

**Silicon Valley Chapter
American Association of Individual Investors**

Financial Planning Workshops

Social Security and Medicare

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Silicon Valley Chapter American Association of Individual Investors

Please check us out!

- Chapter website: www.siliconvalleyaaii.org
- Meetups: www.meetup.com/AAll-Silicon-Valley-Meetup
- Facebook: www.facebook.com/sv.aa
- Slides and Recordings
www.siliconvalleyaaii.org/financialplanning/
- AAI National website: www.aaii.com
- My email address: dstikes.svaaii@gmail.com

Our Next Event and Special Interest Group Webcasts

- **Monthly Event:** Saturday May 11th at 9:00am; webcast only
- **Financial Planning Discussion Group**
 - Debra Stikes: Second Wednesday of each month at 6:30pm
- **Investing Discussion Group**
 - Lynn Gillette: Fourth Monday of each month at 6:30pm
- **Computerized Investing Group**
 - Don Mauer: First Thursday of each month at 6:30pm

Financial Planning Workshops

- **Financial Planning** ... The Big Picture
- **Investing 1:** Modern Portfolio Theory, Building a diversified portfolio
- **Investing 2:** Efficient Market Hypothesis; Can you beat the market?
- **Taxes:** TCJA, SECURE Act, Tax diversification, Asset location, QCDs
- **Retirement Planning 1:** Tax-advantaged plans, RMDs
- **Retirement Planning 2:** Safe withdrawal rates, Bengen's 4% rule
- **Risk Management/Insurance:** Annuities, Long-term care, Litigation
- **Social Security and Medicare:** Claiming strategies, Medicare traps
- **Estate Planning:** Probate, Executor/trustee duties, Philanthropy
- **Wrap-up:** Case study reviewing previous material

Today We Will Cover ...

- Background of Social Security and Medicare
- Social Security Benefits
 - Full Retirement Age, Early and Late Retirement
 - Retirement, Spousal, Minor and Survivor Benefits
- Claiming Strategies:
 - Singles, Married Couples, Surviving Spouses
- Medicare
 - Parts A, B, C and D
- Seven Medicare myths and the facts
- Comparison of Traditional Medicare and Medicare Advantage Plans

Background

- 1935 Social Security Act signed by Franklin Roosevelt
- Benefits to worker only
- Funded by 2% tax on first \$3000 earnings
- Approximately 7 workers to support each retiree
- Retirement at age 65
- Expected retirement duration 5 years

Major Current Social Programs

- Old-Age, Survivors, and Disability Insurance, OASDI
- Temporary Assistance for Needy Families, TANF
- Health Insurance for Aged and Disabled, Medicare
- Grants to States for medical assistance programs for low income families, Medicaid
- State Children's Health Insurance Program, SCHIP
- Supplemental Security Income, SSI
 - Low income people over age 65, or blind, or disabled
 - Administered by Social Security but not funded from Social Security fund

Maximum Taxable Earnings

Year	Max		Year	Max		Year	Max
1937	\$3,000		2000	\$76,200		2012	\$110,100
1940	\$3,000		2001	\$80,400		2013	\$113,700
1950	\$3,600		2002	\$84,900		2014	\$117,000
1960	\$4,800		2003	\$87,000		2015	\$118,500
1970	\$7,800		2004	\$87,900		2016	\$118,500
1980	\$25,900		2005	\$90,000		2017	\$127,200
1990	\$51,300		2006	\$94,000		2018	\$128,400
			2007	\$97,500		2019	\$132,900
			2008	\$102,000		2020	\$137,700
			2009	\$106,800		2021	\$142,800
			2010	\$106,800		2022	\$147,000
			2011	\$106,800		2023	\$160,200
						2024	\$168.600

