2020 Changes for Social Security and Medicare: What Clients Need to Know

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Horsesmouth
What’s new for 2020

• Social Security cost-of-living adjustment (COLA)
• New earnings test thresholds
• New taxable wage base
• New bend points: higher PIAs for maximum earners
• Window closing for restricted application
• Part B Medicare premiums, new IRMAA thresholds
• The latest Social Security reform proposals
1. Social Security cost-of-living adjustment

- Checks going up by 1.6%
- May be partially offset by Medicare premium “catch-up” for those with low benefit amounts
- All PIAs raised by COLA, whether or not benefits have started
2. Earnings test thresholds

- $18,240 pre-FRA year
  - Benefits withheld $1 for $2
- $48,600 FRA year
  - Benefits withheld $1 for $3
- First-year monthly earnings test
  - $1,520 pre FRA
  - $4,050 FRA year

- Additional earnings (or lack thereof) may affect the PIA
- Statement estimate may be off
  - Early retirees: send to Retirement Estimator (www.ssa.gov/estimator) or ballpark $100-$200 less than statement shows
  - Continued earnings make a bigger difference for clients with less than 35 years of earnings (but later earnings always count for more than earlier earnings so everyone who works can improve their benefit)
4. New indexing factors and bend points

- Average wage index up 3.62%
- Higher PIA for maximum earners turning 62 in 2020
Average Indexed Monthly Earnings (AIME) for baby boomer born in 1958

Maximum earnings since 1980

$4,487,212 in total indexed earnings ÷ 420 months = $10,683 AIME
Example of benefit formula for max earner

- Maximum Social Security earnings every year since age 22
- AIME = $10,683
- PIA formula:
  - $960 x .90 = $864.00
  - $4,825 x .32 = $1,544.00 ($5,785 - $960 = $4,825)
  - $4,898 x .15 = $734.70 ($10,683 - $5,785 = $4,898)
  - Total = $3,142.70

PIA = $3,142.70
Amount worker will receive at full retirement age
5. Window closing for restricted application

- Strategy: Receive spousal benefit while own benefit builds delayed credits to age 70
- Phaseout: Only those born before January 2, 1954 are eligible
- Everyone eligible will be FRA by end of 2019, but strategy not expiring: can still do it up to age 70
- Remember...
  - Must not have previously filed for benefits
  - Other spouse must have filed
  - Other spouse need not be born before 1954
- See my Aug. 3, 2017 newsletter: “How To File a Restricted Application”
- Does not apply to survivor benefits
6. OASDI Trust Fund still growing (barely)

Trust fund balance on 12/31/18: $2.895 trillion

2019 results
• Total income: $1.062 trillion
• Total expenditures: $1.059 trillion
• Net increase in assets: <$ 3 billion

Trust fund balance on 12/31/19: $2.897 trillion

Source: Social Security Administration, Office of the Chief Actuary
Long-term projections: without reform, benefits fall to 80% in 2034

Source: 2018 OASDI Trustees Report

Cost: Scheduled but not fully payable benefits

Payable benefits as percent of scheduled benefits:
- 2017-2033: 100%
- 2034: 80%
- 2092: 74%

Expenditures: Payable benefits = income after trust fund exhaustion in 2034

Source: 2019 OASDI Trustees Report
Office of the Chief Actuary's Estimates of Individual Changes Modifying Social Security

Annual Trustees Reports provide estimates of the financial status of Social Security's Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds under current law. Recent Reports call for informed discussion, creative thinking, and timely legislation to address expected future deficits. Many policy makers have developed proposals and options to address this long-range solvency problem. Listed below is a broad range of policy options that would address Trust Fund solvency and other issues related to Social Security benefits and financing. Many of these options are part of comprehensive proposals intended to restore Trust Fund solvency.

We group the options into categories, as shown below. We also provide a summary list of all options (PDF version).

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>A: Cost of Living Adjustment</td>
<td>F: Coverage of Employment or Earnings/Inclusion of Other Sources of Revenue</td>
</tr>
<tr>
<td>B: Level of Monthly Benefits (PIA)</td>
<td>G: Investment in Marketable Securities</td>
</tr>
<tr>
<td>C: Retirement Age</td>
<td>H: Taxation of Benefits</td>
</tr>
<tr>
<td>D: Benefits for Family Members</td>
<td>I: Individual Accounts</td>
</tr>
<tr>
<td>E: Payroll Taxes (including maximum taxable)</td>
<td>J: All Categories</td>
</tr>
</tbody>
</table>

Estimates available in HTML and PDF. PDF requires Adobe Acrobat Reader or equivalent.

https://www.ssa.gov/oact/solvency/provisions/index.html
Office of the Chief Actuary's Estimates of Proposals to Change Social Security

The last 8 Trustees Reports have indicated that Social Security's Old-Age, Survivors, and Disability Insurance (OASDI) Trust Fund reserves would become depleted between 2033 and 2035 under the intermediate set of assumptions provided in each report. If no legislative change is enacted, scheduled tax revenues will be sufficient to pay only about three-fourths of the scheduled benefits after trust fund depletion. Policymakers have developed proposals and options that have financial effects on the OASDI Trust Funds. Many of these proposals and options have the intent of addressing the long-range solvency problem.

