

VIRTUAL SUPER CE PROGRAM


Presented by:

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Virtual Super CE Program


> **Live Webinar Presentation**

- Planning with Social Security and Medicare (No CE credit).
- Print PowerPoint Presentation




> **Self-Study/Correspondence Course:**

- The Advisor's Guide to Social Insurance Programs (2020 Edition):
- **Electronic Exam:**
 - State Insurance CE credit (varies with state)
 - Test 50/100 questions
 - CE credit for CFP and CIMA/CPWA
 - CFP 50 question = 10 credits
 - CIMA/CPWA/RMA 50 question = 5 credits



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WEBINAR PRESENTATION

Planning with Social Security and Medicare

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Our Agenda


- > Social Security (OASDI)
- > The ABCDs of Medicare
- > Medicare Supplement (Medigap) Policies



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Overview of Social Security

- > The official name is Old Age, Survivors and Disability Insurance (OASDI)
- > **Social Security Act of 1935** created the program providing retirement benefits (OA).
 - In 1939, coverage was extended to dependents and survivors (S).
 - In 1956, added disability insurance benefits (DI).
- > The OASDI program provides benefits to **64 million beneficiaries**¹:
 - 48 million retired workers (OA);
 - 6 million survivors and dependents (S); and
 - 10 million from disabled workers and their dependents (DI)
- > OASDI the **#1 federal entitlement program**. In 2020, over \$1 trillion dollars in benefits will be paid.²



President Franklin Delano Roosevelt: "Old Age is at once the most certain and for many people the most tragic of all hazards."

Source: ¹ The 2020 Annual Report of the Board of Trustees of the Federal OASDI Trust Funds; The 80th Report. https://www.ssa.gov/OACT/TR/2020/II_A_highlights.html

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Social Security Funding*

- > **Payroll Taxes:** FICA/SECA Payroll taxes **89%** of total funding:
 - FICA is 12.4% of taxable earnings up to a **wage cap of \$137,700** in 2020. **Employer / Employee: 6.2%** (maximum yearly withholding for EE \$8,482 in 2020) (OASI Trust fund 5.015% and DI Trust fund 1.185%); and
 - **SECA tax is 12.4% (50% is tax deductible)**
- > Social Security tax on benefits 4%; and
- > Interest on intra-governmental debt 9%.
- > All income is deposited into the SS Trust Funds (purchase **Special U.S. Treasury Securities**)
 - Asset reserves grew from \$2,895 trillion at the beginning of the year to \$2,897.4 trillion at the end of the year.

Source: * The 2020 SS Trustees Report; The 80th Report; https://www.ssa.gov/OACT/TR/2020/II_B_cyoper.html#96807

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Social Security Trust Funds

- > Two Trust Funds
 - OASI Trust Fund; and The DI Trust Fund
- > Managed by a Board of Trustees composed of six members to oversee the financial operations of the OASI and DI Trust Funds (**Secretary of Treasury Managing Trustee**)
- > The 2020 SS Trustees Report, 80th Annual Report¹
 - **OASI Trust Fund reserves** will be depleted in **2034**; and
 - DI Trust Fund Reserves will be depleted in 2065; and
 - **Combined OASI and DI Trusts Funds** reserves will be depleted in **2035**.
 - SS's long run deficit is projected to equal 3.21% of covered payroll.

Source: ¹Social Security Trustees Report; The 80th Report released April 23, 2020; <https://www.ssa.gov/oact/TR/2020/tr2020.pdf>

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Eligibility for OA Retirement Benefits

- > Two basic requirements
 - Attaining age 62 for one full month; and
 - Being “fully insured”
- > To be “fully insured,” a worker must earn **40 credits** (Quarters of Coverage):
 - **\$1,410 = 1 credit** (2020).
 - Maximum 4 credits per calendar year (\$5,640).
 - 4 credits per year x 10 years = 40 credits to be fully insured.
- > Fully insured = 100% of benefit (PIA) at FRA.

www.ssa.gov/mystatement/

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Determining FRA


Year of Birth	Full Retirement Age (FRA)
1937 or earlier	65
1938 - 1942	65 + 2 months for every year after 1937 until 1943
1943 - 1954	66
1955 - 1959	66 + 2 months for every year after 1954 until 1959 (66 and 10 months)
1960 and later	67

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When Should I Apply for SS Retirement Benefits?