Current Funding for SSA

- 6.2% for OASDI capped at \$168,600 (2024) income + 1.45% for Medicare with no income cap
- Employer makes a matching contribution
- Self employed
 - Total rate = $(6.2\% + 1.45\%) \times 2 = 15.3\%$
- Currently have approximately 3 workers per retiree
- Projected to drop to 2.2 workers/retiree by 2030

Calculation of Retirement Benefits

- Must have worked for at least 40 quarters
- Income from early years is adjusted for inflation up to age 60
- Sum up 35 highest-earning years
 - Back-filled with zeros if 35 years not available
- Divide by 420, i.e. 35 years x 12 months
 - Average Indexed Monthly Earnings, AIME
- Calculate the Primary Insurance Amount, PIA
 - $PIA = \text{First } \$960 \text{ of AIME} \times 90\%$
+ $(\$961 \text{ to } \$5,785) \times 32\%$
+ $\text{AIME over } \$5,785 \times 15\%$
 - Amount of monthly benefit at Full Retirement Age, FRA

My Social Security

- my Social Security Account | SSA Account
- History of Social Security and Medicare taxes
- Estimate of benefits
- New users require ID me

Unlucky enough to be born in 1960?

- Turn age 60 in 2020
- Income from previous years adjusted to the Average Wage Index (AWI) for 2020
- But average wages for 2020 were hit by pandemic
- Therefore total adjusted wages for 35 best years is lower.
- Therefore the AIME and PIA is lower than normal for all future benefits

Full Retirement Age, FRA

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

Early Retirement

- Can claim as early as age 62
- Lose $\frac{5}{9}$ of 1% per month early up to 36 months and $\frac{5}{12}$ of 1% per month in excess of 36 months
- Example:
 - Full PIA at FRA = 66 if born 1943-1954
 - Lose 6.667% at age 65
 - Lose 13.333% at age 64
 - Lose 20.000% at age 63
 - Lose 25.000% at age 62

Late Retirement

- Can delay claiming benefits until age 70
- PIA is increased by 8/12 of 1% for each month delayed up to age 70

