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Maximize your Social Security and Medicare Benefits

From John Burke: I asked John Kaiser to write this month's newsletter article. John is an asset to the practice. He is a Certified Financial Planner® professional and has spent the last seventeen years helping individuals and families identify their goals, plan for their futures and implement strategies leading to financial success. John focuses on retirement, education funding, cash flow, income tax and estate planning. For financial planning issues, John is available to help all Burke Financial clients. His article follows.

When discussing her career, Erma Bombeck once said "I was too old for a paper route, too young for Social Security, and too tired for an affair." While nearly all of our clients are too old for a paper route (at least the old fashioned kind), many of our clients are no longer too young for Social Security (and I won't even go near the affair!).

Traditionally, retirement income has been based on a so-called three legged stool: defined benefit pensions, savings (taxable and tax deferred) and Social Security. With employers shifting away from defined benefit plans (traditional pensions) to defined contribution plans (401(k)), savings and Social Security now make up a greater percentage of retirement income. Retirees face a number of important Social Security and Medicare decisions. A wrong decision could cost a retiree several hundred dollars per month for their remaining lifetime, or cause a retiree to incur additional healthcare premiums.

An individual can begin collecting Social Security as early as age 62 (60 for widows), or delay collecting until age 70. Retiring before your Full Retirement Age (FRA), which is age 66 to 67 depending upon birth date, results in a reduced benefit. Your retirement benefit at age 62 will be reduced by approximately 25% if your FRA is age 66; 31.5% if your FRA is age 67.

Conversely, delaying retirement will increase your Social Security benefit. The longer you wait, the greater your benefit. For each month that you delay past full retirement age, your benefit will permanently increase by 2/3 of 1% (8% per year) until age 70. In order to estimate your alternative benefit amounts, we encourage all our clients to register at www.ssa.gov. While there, you should also confirm the proper crediting of wages each year.

Besides deciding when to collect, there are other strategies that could increase your benefit. These include file and suspend, filing for a spousal benefit, collecting on an ex-spouse's benefit and collecting a widow benefit.

Recently we met with a client getting set to retire. We helped with pension elections as well as medical and benefit plan decisions. We also reviewed Social Security with her. As a widow who had not remarried, she is entitled to a widow benefit. By electing to first apply for her widow benefit, the benefit amount based upon her own work record continues to grow until age 70. At age 70, she can then switch to her own record, which will result in an approximate $900/month benefit increase.

Social Security decisions can be complex, especially for couples. Everyone's situation is different. Collaborative research between AARP and the Financial Planning Association shows that less than 50% of future beneficiaries are knowledgeable about their Social Security benefits. In addition, the research showed that future beneficiaries turned to friends and family for advice 46% of the time. (AARP Bulletin October 2015) With so much at stake, we suggest that you consult with us. With years of experience, we can help you to successfully navigate the social security decision-making process.

Even though the FRA for Social Security has increased from age 65 to age 67 for those born 1960 or later, age 65 is still an important date for applying for Medicare Part A (hospitalization) and Part B (medical insurance). Individuals can apply for Medicare as early as 3 months prior to their 65th birthday and up to 3 months past their birthday. A Medicare application can be filed at www.ssa.gov. Subject to a few exceptions, a late registration will result in penalties that increase premiums for life. Here are the exceptions:

- If currently receiving Social Security, you will automatically be enrolled in Part A and Part B starting the first day of the month you turn 65.
- If you have medical insurance coverage under a group health plan based on your or your spouse's current employment, you may not need to apply for Medicare Part B at age 65. You may qualify for a "Special Enrollment Period" (SEP) that will allow registration for Part B during 1) any month you remain covered under the group health plan and your, or your spouse's, employment continues; or 2) the 8-month period that begins with the month after your group health plan coverage or the employment it is based on ends, whichever comes first.

Note that COBRA and retiree health plans are not considered to be coverage based on current employment. You are not eligible for a Special Enrollment Period when that coverage ends.

If you choose not to enroll in Medicare Part B and then decide to do so later, your coverage may be delayed and you will have to pay a higher monthly premium for as long as you have Part B. Your monthly premium will increase by 10 percent for each year of delay, unless you qualify for a "Special Enrollment Period." There are also penalties if you wait to apply for Part D coverage - 1% penalty for every month missed.

Medicare is mandatory. In order to collect Social Security, retirees must enroll in Medicare. Medicare is means tested, meaning the higher your income the more you pay for your health coverage. Social Security defines income as your adjusted gross income, plus tax exempt income, or everything included in lines 37 and 8b of IRS 1040.

Currently, most people pay $104.90/month for their Part B premium. If your adjusted gross income is $85,000 or less for single filers, and $170,000 or less for married filing joint filers, you are in the lowest bracket for Medicare. Having just $1 more of income moves you into the next bracket and increases your Part B premium by 40%. This extra $42/month may not sound like much, but increases your medical costs by thousands of dollars over your lifetime. The costs are even higher for individuals in higher income Medicare brackets. With proper planning, you may stay below a particular income bracket.

I look forward to working with you to navigate these issues.

Sincerely,

John G. Kaiser, CFP®

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