

# **Social Security and Medicare Updates: What Clients Need to Know Going into 2021**



**By Elaine Floyd, CFP®**

**Director of Retirement and Life Planning  
Horseshmouth**



# What's new for 2021

- **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 1.3%
- All PIAs raised by COLA, whether or not benefits have started



# Hold Harmless

- Applies if Medicare Part B premium increase exceeds COLA amount
- Part B premium increase limited to amount covered by COLA
- Exceptions
  - Not on Social Security yet (i.e., premiums not being deducted from check)
  - New to Social Security in 2021
  - Subject to IRMAA



## 2. Earnings test thresholds

- **\$18,960 pre-FRA year**
  - Benefits withheld \$1 for \$2
- **\$50,520 FRA year**
  - Benefits withheld \$1 for \$3
- **First-year monthly earnings test**
  - \$1,580/mo. pre FRA
  - \$4,210/mo. FRA year



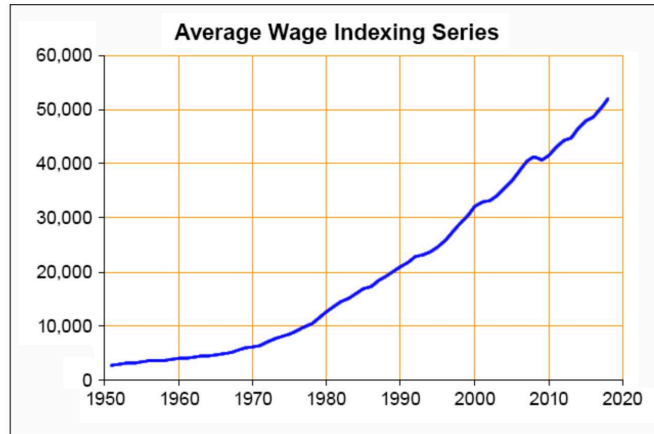
### 3. Maximum wage base for 2021: \$142,800

- Additional earnings (or lack thereof) may affect the PIA
- Statement estimate may be off
  - Early retirees: send to Retirement Estimator ([www.ssa.gov/estimator](http://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 3.75%
- Higher PIA for maximum earners turning 62 in 2021



# Average Indexed Monthly Earnings (AIME) for baby boomer born in 1959

## Maximum earnings since 1981

**\$4,661,351 in total indexed  
earnings ÷ 420 months =  
\$11,098 AIME**

Year	Age	Nominal earnings	Indexing factor	Indexed earnings
1981	22	29,700	3.9279458	116,659.99
1982	23	32,400	3.722987	120,624.78
1983	24	35,700	3.5500451	126,736.61
1984	25	37,800	3.3529442	126,741.29
1985	26	39,600	3.2159258	127,350.66
1986	27	42,000	3.1232278	131,175.57
1987	28	43,800	2.9359868	128,596.22
1988	29	45,000	2.7981731	125,917.79
1989	30	48,000	2.6916021	129,196.90
1990	31	51,300	2.5727621	131,982.70
1991	32	53,400	2.4803311	132,449.68
1992	33	55,500	2.3587966	130,913.21
1993	34	57,600	2.3386833	134,708.16
1994	35	60,600	2.2775558	138,019.88
1995	36	61,200	2.1897812	134,014.61
1996	37	62,700	2.0876823	130,897.68
1997	38	65,400	1.9725804	129,006.76
1998	39	68,400	1.874473	128,213.95
1999	40	72,600	1.7755259	128,903.18
2000	41	76,200	1.6824846	128,205.33
2001	42	80,400	1.6432817	132,119.85
2002	43	84,900	1.6269651	138,129.34
2003	44	87,000	1.5881424	138,168.39
2004	45	87,900	1.517593	133,396.42
2005	46	90,000	1.464024	131,762.16
2006	47	94,200	1.3996899	131,850.79
2007	48	97,500	1.338927	130,545.38
2008	49	102,000	1.3088189	133,499.53
2009	50	106,800	1.328859	141,922.14
2010	51	106,800	1.2981766	138,645.26
2011	52	106,800	1.2587362	134,433.03
2012	53	110,100	1.2206217	134,390.45
2013	54	113,700	1.2052174	137,033.22
2014	55	117,000	1.1639032	136,176.67
2015	56	118,500	1.124772	133,285.48
2016	57	118,500	1.1122039	131,796.16
2017	58	127,200	1.0750787	136,750.01
2018	59	128,400	1.0374755	133,211.85
2019	60	132,900	1.0000000	132,900.00
2020	61	137,700	1.0000000	137,700.00
<b>Total</b>				<b>\$4,661,351</b>
<b>AIME</b>				<b>\$11,098.45</b>