> A worker who is fully insured will have the following options:

- Reduced benefits beginning at age **62 (permanently reduced)**;
- Full benefits at FRA (age 66); or
- Increased benefits, if delayed beyond FRA to age 70 (Delayed Retirement Credits).



"Of the non-disabled persons who claimed benefits in 2019, 70% of retired workers elected reduced benefits : 67% of men and 73% of women. Less than 3% of men and 4.1% of women waited to elect benefits at age 70 and later!"*

Source: *SSA, 2020 Annual Statistical Supplement, Master Beneficiary Record; <https://www.ssa.gov/policy/docs/statcomps/supplement2020/5a.html>

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Effect of Early or Delayed Retirement

Year of Birth	FRA	DRC	Benefit, as a percentage of PIA, beginning at age...					
			62	63	64	65	66	70
1943 – 1954	66	8	75	80	86%	93%	100	132
1955	66 and 2 months	8	74%	79 1/6	85 5/9	92 2/9	98 8/9	130%
1956	66 and 4 months	8	73%	78%	84 4/9	91 1/9	97 7/9	129%
1957	66 and 6 months	8	72%	77 1/2	83%	90	96%	128
1958	66 and 8 months	8	71%	76%	82 2/9	88 8/9	95 5/9	126%
1959	66 and 10 months	8	70%	75 5/6	81 1/9	87 7/9	94 4/9	125%
1960 & Later	67	8	70	75	80	86%	93%	124

Source: SSA; <https://www.ssa.gov/OACT/quickcalc/earlyretire.html>

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Maximizing SS Benefits for Singles

> When should singles start SS retirement benefits?

- Which starting date will maximize the PV of projected benefits?
- Which starting date will minimize longevity risk?

> For singles who live to average L/E and whose benefits are not affected by the earnings test, the PV of benefits is approximately equal no matter when benefits begin.

- The average mortality for a male and female who reach age 66 in 2020 is 84.3 (18.3 years) and 86.7 (20.7 years) respectively.¹

> However, for singles who are risk averse and live beyond average L/E, they would be better off to wait to at least their FRA, and if concerned about longevity they would be better off waiting to age 70 (Longevity insurance).

Source: ¹SS Online Life Expectancy Calculator <https://www.ssa.gov/oact/population/>

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Planning For Married Couples

- > One of the most complex areas of Social Security planning
- > Married couple's choice of benefits:
 - Spouse's own OA retirement benefit (PIA)
 - Spousal benefit (if eligible)
 - Survivor benefits
- > New changes under the Bipartisan Budget Act of 2015
- > Reminder: The SCOTUS ruled that same sex couples have the fundamental right to marry under the Due Process Clause and the Equal Protection Clause of the 14th Amendment to the United States Constitution (Obergefell v. Hodges).

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Spousal Benefits

- > A spouse at FRA may be entitled to a spousal benefit, if eligible, **up to 50% of the Primary spouse's PIA at his/her FRA.**
 - Spousal benefits are calculated by using the spouse's own earnings record and compares it with the spousal benefit ("dual entitlement rule"). If the spousal benefit is higher, an amount will be added to his/her own retirement benefit to make it equal to the spousal benefit ("deemed filing rule). Earliest age to qualify: 62 (permanent reduction of 35%)
- > Primary spouse must have filed and receive their own benefit (ex-spouse exempt from this rule). Must be **married at least 12 months prior** to filing for spousal benefit.
- > Spousal benefits are **NOT** increased by DRC's (do not delay beyond FRA) and are subject to the retirement earnings test (RET).

