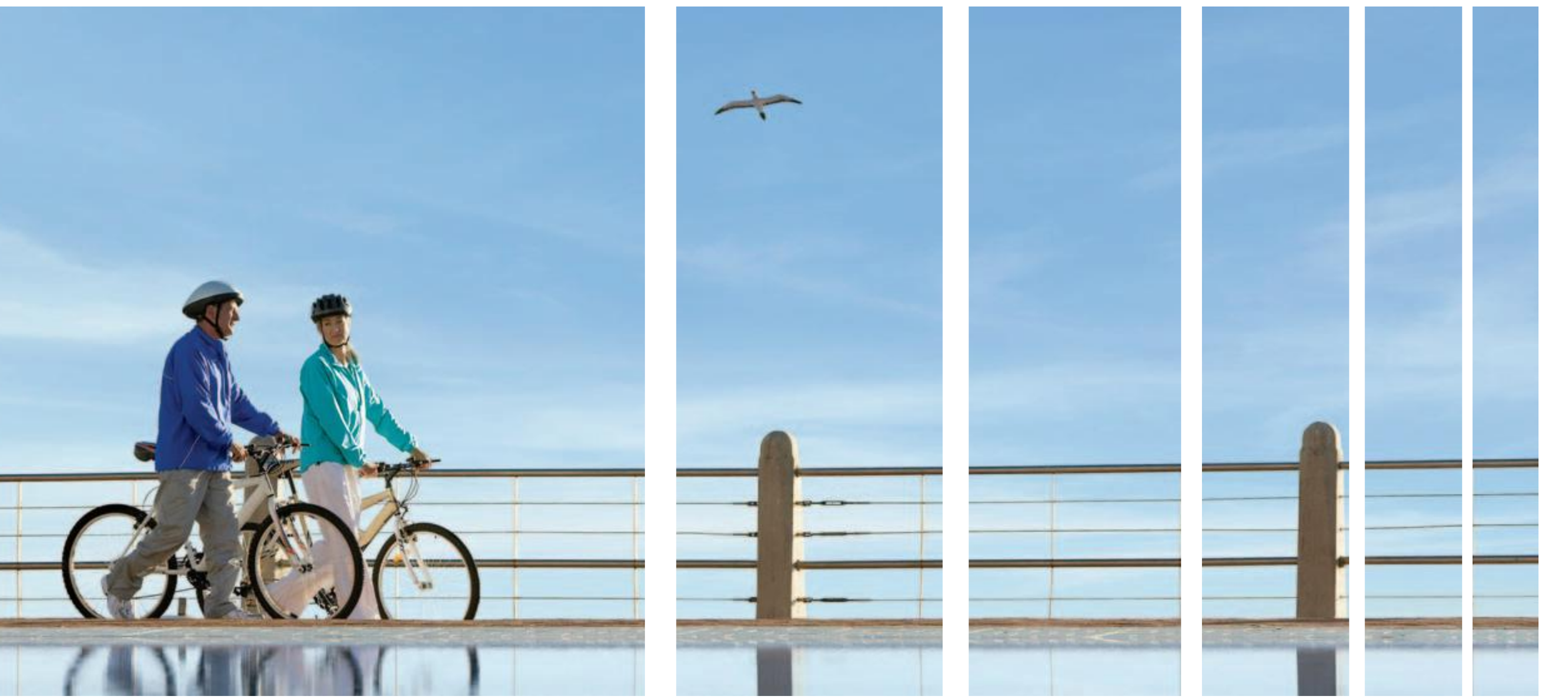
Understanding **Social Security** and Medicare

How these programs can fit into your retirement strategies



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Social Security is a major source of income for most people age 65 and over.

Do you know seven possible sources of retirement income?

1) Social Security (the base)
2) An employer pension (less common today)
3) Income from a traditional IRA or 401(k)
4) Roth IRAs
5) Nonqualified assets (e.g., nonqualified annuities, mutual funds, life insurance)
6) Continued employment
7) If necessary, family support, charity, or public assistance

The Social Security program was originally established to provide the base of financial protection for working people and their families when earnings are lost due to retirement.

Social Security can be more than just retirement income. The system provides many different benefits to workers and their families. Social Security provides income to disabled workers and families, and in some cases, income to surviving spouses and children of workers who have died.

For those who qualify for benefits, Social Security is a retirement income source with choices and therefore some degree of control. Managing your Social Security benefit should be part of your entire retirement income process. Social Security is often the foundation or starting point of the retirement income analysis.

But not everyone understands how Social Security benefits work – or how to help enhance the value of these benefits. And when you add a spouse to the picture, your planning can become quite complex. This brochure will give you a good overview of the program, qualifications, and benefits.

Qualifying for Social Security retirement benefits

To qualify for retirement benefits, you must be fully insured, which means you've earned the required number of Social Security credits. For most workers, that means you need 40 credits – or about 10 years of work (a maximum of four earned credits each year) – to qualify for retirement benefits. Through the years, the way you earn credits has changed. In 2018, one credit is recorded for every $1,320 you earn during the year, subject to the maximum four credits per year.

Once you have those 40 credits and qualify for Social Security, the Social Security Administration will calculate your benefits by looking at all the years you have worked and contributed to the Social Security system.

Your retirement benefit is based on your primary insurance amount.

To figure your primary insurance amount (PIA), you need to know your average indexed monthly earnings (AIME), which is based on your lifetime earnings history.

For everyone born after 1929, your AIME is calculated by using your highest 35 years of indexed earnings. They are "indexed" to account for average wage changes since the year your earnings were received. If you have not worked for 35 years, some of your highest earnings years could be zero.

Social Security then averages your 35 highest years of indexed earnings and uses that average when it calculates your PIA. The PIA is the monthly amount you would receive at full retirement age (FRA). If you retire at full retirement age, you'll get your full PIA amount.

Your full retirement age depends on the year of your birth. For those born in 1937 or earlier, the FRA is age 65. For people born between 1943 and 1954, the FRA is currently age 66. For those born in 1955 or after, the FRA increases by two months per year until it reaches age 67.

[1] If you were born on January 1 of any year, you should refer to the previous year. (If you were born on the first of the month, the Social Security Administration will figure your benefit (and your full retirement age) as if your birthday was in the previous month.) Social Security Administration, Retirement Planner: Full Retirement Age, 2018.