Full PIA at FRA = 66 if born 1943-1954

Gain 8.0% at age 67

Gain 16.0% at age 68

Gain 24.0% at age 69

Gain 32.0% at age 70

- No delayed retirement credits (DRCs) past age 70

Monthly Benefit Amount

Based on Age You Choose to Start Receiving Benefits

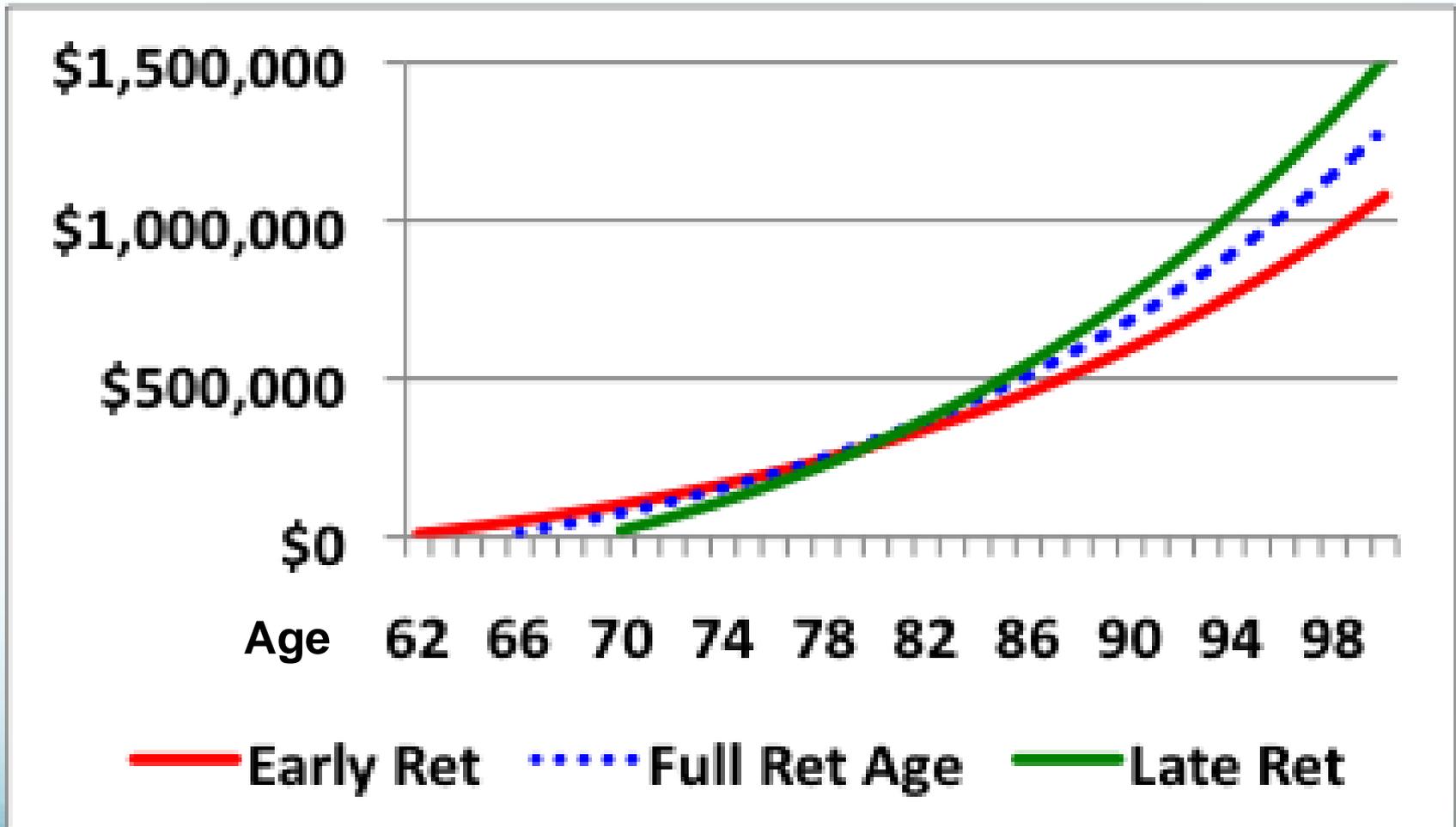
YoB:	1943-54	1955	1956	1957	1958	1959	1960+
FRA:	<u>66</u>	<u>66+2m</u>	<u>66+4m</u>	<u>66+6m</u>	<u>66+8m</u>	<u>66+10m</u>	<u>67</u>
62	75.0%	74.2%	73.3%	72.5%	71.7%	70.8%	70.0%
63	80.0%	79.2%	78.3%	77.5%	76.7%	75.8%	75.0%
64	86.7%	85.6%	84.4%	83.3%	82.2%	81.1%	80.0%
65	93.3%	92.2%	91.1%	90.0%	88.9%	87.8%	86.7%
66	100.0%	98.9%	97.8%	96.7%	95.6%	94.4%	93.3%
67	108.0%	106.7%	105.3%	104.0%	102.7%	101.3%	100.0%
68	116.0%	114.7%	113.3%	112.0%	110.7%	109.3%	108.0%
69	124.0%	122.7%	121.3%	120.0%	118.7%	117.3%	116.0%
70	132.0%	130.7%	129.3%	128.0%	126.7%	125.3%	124.0%

Cost of Living Adjustments (COLA)