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Married Couple Switching Strategies

- > **Old Law:** The Senior Citizens Freedom To Work Act of 2000 allowed "loopholes" (voluntary suspension) that could boost total benefit payments for married retirees.
 - At FRA, the law allowed for the filing of a limited benefit and then later "switching" to a larger benefit to maximize benefits for married couples:
 - File and Suspend (F & S) strategy;
 - Restricted Application Strategy:
 - Claim Now, Claim More Later strategy; and
 - The Combination Strategy - F&S and then file a Restricted Application).
- > **New Law:** The Bipartisan Budget Act of 2015, Subtitle C Section 831 "Closure of Unintended Loopholes."

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File and Suspend Benefits

- > The BBA of 2015, The Social Security Act Subsection 202(z), stipulates that if an individual chooses to suspend benefits (File & Suspend strategy), then:
 - All benefits payable to that individual will be suspended, based on his/her own earnings record (i.e., retirement benefit) and also based on any other person's earnings record (i.e., spousal benefits)
 - No other individual will be eligible for benefits based on the earnings record of the person who voluntarily suspends benefits.
- > **Effective Date: April 30, 2016.** Applicants may still suspend their benefits but it will also suspend payments to their ancillary beneficiaries. Closes the File & Suspend strategy.
- > **Note:** Those who elected the File & Suspend Strategy prior to April 29, 2016 were grandfathered.



Deemed Filing Rule


- > The BBA of 2015, The Social Security Act Subsection 202(r) expands the "**deemed filing rule**" to **age 70**.
 - Anyone who is eligible for a spousal benefit is deemed to have filed for their old-age retirement benefit as well, and similarly anyone who is eligible for a retirement benefit is deemed to have filed for any spousal benefits to which he/she is entitled.
- > This rule ended the use of the Restricted Application switching strategies (Claim Now; Claim More Later and the Combination of F&S with RA). However, it does not affect survivor, child-in-care and disabled children benefits.
- > **Effective Date:** Applicants who attained age 62 after 2015 (born 1954 and later). Those individuals born **prior to 1954 have been grandfathered**. Anyone turning age 66 years old before January 2, 2020, can employ the RA strategy.



Withdrawal of Social Security Application

- > Unexpected life changes may occur after applying for SS retirement benefits
- > Docket #SSA-2009-0073:
 - Can cancel (withdrawal) application for **up to 12 months** after becoming entitled to retirement benefits
 - Limited to **one withdrawal per lifetime**.
 - Cannot withdraw application if reached FRA but are not yet 70.
 - Must file SSA Form 521 (www.ssa.gov/online/ssa-521.pdf)
- Anyone else who receives benefits based on your application must consent in writing to the withdrawal.
- You must repay all the benefits you and your family received from your retirement application.

Source: SSA Withdrawing Your SS Retirement Application; <https://www.ssa.gov/benefits/retirement/planner/withdrawal.html>




Suspension of Social Security Benefits

- > **At FRA, but not yet age 70**, you can ask (orally or in writing) to suspend retirement benefit payments up to age 70 beginning with the month after the month the request is made.
- > Benefit payment will start automatically the month the beneficiary reaches age 70 (unless requested earlier).
- > Others who receive benefits on beneficiary's record, will not be able to receive benefits for the same period that benefits are suspended. Note: One exception; divorced spouse's will be able to continue receiving benefits.
- > **Note:** If enrolled in Medicare Part B, must be billed by CMS for future Part B premiums.

Source: "SSA Suspending Your Retirement Benefit payments"; <https://www.ssa.gov/benefits/retirement/planner/suspend.html>


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Survivor Benefits


- > Survivor Lump Sum **Death Benefit of \$255**
- > Percentage of Deceased's PIA:
 - **Widow(er) at FRA or older: 100% of the deceased worker's PIA amount.**
 - **Age 60 to FRA:** 71.5% to 99% of the deceased worker's basic amount.
 - **Disabled widow(er), age 50 through 59:** 71.5%.
 - **Widow(er), any age, caring for a child under age 16 or disable:** 75% of deceased 's spouse's PIA.
 - **Unmarried child under age 18 (19 if still in elementary or secondary school) or disabled (prior to age 22):** 75% of deceased's parent's PIA.
 - **Dependent parent(s), age 62 or older:** One surviving parent— 82.5% of deceased's child's PIA; two surviving parents—75% of deceased child's PIA to each parent.
- > Family maximum rules - **150% to 180%** of deceased's PIA.