Determining your full retirement age

Year of birth[1]	Full retirement age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
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 and later	67

Social Security Administration,
Full Retirement Age, 2018.

PRIMARY INSURANCE AMOUNT (PIA) is the Social Security benefit you will receive if you retire at your full retirement age (FRA).

AVERAGE INDEXED MONTHLY EARNINGS (AIME) is based on your lifetime earnings history indexed for inflation, and is calculated by using your highest 35 years of indexed earnings.

FULL RETIREMENT AGE (FRA) is the age at which a person may first become entitled to full retirement benefits. In 2018, those reaching FRA will be age 66. For those born after 1954, FRA will be between 66 and 67.

Determining your benefit reduction for early retirement (age 62)	
Year of birth[1]	Benefit reduction
1937 or earlier	20%
1938	20.83%
1939	21.67%
1940	22.50%
1941	23.33%
1942	24.17%
1943-1954	25.00%
1955	25.83%
1956	26.67%
1957	27.50%
1958	28.33%
1959	29.17%
1960 and later	30.00%

Social Security Administration, Benefit Reduction for Early Retirement, 2018.

[1] If you were born on January 1 of any year, you should refer to the previous year. (If you were born on the first of the month, the Social Security Administration will figure your benefit (and your full retirement age) as if your birthday was in the previous month.) Social Security Administration, Retirement Planner: Benefits By Year Of Birth 2018.

What is the maximum monthly Social Security benefit?

For a worker retiring in 2018 at the full retirement age of 66, the highest monthly amount is $2,788. In June 2017, the average monthly Social Security benefit for a retired worker was $1,369.

Can you start your Social Security benefits earlier, say at age 62 or so?

You could start to get Social Security retirement benefits as early as age 62 – but if you start before your full retirement age (age 66 for those reaching FRA in 2018), your benefits will be reduced. Today it is reduced by 25% if you retire at age 62. For those born in 1960 or later, the reduction is 30% if benefits are started early at age 62.

Increasing benefits by delaying retirement

a hypothetical example:

Bill's primary insurance amount is $2,000 a month at age 66 (his full retirement age).

If Bill retired early at age 62, he would get $1,500 a month. If instead, he delayed his retirement to age 70, he would get 32% more – or $2,640 a month.

As you can see, it pays to delay depending on your income needs and life expectancy.

However, you can *increase* your benefits by delaying the start date until you are past your full retirement age.

You can earn delayed retirement credits (DRC) for every month you defer, up to age 70. You'll get an increased benefit of 8% more for each year that benefits are delayed, up to four years (a 32% maximum increase). A cost-of-living adjustment (COLA) will also be applied to your benefit amount.

Can you continue to work while receiving Social Security benefits?

If you work and take benefits before full retirement age, you could have some Social Security benefits reduced by continuing to work if you make too much under the so-called "earnings cap."

In 2018, the maximum annual amount you could earn by working is $17,040. (Your spouse's earnings, if any, are not included in the earnings test.) So if you make more than that amount while under full retirement age, your benefit would be reduced up to $1 in Social Security benefits for every $2 you make over that $17,040.

However, during the year you reach FRA, you can earn a higher amount up until the first of the month you turn FRA and not have your Social Security benefits reduced. In 2018, that maximum amount is $45,360/year. If you earn more than that, your benefit would be reduced $1 in Social Security benefits for every $3 you earn over that limit.

Beginning the first day of the month when you attain full retirement age, you can now work and make any amount and not get a reduction in Social Security benefits.

Please note that any reduction in your Social Security income that occurs before full retirement age (due to your continuing to work) will result in positive adjustment to your monthly benefit when you reach your full retirement age.

Can you receive the Social Security benefit if you're a nonworking individual?

If you have never worked, or have not worked enough to be eligible for your own Social Security retirement benefits, you may not get any Social Security benefit unless you are, or have been, married. If so, and you meet the special rules for married, survivor, or divorced, you might be eligible for spousal or survivor benefits, based on your spouse's or ex-spouse's earnings history.

When should you start benefits?

You should carefully consider when to start benefits, since the decision will impact how much you collect from Social Security during your lifetime. Depending on your health and life expectancy (which is often impacted by your lifestyle and genetics), you might opt to delay benefits. Obviously, if you are in poor health, starting at an earlier age may make sense. Talk to your Social Security Administration for more information.

DELAYED RETIREMENT CREDITS (DRC)
can increase your Social Security benefits by 8% annually, if you defer your retirement past your full retirement age (FRA). You can earn delayed retirement credits of ⅔ of 1% for each month you defer your retirement up to age 70.

COST-OF-LIVING ADJUSTMENT (COLA)
is a periodic increase in the amount of Social Security benefits, to help offset some of the effect of inflation. The 2018 COLA is 2.0%.

WORKING AND SPOUSAL FILING STRATEGIES
A spouse who has reached full retirement age (FRA) can work and earn any amount without causing a reduction in benefits under all filing strategies on pages 10-11, depending on date of birth.

A Social Security decision timeline

Because the Social Security process involves several important decisions and a careful consideration of alternatives, we urge you to work with your financial professional to be sure you make choices that are appropriate for you.

AGE 50

At age 50: If you are the widow or widower of a person who worked long enough under Social Security, you can begin receiving benefits as early as age 50 if you are disabled AND the disability started before or within seven years of the worker's death.

AGE 60

At age 60: If you are a surviving widow or widower, you can begin survivor benefits, but at a reduced rate.

AGE 62

At age 62: If you are a qualifying individual, you can now begin to receive Social Security benefits but at a reduced rate. By waiting longer, though, you could receive a larger monthly benefit.

AGE 65

At age 65: You are eligible for Medicare on the first day of the month that you turn 65. You might want to consider enrolling, because if you do not enroll prior to or during the month you turn 65 and wish to enroll later, you may be required to pay a higher premium for Medicare Part B.

AGE 66

At age 66: If you were born between 1943 and 1954, you are now at full retirement age and eligible for full Social Security benefits. By waiting longer, though, you could receive a larger monthly benefit due to delayed retirement credits. Spousal benefits, however, do not continue to grow after FRA.

Also at age 66: If you were age 62 or older in 2015 and are a qualifying individual, you may qualify for a spousal benefit only.