Year	COLA		Year	COLA		Year	COLA
1976	6.4%		1992	3.0%		2008	5.8%
1977	5.9%		1993	2.6%		2009	0.0%
1978	6.5%		1994	2.8%		2010	0.0%
1979	9.9%		1995	2.6%		2011	3.6%
1980	14.3%		1996	2.9%		2012	1.7%
1981	11.2%		1997	2.1%		2013	1.5%
1982	7.4%		1998	1.3%		2014	1.7%
1983	3.5%		1999	2.5%		2015	0.0%
1984	3.5%		2000	3.5%		2016	0.3%
1985	3.1%		2001	2.6%		2017	2.0%
1986	1.3%		2002	1.4%		2018	2.8%
1987	4.2%		2003	2.1%		2019	1.6%
1988	4.0%		2004	2.7%		2020	1.3%
1989	4.7%		2005	4.1%		2021	5.9%
1990	5.4%		2006	3.3%		2022	8.7%
1991	3.7%		2007	2.3%		2023	3.2%

Lifetime Accumulation of Benefits

Assumes \$1000/m benefit at FRA with 3% pa appreciation and 3% pa inflation



Spousal Benefits

- Requirements
 - Worker must be receiving retirement benefits
 - Spouse must be at least 62 years of age
- At FRA the spouse can receive the greater of ...
 - ... 100% of his/her own benefit, or
 - ... 50% of the working spouse's retirement benefit
- Same sex couples are entitled to all the same benefits if ...
 - ... they are legally married

Taking Spousal Benefits Early

- If you claim spousal benefits early you lose
 - 25/36 of 1% per month early up to 36 months
 - and 5/12 of 1% per month in excess of 36 months

<u>Claiming at ...</u>	<u>Spouse Receives</u>
... FRA	50.00% of worker's benefit
... 1 yr prior to FRA	45.84%
... 2 yrs prior to FRA	41.67%
... 3 yrs prior to FRA	37.50%
... 4 yrs prior to FRA	35.00%
... 5 yrs prior to FRA	32.50%

Benefits for Minor Children

- If you are collecting retirement benefits ...
... your minor dependent children are entitled to benefits too
- Children must be unmarried, under age 18, or under age 19 and still in school
- Each child is entitled to 50% of the parent's FRA benefit, subject to a (complicated !) family maximum benefit amount

Survivor Benefits

- A widow(er) can claim a survivor benefit if ...
 - ... the marriage lasted at least 9 months
 - ... the survivor is at least 60 years old
 - or at least 50 years old if disabled
 - ...the survivor must not have remarried
 - unless remarrying after age 60
- Survivor can claim a restricted benefit
- Survivor benefits claimed at FRA are equal to the deceased spouse's full benefit (including delayed retirement credits) if greater than survivor's own benefit
- Reduced benefits if collected as early as 60

Survivor Benefits Can Be Claimed Early

- Can claim as early as age 60
- If you claim survivor benefits at FRA you will receive 100% of deceased worker's benefit
 - ... 1 yr prior to FRA 95.3%
 - ... 2 yrs prior to FRA 90.5%
 - ... 3 yrs prior to FRA 85.7%
 - ... 4 yrs prior to FRA 81.0%
 - ... 5 yrs prior to FRA 76.3%

Benefits for Divorced Spouses

- Must have been married at least 10 years
- Must not have remarried or remarried then marriage ended in death, annulment or divorce
- Both an ex-spouse(s) and (!) a widow(er) are entitled to survivor benefits
- Working ex-spouse's benefits are not affected
 - Need not have filed yet
 - Need not know you are filing on his/her work record

File and Suspend Strategy Under Bipartisan Budget Act of 2015

- Old rules prior to the Act
 - File a claim restricted to spousal benefits only
 - Spousal benefits equal half of worker's benefit at FRA
 - Meanwhile your own benefits grow at 8% per annum
 - Switch to your own larger benefit at age 70
- After April 29, 2016 if anyone asks to have their payments suspended ...

... the SSA will also suspend the benefits for everyone eligible to collect on that record, e.g. spousal or child benefits

... it will no longer be possible to receive a lump sum payment of benefits that have already been withheld.

- A worker can still voluntarily suspend his/her own benefit on or after FRA to earn DRCs
- Nothing changed for anyone who had already begun a File and Suspend strategy before 4/30/16

What does an Optimum Social Security Claiming Strategy Mean?

