisan Budget Act of 2015 (Public Law 114-74; November 2, 2015), Section 831 of the law (entitled “Closure of Unintended Loopholes”) stopped this “file and suspend” strategy. The revisions are described below.

**Survivor Benefits.** Surviving spouses of deceased workers are entitled to survivor benefits. The amount of the survivor benefit (if claimed after the survivor reaches FRA) is equal to 100% of the Social Security benefits the deceased spouse was entitled to at death. Therefore, if the deceased’s benefits were reduced because of early claiming, the survivor benefits will also be reduced. Alternatively, if the deceased’s benefits were increased with DRCs and COLAs, the survivor benefits will be increased. If the deceased spouse had not yet claimed her benefits, survivor benefits will be determined as if the decedent had claimed her benefits at the later of her FRA or her date of death. Survivor benefits are reduced if the surviving spouse claims the benefit before their FRA. Survivor benefits can be claimed as early as age 60 (age 50 if the surviving spouse is disabled). If survivor benefits are claimed at age 60 they are reduced by 28.5% permanently. This reduction is decreased to zero between age 60 and FRA. A surviving spouse can claim survivor benefits, but continue to let her worker benefits accrue DRCs through age 70. However, if a working survivor claims benefits before her FRA, she will have a payback penalty if her earned income exceeds the annual threshold amount. Survivor benefits are also available to any former spouse from a marriage that lasted at least 10 years. However, if a former spouse remarries before age 60 and remains married she cannot collect survivor benefits on any former spouse. If she becomes single again or remarries after attaining 60 she will be able to collect survivor benefits on a former spouse. Any spouse receiving spousal benefits will automatically have her benefits increased upon the spouse’s (or former spouse’s) death.

**2017 Changes to Benefits Timing.** The Bipartisan Budget Act of 2015 (Public Law 114-74; November 2, 2015), made certain changes to claiming retirement and spousal benefits. Section 831 of the law (entitled “Closure of Unintended Loopholes”) made several changes to the Social Security Act and closed two complex loopholes that were used primarily by married couples.

Existing law provides DRCs for deferring retirement benefits after FRA up to age 70. The two now-closed loopholes allowed certain married individuals to start receiving spousal benefits at FRA, while earning DCRs for delaying their worker retirement benefits.

**Deemed Filing.** If a Social Security beneficiary is eligible for benefits as a retired worker and as a spouse (or divorced spouse) in the first

month she files for benefits (whether she is FRA or younger) she will be deemed to apply for both benefits. In all cases the beneficiary will receive the higher of the two benefits. This process is called “deemed filing” because when applying for retirement benefits, the beneficiary is “deemed” to have applied for the highest of any available benefit.

Under the new law deemed filing is extended to apply to all filings. For example, if a beneficiary begins receiving retirement benefit and later becomes eligible for a spousal benefit (or vice versa), she will be “deemed” to have applied for the second benefit as soon as she is eligible for it. Monthly benefits will be the highest of the available amounts.

There are a few exceptions to deemed filing. For example, deemed filing does not apply if you qualify for worker benefits and are also entitled to disability or survivor benefits or if you are receiving spousal benefits because you are caring for the retired worker’s child. Deemed filing also doesn't apply to beneficiaries born on January 1, 1954, or earlier. These individuals can still file a restricted application for spousal benefits and delay their retirement benefits when they reach FRA.

**Example 2:** Jen is a 62-year-old widow. She is eligible for retirement benefits based on her work history, and she is also eligible for survivor benefits based on her deceased husband’s record. She starts her survivor benefit this year, restricts the scope of her application to widow’s benefits, and does not start her own retirement benefit, allowing it to grow. At age 70, she starts her own benefit increased with DRCs of 8% per year past FRA, which she will receive for the rest of her life. Moreover, if she remarries he benefit may provide a survivor benefit for her new spouse if she pre-deceases him. The new law does not affect her because deemed filing does not apply to widow(er)s.

**Example 3:** Now assume that Jane and Joe are both 62-years-old as of January 1, 2016, so they qualify for the restricted deemed filing because they were born before January 1, 1954. Both Jane and Joe are the same age and earned about the same maximum amount over their 35-year work history. Assume at FRA, their PIA is \$2,600. Jane starts her retirement benefit at FRA and receives \$2,600 a month. At FRA, Joe elects to take his spousal benefit and lets his retirement benefit accrue DCRs until age 70. Joe receives his spousal benefits for 4 years of \$1,300 per month (\$15,600 per year). Together they are receiving a benefit of \$3,900 a month (\$46,800 per year). At age 70, Joe switches over to his own benefit which has increased to \$3,432 because of DCRs, in fact it would be higher because of cost of living adjustments from age 62. Now the couple are receiving a joint benefit of \$6,032