Between age 66 and 2 months and age 66 and 10 months: If you were born between 1955 and 1959, your FRA is age 66 plus 2 months for each birth year after 1954.

AGE 67

At age 67: If you were born in 1960 or later, you are now at FRA and eligible for full Social Security benefits. By waiting longer, though, you could receive a larger monthly benefit due to delayed retirement credits. Spousal benefits, however, do not continue to grow after FRA.

AGE 70

At age 70: If you have not started receiving Social Security benefits by this time, you should know that waiting longer will not increase your benefit.

Taxation issues

To support your retirement benefits, there are two separate payroll taxes that are withheld from your earnings. In most cases, these two taxes are added together and treated as one amount called FICA (Federal Insurance Contributions Act):

- Social Security: This tax of 6.2% pays for the benefits entitled to Social Security beneficiaries. It is made up of 5.3% for old-age and survivors insurance and 0.9% for disability insurance.
- Medicare (hospital insurance): This tax of 1.45% pays for hospital benefits for Medicare beneficiaries. Since 2013, an additional 0.9% tax applies to high-income employees for the employee's share only.

You and your employer each pay taxes to support Social Security and Medicare. If you're self-employed, you pay both the employee and employer shares.

What earnings are taxed?

All salaries, wages, bonuses, and commissions that you receive for working are taxed and credited to your earnings record.

The Social Security tax is withheld until the maximum taxable earning ($128,700 in 2018) for the year is reached. Medicare tax is withheld from every paycheck, and high-income employees could pay an additional 0.9% tax, once earning more than $200,000 individual/$250,000 joint.

Are your Social Security benefits taxed when received?

Social Security retirement benefits may be included in taxable income depending on your combined income. Your combined income is the sum of your adjusted gross income, plus nontaxable interest, plus one-half of Social Security benefits.

Individuals who have higher combined incomes could be taxed on up to 85% of their Social Security income. For middle-income earners, up to 50% of their Social Security income could be taxable. For lower-income people, none of the Social Security income is taxable.

Keep in mind that these percentages are the portion of the Social Security that would then be subject to the tax rates (i.e., for higher-income earners, 85% itself is not the tax rate).

How benefits are taxed

Single or head of household
Up to 50% taxable with $25,000 combined income
Up to 85% taxable with $34,000 combined income
Married, filing jointly
Up to 50% taxable with $32,000 combined income
Up to 85% taxable with $44,000 combined income

Social Security Administration, Taxation of Social Security Benefits, 2018.

Note: These percentages are the amount of Social Security benefit included in income, not the tax rate on the Social Security benefit.

Spousal benefits

There are some strategies that can help retirees and their spouses make the most of their Social Security benefits. Throughout this brochure, our use of the term "spouse" will be based on federal law.

Two qualifying spouses

For qualifying spouses (both worked outside the home and thus, both qualify for Social Security benefits), there are two possibilities. The spouse with the lower primary insurance amount can either:

- Take the benefits generated by his/her own earnings history;
  OR
- Take half of the spouse's retirement benefit (if greater).

Keep in mind that to get a spousal benefit, the other spouse must have started collecting benefits, or have reached full retirement age and filed and suspended prior to April 30, 2016. Also, benefits for a spouse or worker are reduced if taken prior to FRA. In addition, only one spouse can collect a spousal benefit at a time.

One qualifying spouse and one nonqualifying spouse

If only one spouse worked outside the home, then the other spouse is considered a nonqualifying spouse (i.e., did not pay Social Security or Medicare taxes).

A nonqualifying spouse can collect on the record of the spouse who is qualified to receive benefits. However, the nonqualifying spouse must have been married at least one year to the qualifying spouse, or is married to the qualifying spouse and the parent of their child.

If a nonqualifying spouse is at FRA or later, the nonqualifying spouse receives an amount equal to 50% of the primary insurance amount of the qualifying spouse (not necessarily their benefit amount). If the nonqualifying spouse is at least age 62 but under FRA, that person may receive permanently reduced benefits.

To start a spousal benefit, the qualifying spouse must have started collecting benefits or have reached FRA and filed and suspended prior to April 30, 2016.

SPOUSAL BENEFIT is the benefit you can collect based on your spouse's primary insurance amount at full retirement age. The benefit can be up to 50% of your spouse's PIA and cannot go into effect until your spouse files for their own benefit, or until your spouse is at full retirement age (FRA) or older, and filed and suspended prior to April 30, 2016.

File and suspend strategy

A "file and suspend" strategy was available to a wage earner at full retirement age prior to April 30, 2016. The wage earner would file for his or her own Social Security benefit, and then immediately suspend the benefit. This filing by the primary wage earner allowed the other spouse, with a lower benefit or no benefit on their own work record, to start to collect a spousal benefit. The other spouse must be age 62 or older to start a spousal benefit.

The suspending of benefits also allowed the primary wage earner to collect delayed retirement credits (DRCs) at an additional 8% per year on their own benefit until the benefit is unsuspended at age 70, or earlier if the wage earner chooses. There is no additional advantage for delaying Social Security benefits for either spouse beyond age 70.

File-restricted (for only spouses benefit) strategy

To use a file-restricted strategy, both spouses must qualify for Social Security retirement benefits. If one spouse has already begun receiving benefits or has filed and suspended, then the other wage earner, upon reaching full retirement age, can file a restricted application – filing only for a spousal benefit – if that other wage earner was age 62 or older in 2015.

This allows one wage earner, who was age 62 or older in 2015, to start collecting a spousal benefit, while delayed retirement credits are earned on their own benefits. Please note that the file-restricted strategy requires the other spouse to have started their own benefit, or to be at FRA or older and have filed and suspended prior to April 30, 2016.

Beginning a spousal benefit: a hypothetical example

Hypothetical example after April 30, 2016: Assume Sam is 66 years old after April 30, 2016 (in our example, May 10, 2018) and his wife Julie is 64. Sam's PIA is $2,500/month and Julie does not qualify for her own benefit.