## Example of benefit formula for max earner

- Baby Boomer born in 1959 – turns 62 in 2021
- Maximum Social Security earnings every year since age 22
- AIME = \$11,098
- PIA formula:
  - $\$996 \times .90 = \$896.40$
  - $\$5,006 \times .32 = \$1,601.92$  (\$6,002 - \$996 = \$5,006)
  - $\$5,096 \times .15 = \underline{\$764.40}$  (\$11,098 - \$6,002 = \$5,096)
  - Total = \$3,262.72

**PIA = \$3,262.70**

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 was 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**

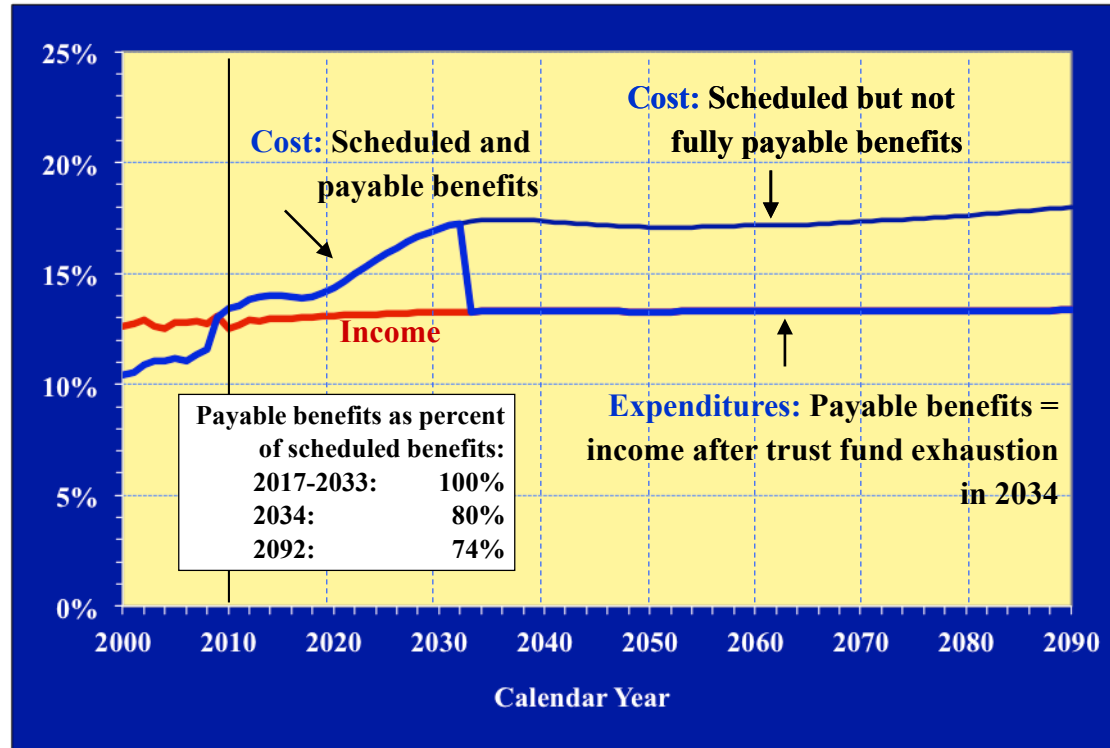
- **Total income: \$1.062 trillion**
- **Total expenditures: \$1.059 trillion**
- **Net increase in assets: < \$ 3 billion**

**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





## 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).

### Category of Change to the Social Security Program

*(Estimates based on the 2020 Trustees Report unless otherwise stated)*

[A: Cost of Living Adjustment](#)

[B: Level of Monthly Benefits \(PIA\)](#)

[C: Retirement Age](#)

[D: Benefits for Family Members](#)

[E: Payroll Taxes \(including maximum taxable\)](#)

[F: Coverage of Employment or Earnings/Inclusion of Other Sources of Revenue](#)

[G: Investment in Marketable Securities](#)

[H: Taxation of Benefits](#)

[I: Individual Accounts](#)

[J: All Categories](#)

Estimates available in HTML and PDF. PDF requires [Adobe Acrobat Reader](#) or equivalent.