We have prepared memorandum for many of these proposals and options. Each memorandum provides an actuarial analysis showing the estimated effect on the financial status of the OASDI program.

These memorandum are provided in Portable Document Format (PDF), which we recommend for printing (requires Adobe Acrobat Reader). Some of the memoranda are also available in HTML format. The memoranda are listed below in chronological order, most recent first. To search the list, use the search forms at left.

<table>
<thead>
<tr>
<th>Date of memorandum</th>
<th>Developer(s) of proposal</th>
<th>Memorandum subject and related information</th>
</tr>
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<tbody>
<tr>
<td>September 30, 2019</td>
<td>Richard Neal</td>
<td>Estimates of the Financial Effects on Social Security of H.R. 4540, the “Public Servants Protection and Fairness Act,” introduced on September 27, 2019 by Chairman Richard Neal (PDF version)</td>
</tr>
</tbody>
</table>

https://www.ssa.gov/oact/solvency/index.html
Social Security 2100 Act

- Would increase first bend point multiplier from .90 to .93
- Would base cost-of-living adjustments on the CPI-E (expected to increase COLA by 0.2 percentage points per year)
- Would increase the special minimum PIA
- Would replace current taxation thresholds to $50,000 for single individuals and $100,000 for couples. Would not be adjusted for inflation
- Would withhold OASDI taxes on income over $400,000. A “second AIME” would be created to credit these earnings, with a 2% multiplier
- Would gradually increase the payroll tax rate from 12.4% to 14.8% for 2042 and later
- OAS and DI trust funds would be combined
Would restore full solvency
7. New Medicare numbers for 2020

- Part B base premium: $144.60
- IRMAA income brackets adjusted for inflation
- Medigap Plan F closed to those turning 65 after 2019—i.e., must pay Part B deductible
- Part D donut hole closed in 2020
## Monthly premiums for Parts B & D Including Income Related Monthly Adjustment Amounts

<table>
<thead>
<tr>
<th>MAGI Single</th>
<th>MAGI Joint</th>
<th>MAGI Married filing separately</th>
<th>Part B monthly premium paid to Medicare</th>
<th>Part B income-related adjustment amount paid to Medicare</th>
<th>Part D monthly premium (average) paid to insurer</th>
<th>Part D income-related adjustment amount paid to Medicare</th>
<th>Total Parts B &amp; D premium</th>
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<tbody>
<tr>
<td>≤ $87,000</td>
<td>≤ $174,000</td>
<td>≤ $87,000</td>
<td>$144.60</td>
<td>$0.00</td>
<td>$40.00</td>
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<td>$87,001- $412,999</td>
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<td>$70.00</td>
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<td>≥$500,000</td>
<td>≥$750,000</td>
<td>≥$413,000</td>
<td>$144.60</td>
<td>$347.00</td>
<td>$40.00</td>
<td>$76.40</td>
<td>$607.40</td>
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</table>

These do not include premiums for Medicare Advantage or Medicare supplement plans
Medicare deductibles
Amount You Pay

• Part A - $1,408 per spell of illness
• Part B - $198/year
  • Waived for some preventive services such as flu shots, some mammograms and Pap smears, bone mass tests, prostate screening, diabetes tests, some others
• Part D – $435/year
Part D drug plans

• Donut hole closing in 2020, but Medicare’s standard drug plan design not relevant anymore
• Find a drug plan that meets client’s needs based on the medications they take
• Find cheapest drug plan if not taking drugs
• Go to www.medicare.gov/find-a-plan
What to do now

• Become the go-to expert on Social Security and Medicare
  • Learn the rules
  • Teach the public
  • Recommend strategies
  • Follow up with seminar attendees
• 76% of future retirees who currently work with – or plan to work with – an advisor say they would likely switch and find an advisor who could advise on Social Security. (Nationwide Retirement Institute)
The Advice Opportunity: Boomers in the pipeline
1954 Boomers entered the claiming pipeline in 2016, will finish in 2024
1962 Boomers will enter the claiming pipeline in 2024, will finish in 2032
3 to 4 million Boomer prospects enter the claiming pipeline every year

They need help deciding when to claim Social Security and how to manage the rest of their retirement assets
Boomer spike coming
Learn Social Security

- How benefits are calculated
- How to maximize benefits
- Rules for spousal and survivor benefits
- Benefits for divorced people
- How and when to switch from one benefit to another
- How the earnings test works in the first year
Savvy Social Security Planning® for Boomers

Comprehensive Financial Education and Marketing Program

Every day more Baby Boomers approach retirement and they want to know the ins and outs of Social Security. Become the expert your clients need with Savvy Social Security Planning for Boomers, a fully-supported, year-long program. Includes:

- Specific answers to your client questions: We’ve answered more than 15,000 queries. New answers added every day...
- Custom reports for your clients showing them the best strategies to chose from...
- New and updated program materials and presentations for clients, prospects, and COIs...
- Educate clients, prospects and COIs on the new AND old rules at your workshops...