per month (\$72,384 per year). If Joe should predecease Jane, she will receive \$3,432 as a survivor benefit. If Joe outlives Jane, he will continue his \$3,432 benefits plus cost of living adjustments until he passes. Alternatively, they could have each let their own retirement benefits earn DCRs until they both reached age 70. This would result in an increased monthly amount of \$6,864 (\$82,368 per year), but without the four years (from age 66-70) of \$3,900 per month (\$46,800 per year). Notably, both can continue working during this four-year period because there is no payback penalty after FRA. Which option is better financially will depend upon the beneficiaries' actual life spans, the first option 66/70 is a better approach if life spans are not going to be exceptionally long (e.g., late 80s to 90s). If both are expecting long lives then the 70/70 (\$6,864, plus cost of living adjustments) is the most financially lucrative option.

**Example 4:** Now assume that Jane and Joe do not have equal earnings, but are both 62-years-old as of January 1, 2016, so they qualify for the restricted deemed filing because they were born before January 1, 1954. Both Jane and Joe are the same age, but Jane earned the maximum Social Security taxable amounts during each of the years in her 35-year record and Joe earned significantly less. Assume at FRA, Jane's PIA is \$2,600 and that Joe's is \$750. Joe starts his retirement benefit at FRA and receives \$750 a month. At FRA, Jane elects to take her monthly spousal benefit of \$375 and lets her retirement benefit accrue DCRs until age 70. Jane receives her spousal benefits for 4 years of \$375 per month. Together they are receiving a benefit of \$1,125 a month (\$13,500 a year). At age 70, Jane switches over to her own benefit which has increased to \$3,432 because of DCRs. These benefits would actually be higher because of cost of living adjustments. Joe also switches to his spousal benefit of \$1,300 (50% of Jane's PIA of \$2,600). Now the couple are receiving a joint benefit of \$4,732 per month (\$56,784 a year). If Jane should predecease Joe, he will take over her \$3,432 as a monthly survivor benefit. If Jane outlives Joe, she will continue her \$3,432 benefits, plus cost of living adjustments. Alternatively, they could have Jane start her retirement benefit at 66 and have Joe take his spousal benefit of \$1,300 at the same time. This would result in an increased monthly amount of \$3,900 from age 66 until the end of their lives (\$46,800 a year). Notably, both can continue working because there is no payback penalty after FRA. Which option is better financially is contingent upon their actual life spans, the first option 66/70 is a better approach if their lives are going to be long (e.g., late 80s to 90s). This option generates \$1,125 a month or \$13,500 for four years and then \$4,732 a month (\$56,784 a year) from age 70 (or earlier, but with reduced DCRs) forward. If both are expecting traditional life spans then the

66/66 (\$3,900, a month, or \$46,800 a year, plus cost of living adjustments) might be the most financially lucrative option.

**Voluntary Benefits Suspension.** Under the new law, beneficiaries can voluntarily suspend benefit payments at FRA or after to earn DRCs. But during a voluntary suspension, derivative benefits payable on a worker's now suspended record, such as spousal benefits will be suspended. If a beneficiary suspends her benefits, she cannot receive other benefits (such as spousal benefits) on another person's record unless she is receiving them as a divorced spouse.

The new law applies to individuals who request a suspension on or after April 30, 2016, which is 180 days after the new law was enacted. Beneficiaries must have reached FRA to have requested a suspension. Beneficiaries who voluntarily suspended benefits prior to April 30, 2016, may remain in voluntary suspension status.

**Example 3:** Tomas will turn 66 in 2016, and Mario will turn 62. Tomas starts his retirement benefit at his FRA, in June 2016, and Mario starts his spousal benefit based on Tomas' record. Tomas immediately suspends his benefit. In past years, that would have meant that Mario could continue receiving spousal benefits while Tomas could restart his own worker benefits at age 70 and receive DRCs for each month he waited. Now, because Tomas requested the suspension after April 30, 2016, he is subject to the new law. He can still choose to voluntarily suspend his benefit after his FRA, but if he does suspend his benefits, Mario's spousal benefit will also be suspended.

- B. Medicare Basics.** 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). To qualify for Medicare an individual must be a U.S. citizen or a legal permanent resident who has lived in the U.S. for more than five years. No matter what age a beneficiary begins to draw her Social Security benefits, eligibility for Medicare does not begin until age 65.

To keep the Medicare insurance coverage pool broad and deep, Congress wants everyone to sign up and pay Medicare premiums in a timely manner. To mitigate this concern, there is a long-term penalty for beneficiaries who do not enroll or register as covered by an alternative plan during the initial seven-month enrollment period. A beneficiary must sign up either during the three months before her 65<sup>th</sup> birthday, during her birth month, or during the three months thereafter.