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Widow(er) Benefit Rules

- > Widow(er) has choice of benefits (**dual entitlement**) not subject to the new "deemed filing rule".
 - Must have been married to the deceased for at least **9 months**
- > If the deceased spouse's PIA was increased with DRCs and COLAs, the survivor benefits will be increased
- > If the deceased spouse had not yet claimed retirement benefits, survivor benefits will be determined as if the decedent had claimed at the later of FRA, or date of death.
- > If the deceased spouse **received a reduced retirement benefit** at the time of death, the benefit cannot exceed the greater of this amount, or **82.5% of the deceased's PIA**.
- > Benefits subject to retirement earnings test limits (RET)



SSA Pub # 05-10127
What Every Woman Should Know

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Choosing Medicare Coverage

<p><u>Original Medicare</u></p> <ul style="list-style-type: none"> > Fee-for-Service (38.7m) > Includes Part A (hospital insurance) and Part B (Medical insurance) > Can join a separate Part D drug plan (25.7m) > To help pay for out-of-pocket costs can purchase a Medicare Supplement (Medigap) Policy 	<p><u>Medicare Advantage</u></p> <ul style="list-style-type: none"> > Also known as Part C (23.3m) > Sold by private insurance companies > “All in one” (bundled plans” many include a MA-PD plan (20.1m). > Some plans may have lower costs > Some plans may offer extra benefits like vision, hearing or dental.
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Source: ^{1,2} CMS Medicare Dashboard; <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Dashboard/Medicare-Enrollment/Enrollment%20Dashboard.html>

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Medicare Part A - Entitlement

- > Most individuals get Part A coverage without having to pay a Part A premium. This because they or a spouse paid Medicare taxes while working for a specified duration of time. This duration is generally **40 quarters** (10 years).
- > For those individuals who do not automatically qualify for premium-free Part A coverage, the monthly premium (2020) depends on an individuals duration of Medicare covered employment:
 - Those with **30-39 credits can buy into Part A by paying a premium of \$252.**
 - Those with fewer than 30 credits pay a premium of \$458.

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Medicare Part A - Financing*

- > Payroll taxes collected (88%):
 - Employee and Employer each pay 1.45% (2.90%). S/E pay full 2.9 percent (able to deduct up to 50%). No cap on wages subject to tax.
- > Other Income: Taxation of benefits (8%); Interest earned (3%), and Other (2%)
- > Medicare NIT (IRS Form 8960) - **3.8%** and Medicare surcharge on wages 0.9% (IRS Form 8959). Schedule 2 line 8 Taxes from 8960 and 8959 reported on line 15 of Form 1040
 - > Income Thresholds: **\$200,000(S)/\$250,000/ \$125,000**
- > **HI Trust Fund will be depleted in 2026**, HI revenues projected to cover 89% of program costs

Source: *CMS 2020 Trustees Report, <https://www.cms.gov/files/document/2020-medicare-trustees-report.pdf>

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Medicare Part A - Benefits

- > Cover medically necessary inpatient care in hospitals. In 2020, for each benefit period (as defined by Medicare*) in a year, beneficiaries pay:
 - **\$1,408 deductible** and no coinsurance for a **stay of up to 60 days**
 - \$352 coinsurance per day for days 61-90 of a hospital stay
 - **\$704 coinsurance per "lifetime reserve day" after day 90 each benefit period (up to 60 days over a beneficiary's lifetime)**
 - **All costs for each inpatient day beyond 150 days**
- > Medicare defines a benefit period the day you're admitted as an inpatient into a hospital or SNF and ends when you have **gone 60 days in a row** with no inpatient hospital or SNF care.