- Two Rational Options
 1. Maximize the present value of my expected lifetime benefits
 - “I want to get the most out of the system if I die at my actuarially expected age adjusted for health, etc.”
 2. Minimize longevity risk; optimize benefits late in life
 - “If I die early, money will be the least of my problems!”
 - “If I survive into my 90s I want to maximize my benefits then so that I don’t run out of money.”

When should a Single Person Start Taking Benefits?

- A single person should consider taking benefits early if ...
 - ... s/he needs the money
 - or ... s/he is in poor health, or has a poor family history
- Absent any of the above, s/he should consider delaying benefits at least to FRA, especially if s/he is still working

When Should a Married Couple Start Taking Benefits?

- Key Point: Benefits are equivalent to a joint annuity
 - Surviving spouse receives the larger of his/her own benefits or the deceased spouse's benefits
- 75% probability that at least one spouse will live longer than average
- Best strategy for most couples is usually to maximize the benefits of the higher-earning spouse by delaying taking benefits to age 70, unless there are health issues for both spouses, or you really need the money
 - Maximizes the benefits for the surviving spouse regardless of who dies first

What If Circumstances Change?

- Suppose you decide to delay taking benefits to age 70 so as to maximize your benefits
- But things change:
 - Maybe you really need the money, perhaps for a medical emergency
 - Or you (and your spouse, if married) are diagnosed in poor health
- Limited do-over
 - You can backdate an application to the month of your FRA, or 6 months, whichever is shorter, and collect the lump sum benefits

Do-Over Strategies for Early Filers

- Two do-over options for people who filed early:
 1. If you change your mind within 12 months of first claiming benefits you can return all payments received and re-start your benefits later at a higher rate. This is a once-per-lifetime option.
(Income tax paid aren't guaranteed to be recovered)
 2. If you wait to FRA you can voluntarily suspend your benefits without returning any payments and earn 8% per year delayed credits (on the reduced benefits) up to age 70.

Earnings Cap

- If you continue to work while claiming early benefits ...
 - ... before FRA (62 – FRA) you lose \$1 for every \$2 earned above a cap (\$18,960 for 2021)
 - ... during FRA you lose \$1 for every \$3 earned above a cap (\$50,520 for 2021)
 - ... after FRA there is no reduction in benefits
- Any reduction during early years is restored as higher benefits after FRA
- For most people if you plan to keep working it does not make sense to claim early benefits.

Your Benefits May Be Taxable

- Calculate your combined income
 - = AGI + Nontaxable interest + Half SS benefit
- For individual filers
 - Combined income < \$25,000 Benefits are not taxed
 - \$25,000 to \$34,000 50% of benefits are taxed
 - Greater than \$34,000 85% of benefits are taxes
- For married couples filing jointly
 - Combined income < \$32,000 Benefits are not taxed
 - \$32,000 to \$44,000 50% of benefits are taxed
 - Greater than \$44,000 85% of benefits are taxes
- CA has no state tax on Social Security benefits

Medicare

Enacted by Lyndon Johnson in 1965

- Part A: Major Medical, Hospitalization
- Part B: Doctor visits, Outpatient care
- Part C: Medicare Advantage Plans
- Part D: Prescription drugs
- Plan : Medigap

Medicare Myth #1

“I can sign up anytime, there’s no rush”

- Do not miss the 7-month window to sign up
Month of your 65th birthday (regardless of FRA)
+ 3 months before and after
- Draconian Penalty Part B; never goes away
1% per month for each month late
Example: delay signing up by 5 years
Pay a 60% penalty for the rest of your life
- Penalty does not apply if you are covered by an employer health plan. VA is not sufficient.

Medicare Myth #2

“I don’t need any prescription drugs now so I can sign up for Part D later”

- Do not neglect to sign up for prescription drug plan
- Draconian Penalty; Never goes away
 - 10% per annum for each year late
 - Example: delay signing up by 5 years
 - Pay a 50% penalty for the rest of your life
 - based on the national base beneficiary premium
- Penalty does not apply if you can prove coverage by a “creditable plan”. VA drug cover is “creditable”.