Medicare eligible individuals (or their spouses) who are currently working, and are covered by an employer or union group health plan based on that employment, should ask their employer or union benefits administrator if the employer requires them to sign up for Medicare. If the employer doesn't require the beneficiary to sign up for Medicare, they will be able to apply for Medicare later during a Special Enrollment Period without a late enrollment penalty. The Special Enrollment Period to sign up for Medicare Part A and/or Medicare Part B starts the month after employment ends or the group health plan insurance based on current employment ends, whichever happens first, and is eight-months long. Volunteers serving in foreign countries may also qualify for a Special Enrollment Period for Medicare Part A and Medicare Part B.

The government will automatically enroll you in Medicare Parts A and B if you are collecting Social Security benefits when you reach age 65. If a beneficiary is currently enrolled with a private insurance company, the company may transfer current customers into a Medicare Advantage plan unless the customer affirmatively objects or opts out in writing.

The different parts of Medicare help cover specific services:

**Medicare Part A (Hospital Insurance)** covers inpatient hospital stays, care in a skilled nursing facility, hospice care, and some home health care. All beneficiaries who qualify for Social Security benefits through quarterly work credits (typically 40) either directly or through a spouse also qualify for **free** Medicare Part A. A beneficiary who qualifies through her current, former, or deceased spouse, can obtain Medicare Part A for free when she reaches age 65 if her spouse is at least age 62. If an individual does not have enough quarterly work credits or does not otherwise qualify through her spouse, Medicare Part A can be purchased for monthly premiums of up to \$413 per month in 2017, but this amount depends upon the number of quarterly work credits an insured has when she applies. There is no penalty for not signing up for Medicare Part A because it is generally free.

The 2017 deductible for Medicare Part A is \$1,316. For Medicare hospitalization coverage in 2017, out-of-pocket costs the coinsurance per day is \$0 for days 1-60; for days 61-90, the coinsurance per day is \$329; for days 91 and beyond, the coinsurance per each "lifetime reserve day" after day 90 of hospitalization for each benefit period is \$658 (up to 60 days over your lifetime); for days after 91 and beyond all 60 lifetime reserve days the covered individual is responsible for all hospitalization daily costs. While exceeding this coverage is very unlikely, many individuals insure against this by buying a Medicare gap insurance plan for a modest cost (see explanation below) to cover the lack of any overall cap on out-of-pocket expenses.

**Medicare Part B (Medical Insurance)** covers certain doctors' services, outpatient care, medical supplies, and preventive services. In 2017, most continuing beneficiaries will pay \$109 (due to the limit on Medicare premiums not reducing Social Security benefits from the prior year), but new enrollees and direct billed participants will pay \$134 a month (up from \$122 in 2016) for most Medicare beneficiaries with incomes of \$85,000 a year or less (\$170,000 for a couple) and up to \$428.60 for those whose annual income exceeds \$214,000 (\$428,000 for a couple). The 2017 Part B deductible is \$183. After the deductible is met, there is typically a 20% co-payment for Medicare-approved amounts for most doctor services (including most doctor services while you're a hospital inpatient), outpatient therapy, and durable medical equipment. Because Medicare Part B does not have an overall cap on out-of-pocket expenses, seniors may need supplemental coverage (a Medicare gap plan) in addition to Parts A and B.

Federal law provides that Medicare beneficiaries pay a maximum of 25% of actual Medicare costs and that after-Medicare Social Security benefits cannot decrease from the prior year. Beginning in 2007, Congress shifted additional Medicare costs to higher income seniors. Increased Medicare premiums are based on modified adjusted gross income (MAGI, which is adjusted gross income plus tax-exempt interest) from recent tax return information provided by the IRS (generally 2015 MAGI for 2017 premiums and 2016 MAGI for 2018 premiums, etc.). If certain life-changing events (e.g., death, divorce or disability) cause this presumed income level to be overstated, retirees can provide information to rebut this presumption. If beneficiaries are not able to convince the Social Security Administration that a lower level of income is appropriate, retirees can appeal an adverse decision.

If your yearly income in 2015 (for what you pay in 2017) was			You pay each month (in 2017)
File individual tax return	File joint tax return	File married & separate tax return	
\$85,000 or less	\$170,000 or less	\$85,000 or less	\$134
above \$85,000 up to \$107,000	above \$170,000 up to \$214,000	Not applicable	\$187.50
above \$107,000 up to \$160,000	above \$214,000 up to \$320,000	Not applicable	\$267.90



above \$160,000 up to \$214,000	above \$320,000 up to \$428,000	above \$85,000 and up to \$129,000	\$348.30
above \$214,000	above \$428,000	above \$129,000	\$428.60

If a qualifying beneficiary does not sign up in a timely manner for Medicare Part B the long-term penalty is 10% for each full 12-month late period. Moreover, late beneficiaries may have to wait until the General Enrollment Period (from January 1 to March 31) to enroll in Part B, and coverage will start July 1 of that year.