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Medicare Part A - Benefits, continued

- > Part A also helps cover:
 - Blood (3 pints);
 - Hospice care;
 - Home health care;
 - Skilled nursing and rehabilitative care only after a three day hospital stay, up to 100 days in a benefit period (as defined by Medicare).
 - In 2020, beneficiaries **pay \$176 co-insurance for days 21-100** each benefit period. (Medicare Advantage plans may waive the prior three day hospital stay requirement.)
 - **Inpatient psychiatric care (up to 190 lifetime days).**
- > Part A does not cover custodial LTC

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Medicare Part B (SMI)

- > Supplementary Medical Insurance (SMI)
 - Physician services,
 - Outpatient medical and surgical services and supplies,
 - Durable medical equipment
 - General home health services, and
 - Other medically necessary (and preventive) medical services.
- > Part B is voluntary. Must enroll (permanent late penalty)

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Medicare Part B - Financing*

- > Sources of Revenue:
 - General revenues 72%;
 - Beneficiary premiums 26%; and
 - Interest income and other sources 2%.
- > Part B does not have financing challenges as does Part A.
- > However, future increases in spending under Part B will require increases in general revenue funding and higher premiums paid by beneficiaries.

Source : *The 2020 Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds: <https://www.cms.gov/files/document/2020-medicare-trustees-report.pdf>

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Medicare Part B Out-of-Pocket Costs

- > **Deductible \$198**
- > **Co-pay 20%** of covered services
- > Beneficiary/enrollee Premiums:
 - **Basic monthly premium \$144.60** (taken directly from SS check)
 - By law, the Part B premium must represent one-fourth (25%) of the average cost for beneficiaries: Section 1839(f) of the SS Act of 1965 ensures that dollar value increases in Part B premiums for “eligible” beneficiaries (not subject to means testing) do not exceed the dollar value of the SS COLA (“Hold Harmless)
 - **Income Related Monthly Adjusted Amount (IRMAA)**
 - More and more beneficiaries will be subject to this surcharge because threshold amounts will not be indexed until 2020. Roth Conversions will affect IRMAA

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Medicare Part B – IRMAA 2020

Income Thresholds	Single Taxpayer 2018 MAGI:	MFJ 2018 MAGI:	Std. Monthly Premium and IRMAA
Base (25%)	Up to \$87,000	Up to \$174,000	\$144.60
Tier 1 (35%)	> \$87,001 - \$109,000	> \$174,001 - \$218,000	\$202.40
Tier 2 (50%)	> \$109,001 - \$136,000	> \$218,001 - \$272,000	\$289.20
Tier 3 (65%)	> \$136,001 - \$163,000	> \$272,001 - \$326,000	\$376.20
Tier 4 (80%)	>\$163,001- \$500,000	>\$326,001- \$750,000	\$462.70
Tier 5 (85%)	> Than \$500,000	> Than \$750,000	\$491.60

Note: Under current law the threshold amounts tier 1-4 will be indexed beginning in 2020. **Tier 4 and 5 will not be indexed until 2028.** MAGI is defined as adjusted gross income plus tax exempt interest income. Request to Appeal Form-SSA 44

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Request to Appeal IRMAA

- > A beneficiary or spouse of a beneficiary who experiences a “life changing event” may request a reduction/elimination of their IRMAA for a specific tax year (Form SSA-44).
 - Qualifying LCEs: Death of a spouse; Marriage; Divorce or annulment; Work reduction; Work stoppage; Loss of income-producing property; Loss of employer pension; or Receipt of settlement payment from a current or former employer.
 - Non-qualifying events*: Ordinary loss of dividend income; Higher medical expenses; Higher living expenses; Loss of child support; Loss of alimony; or Voluntary sale of income producing property.

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Part A and Part B Enrollment Dates

Automatic Enrollment	If receiving Social Security or Railroad Retirement benefits. Disabled and under 65, he/she will automatically be enrolled in Original Medicare (Part A and Part B) after they get disability benefits from Social Security, for 24 months.
Initial Enrollment Period (IEP)	7 month period begins 3 months before the month you turn 65. Coverage starts the first day of birth month. If you enroll on the month you turn 65 or during the last 3 months of your IEP, the start date will be delayed.
General Enrollment Period (GEP)	If you did not sign up for Part A/Part B during the IEP and aren't eligible for a SEP you can sign up between January 1 – March 31 each year . Coverage begins July 1 of that year .
Special Enrollment Period (SEP)	Once the IEP ends, you may have the chance to sign up for Part B when you were first eligible because you're covered under a group health plan*. During 8-month period that begins the month after the employment ends or the coverage ends, whichever happens first. (No penalty).