Following a brief description of each option, we provide estimates of the financial effect on the combined OASI and DI programs over the long-range period (the next 75 years) and for the 75th year. In addition, we give a link to the memorandum containing this policy option.

<https://www.ssa.gov/oact/solvency/provisions/index.html>



## Office of the Chief Actuary's Estimates of Proposals to Change Social Security or Supplemental Security Income

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[Frequently Asked Questions about Trust Funds](#)

[Solvency Provisions](#)

Search for memoranda by  
key word(s):

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proposal:




\*\* Select a name \*\*



Go

The last 9 [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 memoranda 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 memoranda 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.

Date of memorandum	Developer(s) of proposal	Memorandum subject and related information
September 9, 2020		Response to letter from Chairman Grassley and Ranking Member Brady ( <a href="#">PDF version</a>  )
August 24, 2020	Chris Van Hollen, Bernard Sanders, Ron Wyden, Charles Schumer	Estimates of the Financial Effects on Social Security of hypothetical legislation that would change the tax rate paid by employers, employees, and self-employed individuals to zero percent ( <a href="#">PDF version</a>  )
July 15, 2020	John Larson	Estimates of the Financial Effects on Social Security of H.R. 7499, the "Social Security COVID Correction and Equity Act," introduced on July 9, 2020 by Chairman John Larson ( <a href="#">PDF version</a>  )

<https://www.ssa.gov/oact/solvency/index.html>

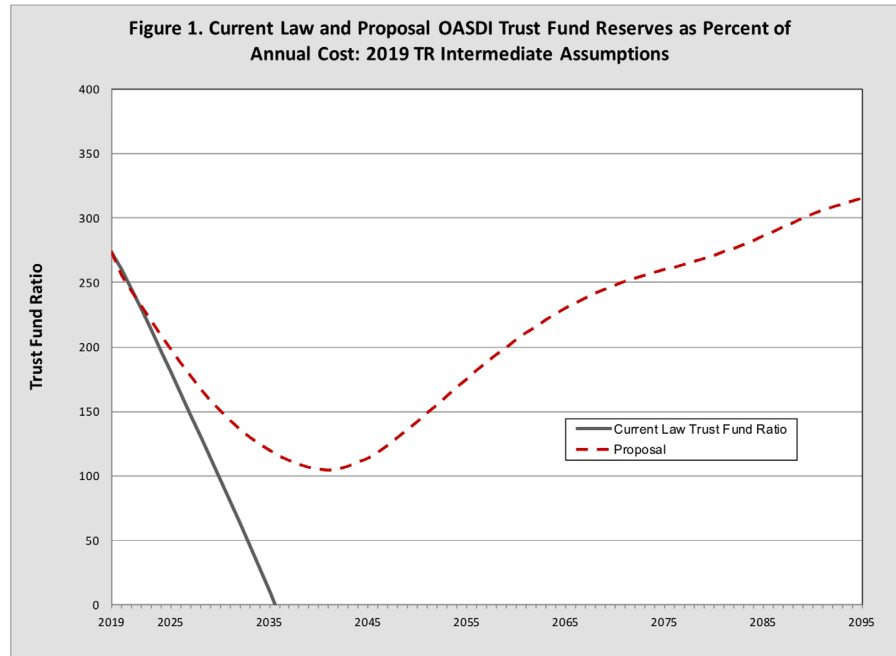


# Social Security 2100 Act

- 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. 2021 Medicare premiums**

- **2021 Part B base premium: \$148.50**
- **IRMAA starts at \$88,000 for individuals and \$176,000 for couples**



# Monthly premiums for Parts B & D Including Income Related Monthly Adjustment Amounts

MAGI Single	MAGI Joint	MAGI Married filing separately	Part B monthly premium paid to Medicare	Part B income- related adjustment amount paid to Medicare	Part D monthly premium (average) paid to insurer	Part D income- related adjustment amount paid to Medicare	Total Parts B & D premium
≤ \$88,000	≤ \$176,000	≤ \$88,000	\$148.50	\$0.00	\$40.00	\$0.00	\$188.50
\$88,001 - \$111,000	\$176,001 - \$222,000		\$148.50	\$59.40	\$40.00	\$12.30	\$260.20
\$109,001 - \$136,000	\$222,001 - \$276,000		\$148.50	\$148.50	\$40.00	\$31.80	\$368.80
\$136,001 - \$163,000	\$276,001 - \$330,000		\$148.50	\$237.60	\$40.00	\$51.20	\$477.30
\$163,001 - \$499,999	> \$330,001 - \$749,999	\$88,001 - \$411,999	\$148.50	\$326.70	\$40.00	\$70.70	\$585.90
≥ \$500,000	≥ \$750,000	≥ \$412,000	\$148.50	\$356.40	\$40.00	\$77.10	\$622.00