Because Sam is not age 66 (his full retirement age) until after the deadline, the only way Julie can begin a spousal benefit is for Sam to file and start receiving his own benefit. If he does not do that, Julie would get nothing until he files. Let's assume Sam and Julie discussed the possibility of waiting for Sam to file later, but since Julie's health wasn't the best, Sam decided to file at age 66. His benefit then would not earn DRCs – and he would receive his unreduced PIA of $2,500/month when he turns age 66 in May. Julie would then be able to start a spousal benefit of $1,042.50/month at her age 64 – which is 50% of Sam's PIA – but reduced since Julie is under her FRA. Keep in mind that spousal benefits like Julie's do not grow after Julie reaches FRA other than through potential cost-of-living adjustments (COLA).

File-restricted (for only spouses benefit) strategy: hypothetical examples

Hypothetical example of file restricted for one spouse age 62 or older in 2015: Let's assume Roger is 66 years old in 2018 (born in 1952, so he was over 62 in 2015), still working, and wants to work until age 70. Kim is 63 (born in 1955) and is ready to retire. She starts receiving her own reduced benefits based upon her own PIA of $800/month. At age 63, Kim gets her own reduced benefit of $640/month. Because she is receiving her benefits, and because Roger is at FRA, Roger can file restricted to get a spousal benefit only of 50% Kim's PIA, or $400/month.

Since Roger was old enough (62 or older in 2015) Roger gets that $400/month as a spousal benefit, while letting his own benefit grow with the DRCs of 8% per year until he is age 70. At age 70 Roger switches to begin to receive his own benefit, which has grown from his PIA of $2,200/month to $2,904/month (not taking into account potential other growth in his benefit, due to him working longer and potentially earning a higher yearly wage than he received years ago).

Kim gets her benefit at age 63; Roger then receives spousal benefit at age 66 and can work until age 70 if he wishes; and Roger's own benefit grows by DRCs until age 70.

Hypothetical example if file restricted is no longer available: Here is a hypothetical example of both spouses with their own work record, but this time they are both younger than age 62 in 2015. Roger was born in 1954 so he was age 61 in 2015. Kim was born in 1957, which makes her 58 in 2015. Roger can never file restricted for spousal benefit only since he was too young in 2015. The same is true for Kim, because she was too young in 2015.

The combination strategy

You may have noticed that the file and suspend strategy and the file-restricted strategy have some elements – and benefits – in common.

But the two strategies can also be combined in some cases, if both spouses:

- Worked outside the home
- Qualify for their own Social Security benefit
- Haven't started receiving Social Security benefits yet
- One spouse was at FRA and filed and suspended prior to April 30, 2016
- The other spouse was age 62 or older in 2015 and filed restricted (for only spouse's benefit) when attaining age 66

To use the combination strategy, the spouse with the higher benefit would have filed and suspended prior to April 30, 2016, and the spouse with the lower benefit files restricted (for only spouse's benefit) when attaining age 66. This allows the one spouse with the lower benefit to get half the benefit from the other spouse until age 70 (or until anytime past FRA and prior to age 70). Then, when each turns age 70, they each begin their own full benefit which has grown by the 8% DRCs per year between FRA and age 70.

Keep in mind the decision about which strategy is most appropriate for anyone depends on several factors such as health, other income and assets, whether they will or can continue to work, etc.

The combination strategy: hypothetical examples

Hypothetical example of a combination strategy with both spouses at FRA prior to April 30, 2016: Let's look at a hypothetical example of a couple using the combination strategy of file and suspend and file restricted (for only spouse's benefit). Because both spouses are at FRA prior to April 30, 2016 and thus were both over age 62 in 2015, this strategy is available to them if one filed and suspended prior to April 30, 2016.

Betty was born in January 1950 and Fred was born in February 1950, so both are 66 years old in early 2016. Both worked outside the home. Betty's PIA is $2,000/month, and Fred's PIA is $1,800/month.

At age 66, Betty filed and suspended prior to April 30, 2016, and then Fred – who was also 66 – filed restricted (for only spouse's benefit), which he could have done at any time after Betty filed and suspended. Fred received $1,000/month (50% of Betty's PIA) until he is 70.

When they both turn 70, Betty's own suspended benefit starts automatically, and Fred switches to his own benefit. Their own benefits have grown by the DRCs so that Betty gets $2,640/month and Fred gets $2,376/month.

This couple could take advantage of the combination strategy since one (Betty) was at FRA and filed and suspended prior to April 30, 2016, and the other one (Fred) was over 62 in 2015 so he could file restricted when he turned FRA.

Hypothetical example of a combination strategy with neither spouse at FRA prior to April 30, 2016: Let's look at a second hypothetical example of the same couple, but assuming different birth dates. This time, we'll assume that both spouses are at FRA in 2017, so both are over age 62 in 2015.

Betty was born in 1952 and Fred was born in 1952 – so they did not turn 66 until 2018. Both worked outside the home. Betty's PIA is $2,000/month, and Fred's PIA is $1,800/month.

At age 66 Betty was not able to file and suspend since she was not old enough to do so by April 30, 2016. Fred – who was also 66 – can't file restricted unless Betty files to receive her own benefit.

If Betty and Fred are healthy and expect to live to life expectancy or longer, there are some alternative strategies for them.

ALTERNATE STRATEGY 1: At age 66, in the summer of 2018, Fred could file to receive his benefit of $1,800/month, permanently. And Betty could file restricted to obtain the spousal benefit of 50% of Fred's PIA or $900/month for four years. Then, when Betty turns 70, she would switch to her own benefit – increased by delayed retirement credits of 32% (8% per year for four years) so she would then receive her increased benefit of $2,640/month (increased from the PIA of $2,000/month). **OR**

ALTERNATE STRATEGY 2: They could reverse the roles and Betty could file for her own benefit, while Fred filed restricted in 2018. Betty would file for her own benefits in 2018 at age 66 and receive $2,000/month permanently.

Fred could file restricted at 66 and receive $1,000/month until age 70, and then switch over to his own increased benefit of $2,376/month at age 70. **OR**

ALTERNATE STRATEGY 3: A third possibility is that both Betty and Fred don't start any benefits until age 70. In this case, they would both wait and start their own benefits at age 70, each increased by the DRCs of 8% per year. They would get nothing from Social Security for ages 66-70. But, starting at age 70 Betty would get $2,640/month and Fred would get $2,376/month.

Remember that this couple is old enough for one to file restricted but too young to have filed and suspended by April 30, 2016.

Survivor benefits

If a spouse dies, Social Security provides benefits to the widow or widower. For example, if you were married for at least nine months before your spouse's death, you would be eligible for survivor benefits.

