

# **UNDERSTANDING YOUR SOCIAL SECURITY & MEDICARE BENEFITS**

**A Seminar Sponsored by the  
American Foreign Service Association**

**Presented by  
Edward A. Zurndorfer, EA, CFP, CLU, ChFC, CEBS  
EZ Accounting and Financial Services  
833 Bromley Street – Suite A  
Silver Spring, MD 20902-3019**

**2018**

# Social Security Consists of Four Types of Benefits

- Retirement
- Disability
- Survivor
- Medicare

“OADSI”

Old Age, Disability, Survivor  
and Insurance

# Federal Employees: How Do They Qualify for Social Security Benefits?

- CSRS

Outside  
Earnings

- CSRS-OFFSET

Current  
Earnings

- FERS

Current  
Earnings

Another way (if a larger benefit) - through a spouse's benefits (or through a former spouse's benefits)

# SS Retirement Benefits – How Much and When Should One Elect to Start Receiving Benefits?

- Retirement Benefits
  - Amount of benefit based on:
    - Lifetime average earnings – the more FICA taxes one has paid, the more benefits one will receive
    - Annual earnings in year before retirement - lower wage workers have a higher percentage of their final wages replaced with SS benefits
  - Should a worker elect to start taking benefits “early” (as early as age 62) or “later” (FRA or later)?
    - Could receive more total dollars by starting later and living “longer”
    - By dying “earlier”, one receives less total benefits
    - Another consideration for taking benefits “early”: “Earnings test”

# Requirements to Receive Social Security Retirement Benefits

- Benefits Earned
  - Eligible for Social Security retirement benefits after earning 40 quarters of coverage (QCs) or credits
    - Earn credits by paying the FICA tax (6.2% of salary/wages)
- Eligible to receive retirement benefits if “fully insured”
  - Have at least 40 QCs
  - Full benefits at one’s “full retirement age “ (FRA)
  - Less than full benefits if one decides to start receiving retirement benefits before one’s FRA (as early as age 62)
  - Can receive additional benefits if one decides to receive retirement benefits after one’s FRA (additional benefits for each year waited past FRA until age 70)

# Does it Make Sense To Postpone Retirement Benefits Until One's FRA (or Beyond)?

Example: Individual's FRA = 66 years and 4 months (born in 1956)

Age 66 & 4 Months Benefit = \$1,000/month

Age 62 Benefit = \$733/month

Amount of Benefits Received From Age 62 To Age 66 Years & 4 Months:  
 $\$733/\text{Month} \times 52 \text{ Months (4 Years \& 4 Months)} = \$38,116$

If one starts at age 66 & 4 months to receive benefits, it would take 143 months (11 years and 11 months) to “catch up” or recover the \$38,116.

Why?

By taking the difference in the monthly payment (\$1,000 less \$733, or \$267) and dividing \$267 into \$38,116, one comes up with 143 months or 11 years and 11 months .

***What is the conclusion from this type of analysis?***

# How to Figure Your SS Retirement Benefit

- All retirement benefits are based on one's Primary Insurance Amount (PIA) (with extra earnings credits for those individuals who served in the military between 1957 and 2001)
- To determine PIA, one needs to know one's Averaged Indexed Monthly Earnings (AIME) (see next slide)
- PIA is amount payable at your FRA
  - If you start your benefits earlier, benefits will be less than the PIA
  - If you start your benefit later, it will be more than the PIA

# How to Figure Your SS Retirement Benefit

The **AIME** is recomputed every year by the Social Security Administration (SSA). Here is how SSA computes an individual's AIME:

Take an individual's 35 highest years of largest indexed earnings and add them up. Call this total  $T_{35}$ . Divide  $T_{35}$  by 420 (35 years times 12 months per year equals 420 months).

$$\text{AIME} = T_{35} / 420$$

# How to Figure Your SS Retirement Benefit

PIA computation for individuals attaining age 62 in **2018** (born in **1956**) equals

90% of the first **\$895** (1<sup>st</sup> “bend point”) of AIME plus  
32% of the next **\$4,502** of AIME, plus  
15% of AIME in excess of **\$5,397** ( 2<sup>nd</sup> “bend point”)

*Note: The \$895 and \$5,397 (“bend points”) are adjusted upward (downward) each year for inflation (deflation) by the Social Security Administration*

# How to Figure Your SS Retirement Benefit

Example: PIA Computation (2018) with AIME = \$1,500

$$\begin{array}{r} 90\% \text{ of } \$895 = \$805.50 \\ + 32\% \text{ of } (\$1,500 - \$895) = \underline{\$193.60} \\ \hline \mathbf{\$999.10} \end{array}$$

\$999.10 represents the amount the individual will receive (in 2018 dollars) at age 66 years and 4 months (FRA); less if one decided to receive benefit before FRA; or more if one decided to receive after FRA.