These do not include premiums for Medicare Advantage or Medicare supplement plans



# **Medicare deductibles**

## **Amount You Pay**

- **Part A - \$1,484 per spell of illness**
- **Part B - \$203/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 – \$445/year**



## **Part D drug plans**

- **Donut hole closed 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](http://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



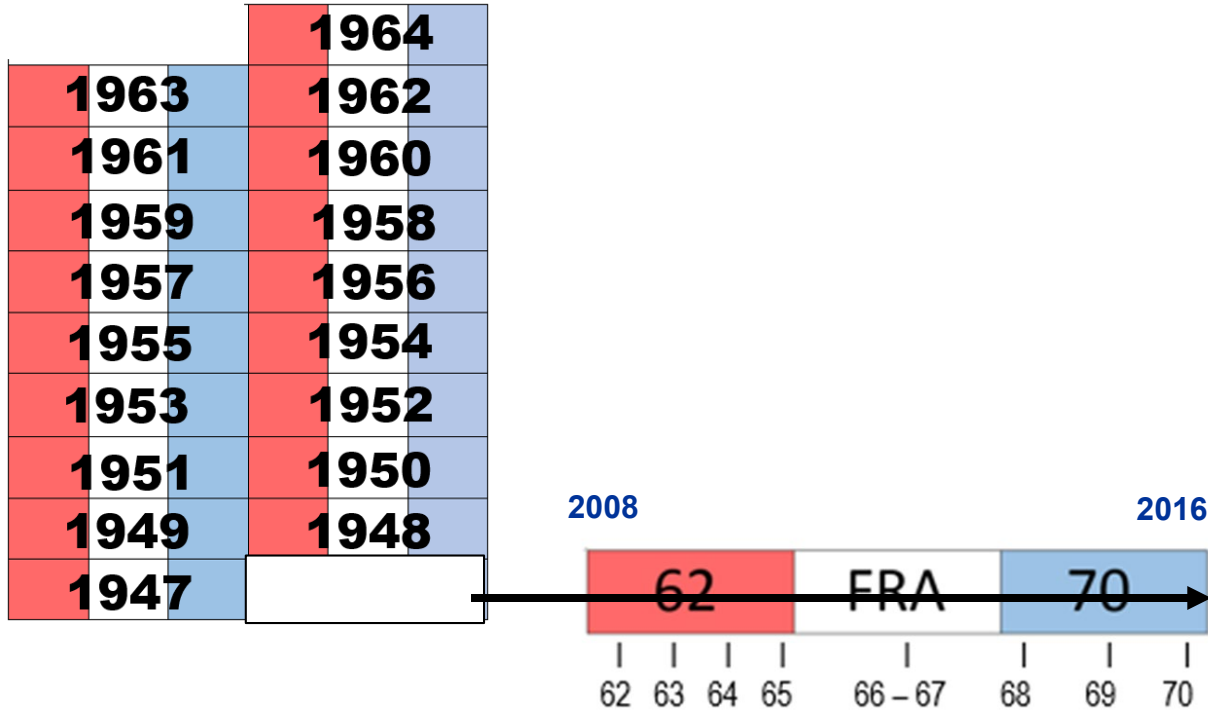
- **76%** of future retirees who currently work with – or plan to work with – an advisor say they would likely **switch** and find an advisor who could advise on Social Security. (Nationwide Retirement Institute)



# **The Advice Opportunity: Boomers in the pipeline**



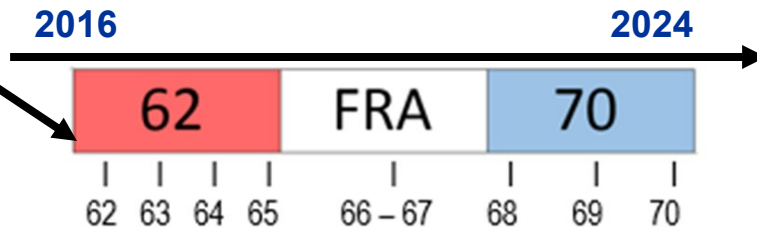
## 1946 Boomers started claiming in 2008, finished claiming in 2016