Medicare Myth #3

“ I’ve been paying into Medicare all my working life so there’s only a nominal charge now”

- The standard Part B premium in 2023 is \$174.70 per month
- High earners pay an additional premium depending on their modified adjusted gross income, MAGI, from two years earlier
 - $MAGI = AGI + \text{tax-exempt interest income}$
- If your 2021 MAGI is above certain limits you must pay an additional Income Related Monthly Adjustment Amount, IRMAA, for Medicare for Part B (income limits shown on later slide)

Medicare Part D Prescription Drugs

- Part D prescription drugs are covered by a private insurance plan which is purchase separately
- Part D coverage is often included in many Part C Advantage plans
- If your previous 2 year MAGI is above certain limits you must pay an additional Income Related Monthly Adjustment Amount, IRMAA, to Medicare for Part D (income limits shown on later slide)

2024 Medicare Premiums for People with a High MAGI in 2022

<u>Single Filers</u>	<u>Married FJ</u>	<u>Part B</u>	<u>Part D</u>
<u>Modified AGI</u>	<u>Modified AGI</u>	<u>Premium +IRMAA</u>	<u>IRMAA + Plan Premium</u>
Under \$103,000	Under \$206,000	\$170.70	\$0+Plan Premium
\$103,001 up to \$129,000	\$206,001 up to \$258,000	\$240.60	\$12.90+Plan Premium
\$129,001 up to \$161,000	\$258,001 up to \$322,000	\$345.40	\$33.30+Plan Premium
\$161,001 up to \$193,000	\$322,001 up to \$386,000	\$450.20	\$53.80+Plan Premium
Above \$193,001 up to \$500,000	\$386,001 up to \$750,000	\$555.00	\$74.20+Plan Premium
Above \$500,000	Above \$750,000	\$590.00	\$81.00+Plan Premium

Income Decrease

- **Medicare Income-Related Monthly Adjustment Amount – Life-Changing Event – SSA-44 form**
 - Most common reason is Retirement
 - Work reduction or stoppage
 - Marriage, Divorce or Annulment
 - Death of Spouse
 - Loss of Income producing property
 - Loss of Pension Income
 - Employer Settlement Pay

Medicare Myth #4

“Now that I’ve signed up, most of my medical costs will be covered”

- Significant deductions and copayments apply
- May need to buy Medigap supplemental insurance from a private insurer
 - Unless covered by a Part C Advantage plan purchased from a private insurer
 - Covers various gaps in traditional Medicare, including deductibles, copayments, etc.
 - Standard policies: A, B, C, D, F, G, K, L, M, N
 - Coverage is standardized, but not the premiums

Medicare Myth #5

“ I’m covered by Medicare wherever I go”

- Original Medicare does not cover any medical care while traveling outside the United States (Also applies to ACA)
 - Limited exceptions for Alaska (Canadian hospital is nearest) and US Territories
- Should consider signing up for either ...
 - ... Part C Advantage Plan
 - ... or Supplemental Plans D, F, G
 - but Plans C and F are no longer available to new enrollees
 - Old enrollees are grandfathered in
 - Plans F and G also have high-deductible versions
- Supplemental Plans A, B, K and L do not include coverage for foreign travel
 - Consider buying separate travel insurance

Medicare Myth #6

“Medicare will cover my Long Term Care needs”

- Medicare has very limited LTC coverage
 - 90 days only after hospitalization
- Should consider a separate LTC insurance policy
 - One of many potential “train-wrecks” to an otherwise great retirement plan
 - Covered in an earlier Financial Planning Workshop
“Risk Management / Insurance”

Slides/recording available at

<http://www.siliconvalleyaaii.org/financialplanning/>

Medicare Myth #7

“My Health Savings Account, HSA, is not affected by Social Security or Medicare.”