The earliest you can start receiving benefits as a widow or widower is age 60; or age 50 if you're disabled before or within seven years of the death; or any age if you have eligible children. However, if you start survivor benefits before your full retirement age, your survivor benefits will be reduced by a fraction of a percentage, which varies by year of birth, for each month before your FRA. For years of birth from 1945-1956, the reduction is 0.396% per month.

Survivor benefits are based on the primary insurance amount of the deceased spouse on the date of death, including delayed retirement credits. If you receive survivor benefits and you qualify for retirement benefits that are more than your survivor benefits, you can switch from your survivor benefits to your own benefits as early as age 62.

The surviving spouse can collect either his/her own individual benefits or survivor benefits – but not both at the same time. When the surviving spouse is eligible for both benefits, he or she can choose to take one type of benefits first, then switch to other benefits later.

Note: If you remarry before age 60 (age 50 if disabled), you are not eligible for survivor benefits unless and until that marriage ends. If you remarry after age 60 (age 50 if disabled), you are still entitled to survivor benefits based on the work record of your deceased former spouse.

Retirement benefits for a divorced spouse

If you're divorced, it's possible that you could receive a Social Security retirement benefit (and even survivor benefits) based on your former spouse's work record, as long as certain rules are met:

- You must have been married for at least 10 years before you divorced.
- You must be age 62 or older. Your benefit may be reduced if taken before your full retirement age.
- You must be currently unmarried. If you did remarry but subsequently were widowed, or are again divorced, you are still eligible to collect on the former spouse's record.
- The benefit you're entitled to receive based on your own work must be less than the benefit based on the divorce. The benefit based on the former spouse's record is 50% of the former spouse's PIA, reduced if you start prior to your own FRA.
- The amount of benefit has no effect on the other ex-spouse and his/her current spouse.

Survivor benefits for married couples: a hypothetical example

Betty passes away at age 66. Betty's primary insurance amount is $2,000/month and her surviving husband Ron's PIA is $1,800/month.

At Betty's death, Ron can collect a spousal benefit of 100% of Betty's PIA of $2,000, unreduced because he is age 66 (FRA).

At age 70, Ron would then switch to his own benefit that had increased to $2,376/month with delayed retirement credits.

Retirement benefits for a divorced spouse: a hypothetical example

Kelly is age 62 in 2018, and is not insured for her own Social Security benefit. Kelly's ex-husband, Dan, is age 64 and has a primary insurance amount of $2,000.

Assuming Kelly meets all the criteria to collect a divorced spouse's benefit, Kelly's benefit would be $700 per month – which is 50% of Dan's PIA of $2,000 and reduced by 30% for her early retirement.

- If you are divorced at least two years, and if you and your ex-spouse are at least age 62, you can get benefits even if the other ex-spouse is not yet retired. Your former spouse must be old enough (age 62) to be eligible to collect his/her benefit, even if he/she hasn't started yet. However, if your former spouse hasn't applied yet, you can only apply for a divorced spouse's benefit if you have been divorced for at least two years.
- If eligible, both divorced spouses may receive spousal benefits, which is not an option available to a married couple, if each divorced spouse is age 62 or older in 2015 and each files restricted at FRA for a spousal benefit only.

Survivor benefits for a divorced spouse

If your former spouse dies, you will be eligible for survivor benefits, provided that you were married for at least 10 years. You cannot collect until you are age 60 (age 50 if you're disabled). The amount of survivor benefits for a divorced individual meeting the criteria is 100% of the deceased former spouse's PIA, reduced if the surviving divorced spouse is under FRA.

If you remarry before age 60 (age 50 if disabled), you are not eligible for survivor benefits unless and until that marriage ends. If you remarry after age 60 (age 50 if disabled), you are still entitled to the survivor benefits based on the work record of your deceased former spouse.

The benefits you receive as a surviving divorced spouse do not figure into the family maximum, so if your former spouse remarried, it will not reduce benefits paid to his or her widow(er).

Of course, if your retirement benefits based on your own work record are higher than your survivor benefits based on your former spouse's work record, you would want to receive your own retirement benefits, not the survivor benefits. However, a surviving divorced spouse has the option to start receiving survivor benefits and later switch to his/her own benefits (or vice versa).

Survivor benefits for a divorced spouse: a hypothetical example

Cheryl's ex-husband, Jeff, recently died. Jeff was age 64 when he died and had already begun his retirement benefit. As Cheryl has not remarried and has turned 60 in 2018, she can file for survivor benefits.

The primary insurance amount of her deceased former spouse was $2,500. Because Cheryl is under her full retirement age of 66, her benefit reduction for starting at age 60 would be 28.5%, and she would receive $1,788 per month.

Note: This amount would have been reduced further if it was greater than both the amount Jeff was receiving when he died and 82.5% of Jeff's PIA, since Jeff received early retirement benefits.

Family and disability benefits

Dependent benefits

Every biological child, adopted child, stepchild, or dependent grandchild (if the parents are deceased or disabled) of an individual eligible for retirement benefits is entitled to a child's benefit if the child is unmarried and any one of the following applies:

- Under the age of 18
- Under the age of 19 but in high school
- Any age if the child was disabled prior to age 22

Benefits for children stop when the child reaches age 18 unless the child is a full-time high school student (benefits continue until graduation or two months after reaching age 19, whichever comes first) or disabled (if the disability began before age 22).

Each eligible child could receive up to 50% of one parent's PIA (if both parents are qualified for Social Security, then the higher of the two PIAs, but not both) for retirement benefits, and up to 75% as a survivor's benefit.

A special benefit also applies to a spouse of any age who is caring for a child under age 16, or caring for a child of any age if that child was disabled before age 22. If that caretaking situation exists and the other spouse is receiving Social Security retirement benefits (or has filed and suspended benefits), the caretaker spouse is entitled to 50% of the other spouse's PIA with no reduction because of the caretaker spouse's age.

All dependent benefits are subject to a family maximum between 150%-180% of PIA. Keep in mind that the earnings limit applies to any dependent receiving benefits. The dependent's benefit may be reduced if the dependent is under FRA, works, and earns more than the annual limit (currently $17,040/year for 2018). If the dependent earns more than the limit, only that person's benefit is reduced.