# 1954 Boomers entered the claiming pipeline in 2016, will finish in 2024

					<b>1964</b>
<b>1963</b>					<b>1962</b>
<b>1961</b>					<b>1960</b>
<b>1959</b>					<b>1958</b>
<b>1957</b>					<b>1956</b>
<b>1955</b>					<b>1954</b>

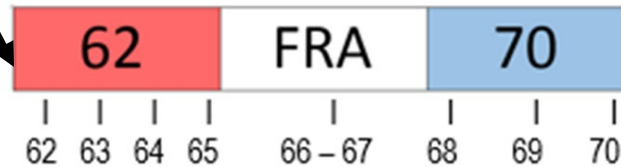


# 1962 Boomers will enter the claiming pipeline in 2024, will finish in 2032

				<b>1964</b>
<b>1963</b>			<b>1962</b>	
<b>1961</b>			<b>1960</b>	
<b>1959</b>			<b>1958</b>	
<b>1957</b>			<b>1956</b>	
<b>1955</b>			<b>1954</b>	

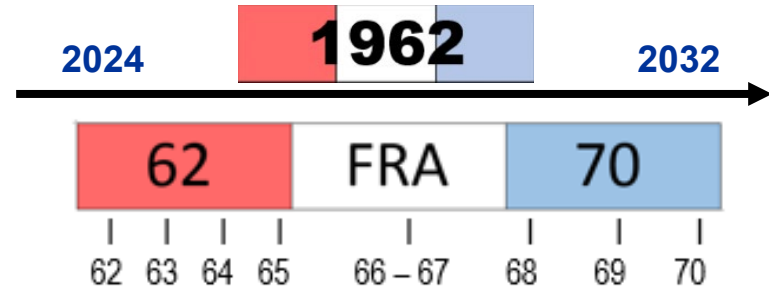
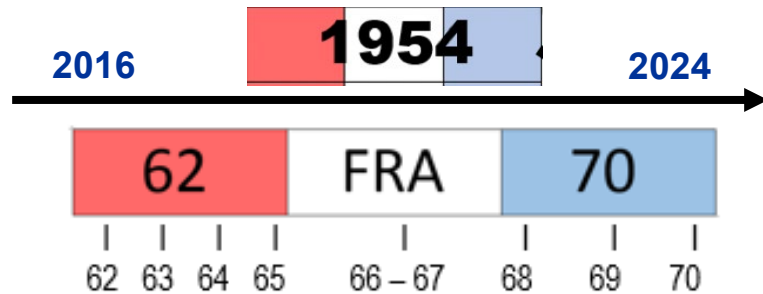
2024

2032

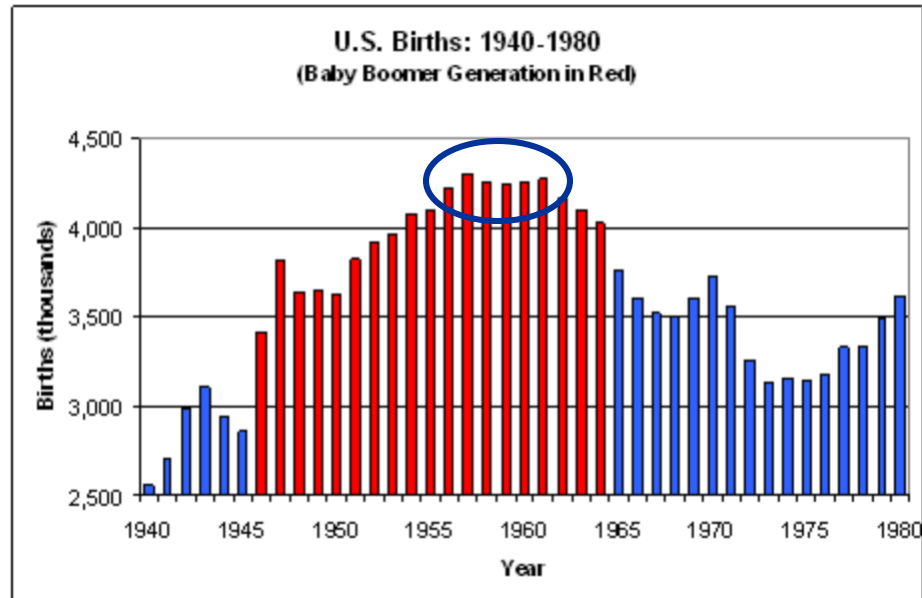


**3 to 4 million Boomer prospects enter the claiming pipeline every year**

**They need help deciding when to claim Social Security and how to manage the rest of their retirement assets**



# Boomer spike coming



# How to build your business with Social Security planning

- Educate yourself
- Hold educational workshops for clients, prospects, and COIs
- Offer free Social Security claiming analysis
- Drip mailing campaign