- Triple tax advantages of HSAs
 - Contributions are tax deductible
 - Earnings are tax free
 - Withdrawals for medical purposes are not taxed
- Requirements for HSAs
 - Must own a high-deductible health insurance plan
 - Must not be on Medicare
 - Part A retroactive for the later of 6 months or 65th birthday
 - Contribution limits: \$3,850/\$7,750pa + \$1,000 >age 55
- Beware signing up for early SS retirement benefits
 - SS automatically enrolls recipients in Medicare at age 65
 - To decline, must manually override automatic Medicare enrollment
 - Can still make HSA withdrawals, but not contributions

Comparison of Original Medicare and Medicare Advantage Plans

	Traditional Medicare	Medicare Advantage
Philosophy	Fee-for-service	Managed care
Insurer	Federal Government	Private insurer
Deductibles	Yes	Yes
Co-insurance	20%	No
Annual out-of-pocket limit	No	Yes
Service provider	Any doctor who accepts Medicare	Stay within network
Referral for specialist	No	Yes
Drug coverage	Separate policy	Usually
Vision and dental coverage	No	Usually
Coverage outside USA	Need Medigap policy (limited coverage)	Varies
Medical insurance cards	Usually 3 cards	Single card
Switch plans	→ Easy →	← May be difficult ←

The Future Holds Many Challenges

- Current 3 workers per retiree projected to drop to 2.2 workers by 2030
- Without further changes ...
 - ... OASDI Trust Fund projected to run out in 2033
 - ... Benefits would drop to 70% - 80% of current levels
 - ... SS program already using funds from OASDI Trust
 - ... Medicare costs rising faster than CPI
 - Trust fund depleted by 2026
 - Pay 90% of expected costs

Advantage Plans

- Heavily Advertised
- Aggressively Marketed
- Limits providers of medical services
- The advertised dental coverage is often of minimal actual value
- First year of Advantage Plan “Guaranteed Issue – Trial Right”
 - You have the right to switch back to Original Medicare and obtain a Medicare Supplement no questions asked
 - No questions but no statement as any guarantee of the premium

Potential Solutions Are Not Easy

- Eliminate fraud and abuse
- Increase 15.3% FICA tax rate
- Raise or eliminate the current income cap for OASDI payments
- Raise the FRA above 67
- Reduce the cost of living allowance, COLA
- Means test and/or reduce the benefits
- Increase Medicare Parts B and D premiums further
- Raise the Medicare age above the current 65
- Reduce Medicare payments/coverage

Please note well ...

- Social Security claiming strategies and Medicare choices are complicated
- Almost everything we have discussed here has additional fine print rules attached to it
- Please talk to an expert about your individual case before making any major decisions.
 - Resources are listed on Useful Website slide