# How to Figure Your Retirement Benefit Amount

- Windfall Elimination Provision (WEP)
  - Designed to eliminate any “windfall” that would result if someone were to receive a CSRS pension (or any other government pension) not covered by SS and then receive a SS benefit based on a minimum years of SS coverage.
  - Does not affect new hires under the FERS program
  - Does affect CSRS employees who transferred to FERS and who have less than 30 years of “substantial” Social Security earnings
    - If entitled to a CSRS component
  - WEP modifies the formula for computing a SS benefit
  - Adjustment according to the number of years of coverage that one has “substantial” years of service covered by SS.

# WINDFALL ELIMINATION PROVISION (continued) – How Does the WEP Work for a Retiree Who Elects to Receive SS at Age 62?

- Step 1: From the table on page 14 (obtained from the SSA Web site at [www.socialsecurity.gov/retire2/wep-chart](http://www.socialsecurity.gov/retire2/wep-chart)) obtain the year you reach age 62 (EY)
- Step 2: Find the maximum monthly amount of reduction based on the number of years you paid Social Security taxes on “substantial” earnings and your eligibility year
- Step 3: Compare your answer to the following calculation:  
**.44 x monthly estimated benefit at age 62**  
*You are entitled to the larger of step 2 and Step 3*

*Note: If someone with 20 or less years of “substantial” SS earnings elects to take Social Security at FRA, then the benefit is calculated as:*

***40% of \$895 plus 32% of the next \$4,502 of AIME plus 15% of the AIME over \$5,397***

# WINDFALL ELIMINATION PROVISION (continued) – Example

- Jane, who became age 62 during 2016, is a CSRS annuitant who starts to receive her Social Security benefits during 2016. Her Social Security benefits are subject to the WEP
- Step 1: Jane's eligibility year (EY) is 2016
- Step 2: Jane's maximum monthly amount of reduction based on 15 years of "substantial" SS earnings is \$428.00
- Step 3: Jane's monthly Social Security benefit at age 62 is \$800;

**.44 times \$800 equals \$362;**

*Jane is entitled to a monthly check equal to the larger of \$800 less \$428 (\$372), or \$362; Jane is therefore to receive a monthly Social Security check equal to \$372.*

# Social Security Family Benefits

- Spousal (or Former Spouse) Benefits
  - Based upon the worker's full PIA
  - Worker must start receiving benefits before spouse can receive spousal benefits
  - Must be married for at least one year or be the parent of worker's child (child must be younger than age 16, or any age if child was disabled before age 22)
  - At age 62, spouse may receive permanently reduced benefits
  - If spouse is also insured for a retirement benefit, that benefit will be paid plus a spouse's benefit limited to the excess (if any) by which 50% of worker's PIA exceeds spouse's PIA (reduced if spouse's benefit starts before FRA)
  - Unmarried divorced spouse may be entitled to benefits starting at 62 if marriage lasted at least 10 years (worker must be age 62 or older, whether receiving benefits or not) and divorced for at least two years

# Government (Public) Pension Offset (GPO)

- What is the GPO?
  - A reduction, *most likely an elimination*, of an annuitant's spousal or survivor Social Security benefit
  - Does not affect an annuitant's *own* Social Security benefits.
  - GPO does not affect FERS employees, those CSRS employees who transferred to FERS in 1987 or 1998 with at least 5 years of FERS service, and CSRS Offset employees
  - If not exempt, 2/3 of a CSRS annuitant's annuity will be subtracted from a worker's spousal Social Security benefits.

# Government Pension Offset (GPO)

- GPO also does not apply to:

Individuals who received or were eligible to receive a government pension (includes municipal and state governments) before December 1982 **and who** meet all the requirements for Social Security spouse's benefits in effect in January 1977; or

Received or were eligible to receive a federal, state or local government pension before July 1, 1983, and were receiving one-half support from a spouse.