Disability benefits

Social Security also provides disability benefits, though the qualification requirements to receive them are strict. To qualify for disability benefits, the individual must meet the following:

- Be so severely physically or mentally impaired that the person is unable to perform any substantial gainful work
- Impairment is expected to last at least 12 months or result in death, and is based on medical evidence
- Must have a minimum number of Social Security credits
- Must have earned some of these credits in recent years
- Drugs and alcohol must not be material to the determination of the disability

If the individual meets the disability Social Security guidelines more than six months prior to reaching FRA, the individual can receive a monthly disability benefit equal to the individual's PIA.

If the individual becomes disabled after starting reduced retirement benefits, the disability benefit is reduced to take into account the number of months receiving retirement benefits. The individual receiving Social Security disability benefits is automatically converted to a Social Security retirement benefit of the same amount at FRA.

Special pension rules

These are two situations involving government pensions where things get much more complicated and the end result could be a reduction in the amount of Social Security benefit you or your spouse will receive. These reductions are the government pension offset (GPO) and windfall elimination provision (WEP).

Government pension offset: a hypothetical example

Phil retires at full retirement age (66), with a teachers' pension of $900/month. He was not covered by Social Security throughout his last 60 months of employment.

His wife, Anna, is also at full retirement age but is *not* a government employee. Anna's Social Security primary insurance amount is $1,000.

Under Social Security rules, Phil would be eligible for a spousal benefit of 50% of Anna's benefit, or $500. However, due to the government pension offset, Phil would get the Social Security spousal benefit only to the extent it exceeds ⅔ of his $900 pension, which is $600.

In this case, since $600 is greater than the $500 spousal benefit, Phil would not receive any Social Security spousal benefit.

Government pension offset for surviving spouse: a hypothetical example

If Anna died, then Phil would be entitled to Anna's Social Security primary insurance amount of $1,000. But again, due to the GPO, this amount would be reduced by ⅔ of his $900 pension ($600).

$1,000 - $600 = $400 to add to his $900 pension, for a total of $1,300 in benefits.

Government pension offset (GPO)

If you worked for a federal, state, or local government and were not covered by Social Security throughout your last 60 months of employment, your potential Social Security benefit as a spouse, widow, or widower may be reduced.

The spouse, widow, or widower can receive only the amount of the Social Security benefit that exceeds two-thirds of their government pension. (This offset does not affect Medicare eligibility.)

The government pension offset was enacted to treat retired government employees similarly to other retirees who worked in Social Security-covered employment. If a government employee's work had been subject to Social Security taxes, any Social Security benefit payable as a spouse, widow, or widower would have been reduced by the person's own Social Security retirement benefit.

Without the GPO, a person would get their full government pension based on noncovered Social Security employment and an unreduced Social Security benefit.

Please note that some government pensions may allow the worker the right to take all benefits in one lump sum instead of taking monthly benefits over the worker's lifetime. Even if you choose a lump-sum payout of the government pension, the Social Security Administration will calculate a GPO reduction by applying a formula to the lump-sum amount to convert it to a monthly amount and this will reduce your Social Security benefit by ⅔ of that converted monthly amount.

Windfall elimination provision (WEP)

Your Social Security retirement or disability benefits may be reduced if you received a pension from any employer that did not withhold Social Security taxes (such as a government agency or an employer in another country); and if you worked in another job(s) long enough to qualify for a Social Security retirement or disability benefit.

Under the windfall elimination provision, if you are eligible to receive such a noncovered pension, a modified formula will be used to calculate your Social Security benefit – and may result in a reduced Social Security benefit.

The reduction of your Social Security benefits is generally less if you have 21 or more years of "substantial" earnings subject to Social Security withholding. If you have 30 or more years of substantial earnings subject to Social Security withholding, there is no reduction.

For more information on government pension offsets or windfall elimination provisions, talk to your local Social Security administrator.

In April 2011, Social Security statements were no longer automatically mailed to all workers. In February 2012, Social Security resumed mailing paper statements to workers age 60 and older if they were not already receiving Social Security benefits, and later in 2012, started mailing paper statements to workers in the year they reached age 25. In September 2014, the Social Security Administration resumed mailing paper statements to workers attaining ages 25, 30, 35, 40, 45, 50, 55, 60 and over if they are not receiving Social Security benefits and are not registered for an online account. You can obtain your statement online by going to www.ssa.gov/mystatement or by visiting your local Social Security office.

With all these benefits to pay out and baby boomers retiring, will Social Security last?

By 2034, the Social Security Trust Fund is expected to be depleted. At that time, revenue in the system will be adequate to pay about 77% of program costs.[1]

Congress will have to make changes: a reduction of future benefits, an increase in taxes, or combination of both. Congress did make some changes to Social Security back in the 1980s and eventually may need to make more changes to keep the system going as we know it today.

[1] "The 2017 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds," July 13, 2017.

Basics of Medicare, Medicaid, and long term care

Medicare is our country's health insurance program for people age 65 or older. The program helps with the cost of health care, but it does not cover all medical expenses or the cost of most long term care. Medicare is financed by a portion of the payroll taxes paid by workers and their employers. It also is financed in part by monthly premiums deducted from Social Security checks, or paid by the individual (if not yet receiving Social Security).

To qualify for Medicare, generally the rules are similar to Social Security rules. But you may become eligible for Medicare the first day of the month you turn age 65. If you are receiving Social Security benefits in the month you attain age 65, you are automatically enrolled in Medicare. If you are not yet receiving Social Security retirement benefits, you should enroll in Medicare three months prior to your 65th birthday.

Medicare consists of four parts:

1 **Medicare Part A** is the inpatient hospitalization coverage, which is premium-free but has some co-pays and deductibles.

2 **Medicare Part B** is your medical expense coverage that covers medically necessary services and preventative services such as doctor visits, checkups, tests, home health care, medical equipment, etc. Part B is not free – it is means-tested and involves a monthly premium.

3 **Medicare Advantage Part C** plans are available in many areas. People eligible for Medicare can choose to receive all of their health care services through one of these provider organizations under Part C instead of through Original Medicare Parts A and B. Usually includes Part D and may include extra benefits at an additional cost.

4 **Prescription drug coverage Part D** helps pay for medications doctors prescribe for treatment.