**Medicare Part C (Medicare Advantage Plans)** is a type of Medicare health plan offered by a private company that contracts with Medicare to provide Part A and Part B benefits. Medicare Advantage Plans include Health Maintenance Organizations, Preferred Provider Organizations, Private Fee-for-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans. Beneficiaries enrolled in a Medicare Advantage Plan, receive most Medicare services through the plan. Most Medicare Advantage Plans also offer prescription drug coverage. Medicare Part C Premiums range from \$0 to more than \$100 a month, varying by location and coverage. The Centers for Medicare & Medicaid Services report that the average Medicare Part C premium in 2017 will be \$31.40, down slightly from 2016. Medicare Advantage plans generally have lower premiums, but they usually require members to get their care only from network doctors and hospitals. The Centers for Medicare & Medicaid Services estimate that 32% of beneficiaries will choose Medicare Advantage Plans. Medicare Advantage Plans, a combination of HMOs and PPOs, have an out-of-pocket limit. The Kaiser Family Foundation reports that the 2016 average out-of-pocket limit was \$5,223.

**Medicare Part D (prescription drug coverage)** includes prescription drug coverage to Original Medicare, some Medicare Cost Plans, some Medicare Private-Fee-for-Service Plans, and Medicare Medical Savings Account Plans. These plans are offered by insurance companies and other private companies approved by Medicare. Medicare Advantage Plans may also offer prescription drug coverage that follows the same rules as Medicare Prescription Drug Plans. Premiums are about \$15 to \$50 per month, with the average in 2017 expected to be \$34 per month, up about \$1.50 from 2016.

If your filing status and yearly income in 2015 was			
File individual tax return	File joint tax return	File married filing separate	2017 Premium

\$85,000 or less	\$170,000 or less	\$85,000 or less	your plan premium
> \$85,000 up to \$107,000	> \$170,000 up to \$214,000	not applicable	\$13.30 + your plan premium
> \$107,000 up to \$160,000	> \$214,000 up to \$320,000	not applicable	\$34.20 + your plan premium
> \$160,000 up to \$214,000	> \$320,000 up to \$428,000	>\$85,000 up to \$129,000	\$55.20 + your plan premium
> \$214,000	> \$428,000	> \$129,000	\$76.20 + your plan premium

There is a late enrollment penalty for anyone going without Part D or creditable prescription drug coverage. Medicare calculates the penalty by multiplying 1% of the "national base beneficiary premium" (\$35.63 in 2017) times the number of full, uncovered months a beneficiary did not have Part D or creditable coverage. The monthly penalty is rounded to the nearest \$.10 and added to the monthly Part D premium. The national base beneficiary premium may increase each year, so your penalty amount may also increase each year.

**Late Enrollment Penalty for Medicare Part D:**

**Example.** Martin is currently eligible for Medicare, and his Initial Enrollment Period ended on May 31, 2013. He doesn't have prescription drug coverage from any other source. He didn't join by May 31, 2013, but rather joined during the Open Enrollment Period that ended December 7, 2015. His drug coverage was effective January 1, 2016.

**2016**

Since Martin was without creditable prescription drug coverage from June 2013–December 2015, his penalty in 2016 was 31% (1% for each of the 31 months) of \$34.10 (the national base beneficiary premium for 2016) or \$10.57. Since the monthly penalty is always rounded to the nearest \$0.10, he paid \$10.60 each month in addition to his plan's monthly premium in 2016.

**2017**

In 2017, Medicare will recalculate Martin's penalty using the 2017 base beneficiary premium (\$35.63). So, Martin's new monthly penalty in 2017 will be 31% of \$35.63 or \$11.05 each month. Since the monthly penalty is always rounded to the nearest \$0.10, he'll pay \$11.10 each month in addition to his plan's monthly premium.

Beneficiaries can enroll in Medicare Part B without enrolling in Medicare Part A. But if a beneficiary purchased coverage in Medicare Part A (because she doesn't qualify with her

own or a spouses' worker credits) she must also purchase coverage under Medicare Part B. Medicare Part D is available if you enroll in either Medicare Part A or Part B. Medicare Parts A and B are required for Medicare Part C (Medicare Advantage plan (such as an HMO or PPO) or a Medigap supplemental insurance policy).