# Government Pension Offset (GPO)

- How does the GPO work?

Your Social Security benefits will be reduced by two-thirds of your government pension. For example, if you get a monthly civil service pension of \$2,400, two-thirds of that, or \$1,600, will be deducted from your Social Security benefits. For example, if you are eligible for a \$800 spouse's, widow's or widower's benefit from Social Security, you will not receive any Social Security benefits because \$800 less \$1,600 is \$0.

# Family Benefits

- Additional payments made to a member of a worker's family
  - Replaces earnings due to retirement or periods of disability
- Does not reduce payments for which worker is entitled
- Amount of benefits paid to a family member dependent on worker's calculated full benefits (full PIA)
- Entitled to the higher of one's own SS benefits and benefits under the family member rules

# Family Benefits - Continued

- Children benefits
  - Natural child, adopted child, stepchild (if dependent on worker for 50% of support) and dependent grandchild
  - Each eligible child gets up to 50% of worker's PIA
  - Must be unmarried and under age 18
    - Up to age 19 if still in high school
    - Any age if disabled before age 22
  - Maximum family benefit
    - If the sum of all benefits is more than the maximum family benefit, the benefits of the family members will be reduced proportionately to bring the total within the limit
    - Amount payable to a divorced spouse or surviving-divorced spouse is not included in the maximum (except if surviving-divorced spouse qualifies only on the basis of caring for a child of the worker)

# Survivor Benefits

- Monthly survivor benefits begin in the month of death
- For survivors to receive survivor benefits, worker must be either **currently insured** or **fully insured**
  - **Currently insured:** Need to have earned six credits during the 13 calendar quarters ending with the calendar quarter of death
  - **Fully insured:** See Table 10 on page 19

# Survivor Benefits

- Who can receive survivor benefits?
  - Widow, widower or former spouse
  - Surviving unmarried children (under age 18 or up to 19 if still in high school or any age if disabled before age 22)
  - Dependent parent(s)
  - Surviving-divorced if caring for an eligible child under the age of 16 or disabled before age 22
- Benefits are based on worker's PIA at time of his or her death

# Survivor Benefits

- **Currently insured** (provides some benefits, but not all)
  - Lump sum death benefit of \$255 payable to a widow or widower (if no widow/widower, then to children who are eligible for monthly survivor benefits)
  - Eligible children under age 18 (up to age 19 if still in high school) or any age if disabled before age 22
  - Widow(er) or surviving divorced spouse caring for an eligible child under 16 or if disabled under 22
- **Fully insured** (maximum benefits apply)
  - Also lump sum death benefit

# Survivor Benefits

- Widow(er)
  - Must be married to worker for at least 9 months before death
  - Remarriage cancels SS benefits unless remarriage is after age 60
  - Allowed to receive benefits at:
    - Age 60 (age 50 if disabled) if there are no qualifying children
    - Any age if there are qualifying children
  - If worker did not live to retirement age
    - Widow(er) will receive benefits calculated as if the worker was FRA at time of death
  - If worker dies at FRA or older
    - Receives 100% of what worker was receiving

# Survivor Benefits

- Eligible children
- Dependent parents
  - Must be age 62 or older to qualify for benefits
  - Must be receiving at least one-half support from child/worker
- Surviving divorced spouse qualifies if:
  - Married to worker for at least 10 years
  - Did not remarry before age 60 (unless remarriage ends)

# Disability Benefits

- Payable to an insured worker
  - Severely disabled for more than 6 months before reaching FRA
- To qualify, one must be so severely disabled that he or she cannot perform any “substantially gainful” work
  - SSA uses the “any” (rather than one’s “own” occupation) definition of disability
  - Disability expected to last at least 12 months or result in death
  - Determination based on medical evidence (benefits not payable to people disabled solely due to alcoholism or drug addiction)
- Must have a minimum of credits of SS coverage (see Table 12, page 21) (some of these credits must have been used in recent years)
- Waiting period of five full calendar months
- Family benefits for spouse and children