About Medicare Parts A and B

What is NOT covered by Part A and Part B?

It is important to know that Medicare doesn't cover everything. If you need certain services that aren't covered under Medicare Part A or Part B, you'll have to pay for them yourself unless:

- You have other insurance (or Medicaid) to cover the costs.
- You're in a Medicare Advantage plan that covers these services.

Even if Medicare covers a service or item, you generally have to pay deductibles, coinsurance, and copayments. Some of the items and services that Medicare doesn't cover include:

- Long term care (also called custodial care)
- Routine dental or eye care
- Dentures
- Cosmetic surgery
- Acupuncture
- Hearing aids and fittings
- Routine foot care

How much does Medicare Part B cost?

Part B is means-tested and involves a monthly premium. Every year, Medicare reviews your tax return from two years prior to determine the amount of your Medicare premium.

There is a special rule for Social Security recipients, called the "hold harmless rule," that ensures that Social Security benefits will not decline from one year to the next because of increases in Medicare Part B premiums. The hold harmless rule applies to most, but not all, Social Security recipients. Most people who receive Social Security disability or retirement benefits and pay the lowest Medicare Part B premium are eligible for protection under this rule. Whether this rule comes into play in a particular year depends on the amount of Social Security cost-of-living adjustment (COLA) and the Medicare Part B premium increase.

In 2017, the hold harmless rule was in effect since Medicare Part B premiums increased more than the Social Security COLA of 0.3%. As a result, those individuals who qualified for the hold harmless rule paid on average $109 per month for their 2017 Medicare Part B premiums as long as their combined income remained below $85,000 for single taxpayers and $170,000 for taxpayers married, filing jointly. The Medicare Part B premium for those who paid the lowest 2017 premium but did not qualify for the hold harmless rule was $134 per month.

The Medicare Part B premium minimum will remain at $134 per month 2018. Although the minimum remains the same, retirees who were protected by the hold harmless rule in 2017 will see a 23% increase in their monthly premiums due to the 2.0% Social Security COLA for 2018 bringing their monthly premium from $109 to the $134 per month minimum. The maximum Medicare Part B premium which applies to certain high-income people is $428.60 per month per person in 2018.

About 28% of held harmless Medicare Part B enrollees will pay less than $134 in Medicare Part B premium for 2018. About 42% of enrollees who are subject to the hold harmless provision will pay the full premium, because the Social Security benefit increase will be greater than or equal to their Part B premium increase, up to the full 2018 amount.

This premium is an expense item you should factor into your retirement income analysis.

What are your Medicare coverage choices?

There are two main ways to get your Medicare coverage – Original Medicare or a Medicare Advantage Plan. Use the steps below to help you decide which way to get your coverage.

STEP 1: Decide how you want to get your coverage.

ORIGINAL MEDICARE

Part A Hospital insurance	**Part B** Medical insurance

Step 2: Decide if you need to add drug coverage.

Part D prescription drug coverage

Step 3: Decide if you need to add supplemental coverage.

Medicare Supplement Insurance (Medigap) policy

MEDICARE ADVANTAGE PLAN
Part C (like an HMO or PPO)

Part C combines Part A, Part B, and usually Part D

Step 2: Decide if you need to add drug coverage.

Part D prescription drug coverage (Most Medicare Advantage Plans cover prescription drugs. You may be able to add drug coverage in some plan types if not already included.)

If you join a Medicare Advantage Plan, you can't use or be sold a Medicare Supplement Insurance (Medigap) policy.

This example is provided for illustrative purposes only.

Please note that, while your choice is important, it doesn't have to be permanent – you'll have at least one chance each year to make changes to your Medicare coverage.

Are you automatically enrolled In Medicare Parts A and B?

If you're already getting benefits from Social Security or the Railroad Retirement Board (RRB), you'll automatically get Part A and Part B starting the first day of the month you turn 65. (If your birthday is on the first day of the month, Part A and Part B will start the first day of the prior month.)

If you're close to 65, but not getting Social Security or Railroad Retirement Board (RRB) benefits and you want Part A and Part B, you'll need to sign up.

If you're not automatically enrolled, when do you sign up?

If you want Part A and/or Part B, you can sign up during these times:

The initial enrollment period

You can sign up for Part A and/or Part B during the 7-month period that begins three months before the month you turn 65, includes the month you turn 65, and ends three months after the month you turn 65.
In most cases, if you sign up for Part A and/or Part B during the first three months of your initial enrollment period, your coverage will start the first day of your birthday month. However, if your birthday is on the first day of the month, your coverage will start the first day of the prior month.

If you enroll in Part A and/or Part B the month you turn 65 or during the last three months of your initial enrollment period, the start date for your Medicare coverage will be delayed.

The general enrollment period

If you didn't sign up for Part A and/or Part B (for which you must pay premiums) when you were first eligible, you can sign up between January 1 and March 31 each year. Your coverage will begin July 1 of that year. **You may have to pay a higher Part A and/or Part B premium for late enrollment.**

The special enrollment period

If you don't sign up for Part A and/or Part B when you are first eligible because you're covered under a group health plan based on current employment (your own, a spouse's, or a family member's if you're disabled), you can still sign up for Part A and/or Part B:

- Anytime you're still covered by the group health plan
- During the 8-month period that begins the month after the employment ends or the coverage ends, whichever happens first

About Medicare Advantage Plans (Part C)

A Medicare Advantage Plan (such as an HMO or PPO) is another way to get your Medicare coverage. Under this plan, you get your Medicare Part A (hospital insurance) and Medicare Part B (medical insurance) coverage from the Medicare Advantage Plan, not Original Medicare. Medicare Advantage Plans, sometimes called "Part C" or "MA Plans," are offered by private companies that are approved by Medicare.

Medicare Advantage Plans cover all Medicare services

In all types of Medicare Advantage Plans, you're covered for all of the services that Original Medicare covers (including emergency and urgent care), except for hospice care and some care in qualifying clinical research studies. However, hospice care and some costs for clinical research studies are covered by Original Medicare, even if you're in a Medicare Advantage Plan.

Medicare Advantage Plans may offer extra coverage, like vision, hearing, dental, and health and wellness programs. Most include Medicare prescription drug coverage (Part D). In addition to your Part D premium, you may pay a monthly premium for the Medicare Advantage Plan.