Light Reading Material

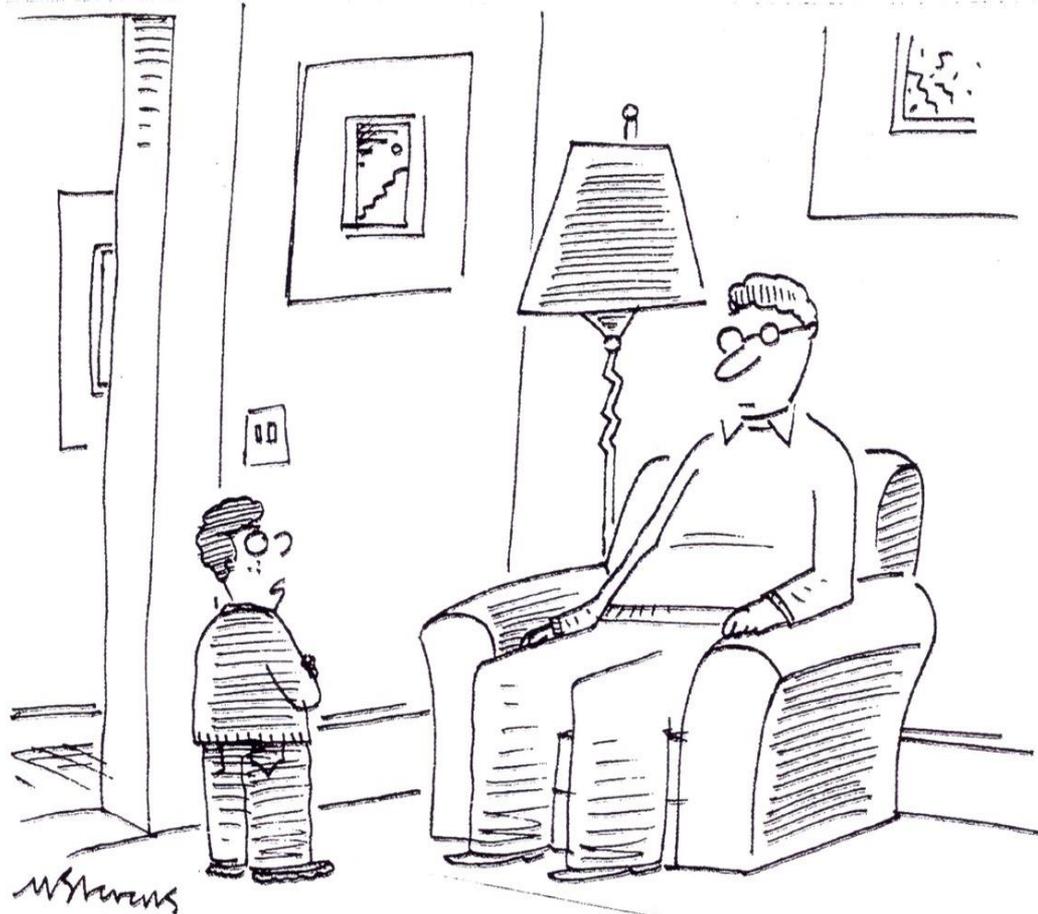
- *A Primer on Social Security*, Robert Muksian, AAll Journal, October 2020
- *Social Security Strategies*, Jason Fichter and Michael Finke, Investment Advisor March 2021
- *Social Security if You're Widowed or Divorced*, Linda Stern, AARP Bulletin, November 2020
- *Working ... and Getting Social Security*, Lynn Asinof, AARP Bulletin April 2021
- *Born in 1960? Prepare for a Social Security Hit*, AARP Bulletin, Feb/March 2021
- *Social Security Made Simple*, Mike Piper, The Oblivious Investor
- *Biden's Plan for Social Security and Medicare*, Mark Miller, WealthManagement.com, February/March 2021

Additional Light Reading Material

- *Original Medicare, Is it the Right Choice for Me?*, AARP Bulletin, October 2020
- *How to Compare Medigap Policies*, Medicare.gov
- *Medicare vs. Medicare Advantage*, Mark Miller, WealthManagement.com, April 2020
- *Medicare Advantage vs. Medigap*, Investopedia.com

Useful Websites

- <http://aaii.com> Broad selection of investing material
- <http://siliconvalleyaaii.org> Previous presentations on various topics
- <https://scclld.org/resources/business/> Business & Money
Morningstar Research Center, S&P's NetAdvantage, Value Line
- <https://www.ssa.gov/> Social Security website
- <https://opensocialsecurity.com/> Mike Piper, Free calculator, plus numerous useful articles
- <https://obliviousinvestor.com/> Mike Piper blog
- <https://www.medicare.org/> Medicare website
- aging.ca.gov, Medicare counseling (HICAP)
- ehealthmedicare.com Search for Medicare Policies
- shiptacenter.org, State Health Insurance Assistance Program (SHIP)



“Just what exactly is your generation going to do about my generation’s Social Security?”