# Social Security “Earnings” Test

- Affects Social Security recipients who are younger than their full retirement age (FRA) (table 2, page 7) and who work.
- During **2018**, for those recipients who are younger than their FRA (born in 1953, 1954, 1955 or 1956) they may earn up to **\$17,040 (\$1,420 monthly)** without losing benefits (otherwise, for every \$2 earned above \$17,040, \$1 in benefits will be forfeited).
- During **2018**, for those recipients who reach their FRA of 66 (born in 1952), they may earn up to **\$45,360 (\$3,780 monthly)** until the month they reach age 66 (otherwise, for every \$3 earned above \$45,360, \$1 in benefits will be lost).
- Once FRA is reached, there is no more “earnings” test.
- “Earned” income includes salary/wages and self-employment income (interest, dividends, capital gains, and pension income are not included in the “earnings” test)

# Taxation of Social Security Benefits

- SS recipients and beneficiaries may owe federal income taxes on as much as 50% or 85% of their benefits
- Special step-rate “thresholds” (modified adjusted gross income or MAGI) determine the amount on which an individual may be taxed – MAGI includes  $\frac{1}{2}$  of SS benefits plus all other gross income, including tax-free interest and dividend income
  - Single individuals: \$25,000 and \$34,000
  - Married couple filing a joint return: \$32,000 and \$44,000
  - Married couple filing separate returns and living together at any time during the year have zero thresholds (if not living together, they are considered as a single person)



# WHEN DO BENEFITS CEASE?

- No benefit for the deceased worker for the month of death

Example 1. Joe Johns was entitled to monthly SS retirement benefits. He died in September 30, 2017. The benefit for a month is paid in the following month. No benefit will therefore be paid for September. If the Social Security Administration (SSA) had processed the September payment, it must be returned to SSA.

Example 2. Joe Johns died October 1, 2017. Since he lived throughout September 2017, the payment in October is payable to a survivor (spouse or children) or to the Joe John's estate.

# Applying for Social Security Benefits

- Non-disabled employees should contact SSA 3 months before they want to start receiving benefits
- Apply online at <https://secure.ssa.gov/iCLM/rib>
- Apply via phone by calling 1-800-772-1213 an appointment
- Apply by going to any Social Security office – to avoid having to wait, call first to make an appointment
- Survivors should contact SSA immediately to apply for monthly survivor benefits

# Medicare Eligibility

- Anyone age 65 or older
- Disabled individuals under age 65
- People with permanent kidney failure
- Employee/retiree who is older than 65 and who is covered by an employer health insurance plan
  - If Medicare rejected, then employer plan becomes “primary payer”
  - If Medicare is accepted, then Medicare becomes “primary payer” and employer plan becomes “secondary” plan

# Medicare

- Part A
  - Premiums prepaid by employee via Medicare payroll tax (1.45% of wages matched by employer)
  - Basic benefits for inpatient hospital care and skilled nursing facility care
- Part B
  - Monthly premium paid by enrollee (**\$134, or more for 2018**) via deducted from a Social Security check
  - Annual deductible of **\$183 (2018)** for charges allowed by Medicare
  - Doctor's services, outpatient hospital care, and other medical services
  - Most "medigap" (including FEHBP) plans pay whatever Parts A and Part B do not pay for

# Enrolling in Medicare

- Available in the month a person turns 65
- Eligible individuals can enroll by contacting SSA (not Medicare)
  - Should be done within 3 months of 65<sup>th</sup> birthday
  - Seven month window centered around 65<sup>th</sup> birthday for enrolling in Medicare Part B and avoiding 10% penalty
  - Medicare Part B always has an “open enrollment season” between January 1 and March 31 of every year with coverage taking effect the following July 1

# Medicare Part B Monthly Premium Determined By Modified Adjusted Gross Income (MAGI)

If your MAGI in 2016 was:

<u>File single tax return</u>	<u>File married filing joint tax return</u>	<u>You pay (in 2018) (monthly)</u>
\$85,000 or less	\$170,000 or less	\$134.00
above \$85,001 up to \$107,000	above \$170,001 up to \$214,000	\$187.50
above \$107,001 up to \$133,500	above \$214,001 up to \$267,000	\$267.90
above \$133,501 up to \$160,000	above \$267,000 up to \$320,000	\$348.30
above \$160,000	above \$320,000	\$428.60

# What Medicare Part B Does Not Cover

- Dental expenses (use federal FEDVIP plan)
- Prescription drugs (covered by Medicare Part D, if enrolled) (most federal annuitants do not need Medicare Part D)
- Eyeglasses (use federal FEDVIP plan) and hearing aids
- Services outside the US
- Cosmetic surgery
- Long term care (need to enroll in an LTC insurance plan)