Medicare Advantage Plans must follow Medicare's rules

Medicare pays a fixed amount for your care each month to the companies offering Medicare Advantage Plans. These companies must follow rules set by Medicare. However, each Medicare Advantage Plan can charge different out-of-pocket costs and have different rules for how you get services (like whether you need a referral to see a specialist; or if you have to go to doctors, facilities, or suppliers that belong to the plan for non-emergency or non-urgent care). These rules can change each year. The plan must notify you about any changes before the start of the next enrollment year.

About Medicare prescription drug coverage (Part D)

Medicare offers prescription drug coverage to everyone with Medicare. Even if you don't take many prescriptions now, you could consider joining a Medicare drug plan. If you decide not to join a Medicare drug plan when you're first eligible, you may have to pay a penalty to enroll later.

There are two ways to get Medicare prescription drug coverage.

In both cases, you must join a plan run by an insurance company or other private company approved by Medicare; and you must live in that company's service area. Each plan can vary in cost and specific drugs covered.

- **Medicare prescription drug plans:** These plans (sometimes called PDPs) add drug coverage to Original Medicare, some Medicare cost plans, some Medicare private fee-for-service (PFFS) plans, and Medicare medical savings account (MSA) plans.
- **Medicare Advantage Plans (like an HMO or PPO) or other Medicare health plans that offer Medicare prescription drug coverage:** You get all of your Part A, Part B, and prescription drug coverage (Part D), through these plans. Medicare Advantage Plans with prescription drug coverage are sometimes called MA-PDs. You must have Part A and Part B to join a Medicare Advantage Plan.

If you have employer or union coverage, talk to your benefits administrator before you make any changes, or before you sign up for any other coverage.

What if you're already covered by your Medicare Advantage Plan?

If your Medicare Advantage Plan already includes prescription drug coverage, and you join a separate Medicare prescription drug plan, you'll be disenrolled from your Medicare Advantage Plan and returned to Original Medicare.

Medicare Supplement Insurance (Medigap) policies

Original Medicare pays for many – but not all – health care services and supplies. Medicare Supplement Insurance policies – also called Medigap policies – are sold by private companies and can help pay some of the health care costs that Original Medicare doesn't cover, including copayments, coinsurance, and deductibles. You will have to pay the premiums for a Medigap policy.

About Medicaid

Medicaid is a joint federal and state program that helps pay medical costs if you have limited income and resources and meet other requirements. Some people qualify for both Medicare and Medicaid and are called "dual eligibles."

What does Medicaid cover?

- If you have Medicare and full Medicaid coverage, most of your health care costs are covered. You can get your Medicare coverage through Original Medicare or a Medicare Advantage Plan.
- If you have Medicare and full Medicaid coverage, Medicare covers your Part D prescription drugs. Medicaid may cover some drugs and other care that Medicare doesn't cover.
- If you have Medicaid, you may also get coverage for services that Medicare may not or may partially cover, like nursing home care, personal care, and home- and community-based services.

How do you qualify?

Medicaid programs vary from state to state. The programs may also have different names, and different income and resource requirements. Some states may require you to have Medicare before you're eligible for Medicaid. You should contact your state medical assistance (Medicaid) office for more information.

About long term care

Long term (or custodial) care includes nonmedical care if you have a chronic illness or disability. This nonmedical care can include nonskilled personal care assistance, such as help with everyday activities like dressing, bathing, and using the bathroom. According to the U.S. Department of Health estimates, at least 70% of people over age 65 will need long term care services and support at some point. Long term care can be provided at home, in the community, in an assisted living facility, or in a nursing home.

Medicare and most health insurance plans, including Medicare Supplement Insurance (Medigap) policies, do not pay for this type of care. It's important to start planning for long term care now to maintain your independence and to make sure you get the care you may need, in the setting you want, in the future.

What is the Health Insurance Marketplace?

The Health Insurance Marketplace was a key part of the Affordable Care Act that took effect in 2014. It's a way for individuals, families, and employees of small businesses to get health insurance.

Please note that Medicare is not part of the Marketplace and if you already have Medicare, your benefits will not change. No matter how you get Medicare - whether through Original Medicare or a Medicare Advantage Plan – you'll have the same benefits you have now, and you won't have to make any changes.

Note that if you only have Medicare Part B, you may have to pay a fee for not having minimum essential coverage. As long as you have Medicare Part A, the fee will not apply.

For more information about the Health Insurance Marketplace, visit www.healthcare.gov.

Ways to pay for long term care

- **Long term care insurance:** This type of insurance can help pay for many types of long term care, including both skilled and nonskilled (custodial) care. Long term care insurance policies can vary widely. Some policies may cover only nursing home care. Others may include coverage for a range of services, like adult day care, assisted living, medical equipment, and informal home care. **Long term care insurance *does not* replace your Medicare coverage.**

- **Personal resources.** Many people choose to use their own resources to pay for long term care. It is important to discuss the financial risks of this approach with a financial professional.

- **Other private options.** Some insurance companies let you use your life insurance policy to pay for long term care. Ask your financial professional how this works. You may choose to pay for long term care through a trust or annuity. The best option for you depends on your age, health status, risk of needing long term care, and your personal financial situation. Talk to a financial professional about your options.

- **Medicaid:** If you're eligible for Medicaid, you may be able to get Medicaid services that help you stay in your home instead of moving to a nursing home. For more information, contact your state medical assistance (Medicaid) office.

- **Veterans benefits:** The Department of Veterans Affairs (VA) may provide long term care for service-related disabilities or for certain eligible veterans. The VA also has a Housebound and Aid and Attendance Allowance Program that provides cash grants to certain eligible disabled veterans and surviving spouses.

- **Programs of All-inclusive Care for the Elderly (PACE):** This is a Medicare and Medicaid program offered in many states that allows people who otherwise need a nursing-home level of care to remain in the community.

For more information:

- **About Medicare and Medicaid:** Go to www.medicare.gov or call 800-MEDICARE (800.633.4227). TTY users should call 877.486.2048.
- **About the Health Insurance Marketplace:** Go to www.healthcare.gov.
- **About veterans benefits:** Go to www.va.gov or call 800.827.1000. TTY users should call 800.829.4833.
- About Social Security: Go to www.ssa.gov or call 800.772.1213. TTY users should call 800.325.0778.

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