Learn More  Schedule a Demo

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Social Security Quick Reference Guide

No more digging around on the shelves or searching on the Internet for information like:

- Estimated benefits for worker with maximum earnings
- Adjusted for early or delayed claiming
- Estimated PIAs for workers with maximum earnings
- Social Security cost-of-living adjustments (COLAs)
- Medicare Part B premiums
- Maximum wages subject to Social Security tax

Learn More
Learn Medicare

• When you can, should, or must enroll in Medicare
• How Medicare works with employer plans
• How supplemental insurance works
• Who pays the IRMAA and how you can help clients avoid it
• How to help clients transition to Medicare at retirement
Savvy Medicare Planning® for Boomers

Get the Mastery You Need to Help Clients Manage Their Retirement Health Care Expenses!

Everyone must sign up for Medicare, yet few people understand what to do. Help clients avoid the pitfalls and put this critical piece of the retirement planning puzzle into place with Savvy Medicare Planning for Boomers, a fully-supported, year-long program. This program allows you to:

- Speak knowledgeably with clients and prospects about Medicare and health care financial planning
- Deepen your relationships with clients by helping them with this complicated and important part of their retirement plan
- Open up new areas of discussion with clients, prospects, and centers of influence
- Deliver excellent service by providing information, resources, and guidance geared to each client's unique circumstances

Learn More  Schedule a Demo

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Health Care Quick Reference Guide

People need concise, objective and easy to understand information about Medicare. Now you can give them just that with the Health Care Quick Reference Guide.

This branded 8.5” x 11” reference includes critical Medicare information about which programs apply to which people; when to apply, information about premiums and deductibles, and references to other resources with more information.

- Instant, branded PDF—Share it right now
- Printed, branded card—Mail or hand out now

Learn More
Teach Social Security and Medicare

- Seminars
- Workshops
- Classes

- Baby boomers (general)
- Couples
- Women
- CPAs
Updated Social Security presentations

What Baby Boomers Need To Know To Maximize Retirement Income

Savvy Social Security Planning:
What Baby Boomers Need To Know to Maximize Retirement Income

What Couples Need To Know About Retirement Income and Social Security

Savvy Social Security Planning:
What Couples Need To Know About Retirement Income and Social Security

What Women Need To Know About Retirement Income and Social Security

Savvy Social Security Planning:
What Women Need To Know About Retirement Income and Social Security

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Savvy Social Security Planning:
Basic Rules and Claiming Strategies

Savvy Social Security Planning:
What CPAs, Attorneys, and Other Professionals Need To Know About Claiming Strategies

Pre-registration required.

Pre-registration required.

Pre-registration required.

Pre-registration required.
Updated Medicare presentations

Managing Health Care Expenses in Retirement
WHAT BABY BOOMERS NEED TO KNOW ABOUT MEDICARE AND LONG-TERM CARE

Transitioning to Medicare
How health insurance works after you leave your job

Baby Boomers are asking:
- When do I sign up for Medicare?
- How do I sign up for Medicare?
- How does Medicare work with the insurance I've already got?
- What happens to my insurance when I retire?
- What can I expect to pay for my healthcare down the line?

Attend if:
- You are age 60 and over.
- You are concerned about retirement health care expenses.
- You plan to take Medicare soon.
- You are not clear on how your existing insurance works with Medicare.
- You are ready to start planning.

In this half hour presentation, you'll learn:
- How Medicare coordinates with other forms of insurance, like group health plans and COBRA.
- Who needs to enroll in Medicare and when.
- How to enroll in Medicare.
- How to effectively transition to Medicare, while keeping all the deadlines in mind.

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Recommend Social Security strategies

• How to maximize benefits
• When to claim
• Discuss other issues: retirement income planning, insurance, investments
Recommend Medicare strategies

- **When** to enroll: avoid coverage gaps and late-enrollment penalties
- **Which** plan is best? Original Medicare or Medicare Advantage?
- **Estimate** health care costs, avoid or reduce the IRMAA
- **Discuss** long-term care
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Savvy Social Security and Medicare Workshop

Tampa: February 27-28
Las Vegas: March 19-20

Join Horsesmouth’s Director of Retirement and Life Planning Elaine Floyd as she teaches you the rules and claiming strategies you need to know.

Sign up at www.horsesmouth.com/ssworkshop20

Elaine Floyd, CFP®
Thank you!