Note: Signing up for Medicare disqualifies you for contributing to an HSA plan. COBRA (Consolidated Omnibus Budget Reconciliation Act) coverage and retiree health plans aren't considered coverage based on current employment. You're not eligible for a Special Enrollment Period when that coverage ends.

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Medicare Part B Late Enrollment Penalty

Mary delayed signing up for Part B two (2) full years after she was eligible. She'll pay a **10% penalty for each full 12-month period** she delayed. The penalty is added to the Part B monthly premium permanently. Her premium in 2020 will be as follows:

\$144.60 (2020 Part B standard premium)
+ \$ 28.92 (20% of \$144.60)
\$173.52 (Mary's Part B monthly premium for 2020)

Note: COBRA (Consolidated Omnibus Budget Reconciliation Act) coverage and retiree health plans aren't considered coverage based on current employment. You're not eligible for a Special Enrollment Period when that coverage ends.

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Medicare Part D Financing*

- > Sources of Revenue:
 - General revenues (71%)
 - Beneficiary premiums (17%), and
 - State transfer payments were (12%)
- > Part D does not have financing challenges similar to Part A
- > Future increases in spending under Part D will require increases in general revenue funding and higher premiums paid by beneficiaries.

Source : ^{1,2} CMS 2020 Trustees Report, <https://www.cms.gov/files/document/2020-medicare-trustees-report.pdf>

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Medicare Part D - Out-of-Pocket Costs

- > Part D Plan Monthly Premium
 - **The national average premium of \$47.59 in 2020.¹**
- > National Base Beneficiary Premium (CMS)
 - Used to calculate the Part D late enrollment penalty and the additional IRMAA premium. The national base premium rate is \$32.74 in 2020²
- > Income Related Monthly Adjusted Amount (IRMAA)

Source : ^{1,2}CMS; <https://www.cms.gov/Medicare/Health-Plans/MedicareAdvtgSpecRateStats/Downloads/PartDandMABenchmarks2020.pdf>

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Medicare Part D – IRMAA 2020


Income Threshold	Single Taxpayer 2018 income:	MFJ 2018 income:	Monthly Premium and IRMAA
Base	Up to \$87,000	Up to \$174,000	Plan Premium
Tier 1	> \$87,001 - \$109,000	> \$174,001 - \$218,000	Plan Premium + \$12.20
Tier 2	> \$107,001 - \$133,500	> \$214,001 - \$272,000	Plan Premium + \$31.50
Tier 3	> \$133,501 - \$163,000	> \$272,001 - \$326,000	Plan Premium + \$50.70
Tier 4	> \$163,001 - \$500,000	> \$326,001 - \$750,000	Plan Premium + \$70.00
Tier 5	> \$500,000	> \$750,000	Plan Premium + \$76.40

*The Part D IRMAA is not collected by the Medicare Part D plans, but instead paid directly to the Federal government (Social Security, Railroad Retirement Board, or Office of Personnel Management benefits). **Tier 4 and 5 are not indexed until 2028.**

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Electronic Exam

- > Some states may require additional forms:
 - Disinterested Third-party Form
 - Personal Attestation Form
- > Exam will be available for 10 business days to complete.
- > Exam will be graded instantaneously (unlimited retakes)



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States With Additional Paperwork

AR	IN	NC*	WI*
CT	MA*	OH*	WV
DC	MI*	OR	WY
FL*	MO	RI*	
GA	MS	VA	
HI	MT	VT*	

States requiring a Third Party Monitor Form; * States that require a Personal Attestation Form. To receive CE credit the Form must be returned to BEST.

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