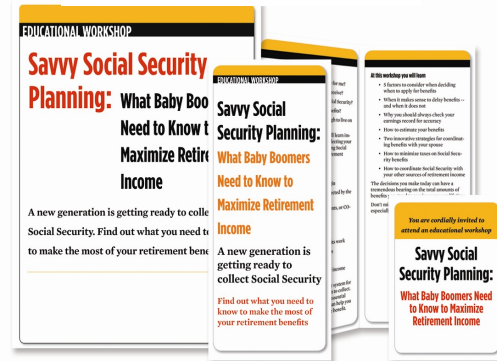
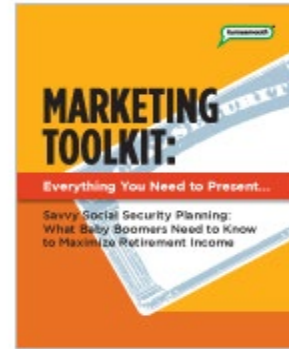
# Educate yourself



# Educate Clients and Prospects

## FINRA-reviewed presentations

- Savvy Social Security Planning: What **Baby Boomers** Need to Know to Maximize Retirement Income
- Savvy Social Security Planning for **Couples**
- Savvy Social Security Planning for **Women**
- Savvy Social Security Planning for **CPAs** and other Professionals
- New: Two **30-minute** workshops
  - What's new with Social Security? 7 Topics to Watch in 2021
  - Basic rules and strategies



# Your Customized Social Security Spousal Planning Analysis

Prepared For

**Bob & Betty Smith**

January 15, 2021

Prepared By **Elaine Floyd, CFP®**

Horseshmouth

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New York, NY 10018

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# Drip mailing campaign

## Creative Social Security Claiming Strategies: Understanding the Nuances

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**SAMPLETON**  
Wealth Management Group

By Elaine Floyd, CFP®

With more people learning about file-and-suspend and claim-now-claim-more-later, mistakes are being made – like trying to do certain things before full retirement age. Make sure you understand the rules before going down to your Social Security office.

The Senior Citizens' Freedom to Work Act of 2000 ushered in some subtle rules that baby boomers are now taking advantage of to receive a little extra income from Social Security.

One strategy is **file-and-suspend**, where the higher-earning spouse files for Social Security upon reaching full retirement age in order to entitle his spouse to her spousal benefit, and then immediately suspends his benefit in order to earn delayed credits to age 70.

The other strategy is **claim-now-claim-more-later**. This strategy turns the traditional way of claiming spousal benefits on its head by having the high-earning spouse claim HIS spousal benefit off the low-earning spouse's earnings record from age 66 to 70 while his own benefit builds delayed credits.

While these strategies are simple in theory, it is important to understand the nuances as they apply

to your individual situation. One or the other (or both) may be available to you, but it is critical to get the timing just right.

Here are corrections to some common misunderstandings.

**You can't claim a spousal benefit until your spouse has filed for his or her benefit.** This is a basic rule. Any spousal strategy, whether traditional or innovative, requires that the spouse on whose record the spousal benefit is based apply for his own benefit first. This means the spouse must sometimes wait. If Jack is only 64 when Jill wants to file for her spousal benefit, and if Jack wants to delay filing in order to earn maximum delayed credits, Jill has no choice but to wait until Jack is ready to file before starting her spousal benefit. However, she need not wait until Jack is 70. As soon as Jack turns full retirement age, he may file and suspend.

When to Apply for Social Security Benefits	<a href="#">Sample</a>	<a href="#">PDF</a>
Creative Social Security Claiming Strategies: Understanding the Nuances	<a href="#">Sample</a>	<a href="#">PDF</a>
Social Security as Longevity Insurance	<a href="#">Sample</a>	<a href="#">PDF</a>
Life Expectancy and Social Security	<a href="#">Sample</a>	<a href="#">PDF</a>
Will Working Longer Help, or Hinder Your Social Security Benefit?	<a href="#">Sample</a>	<a href="#">PDF</a>
3 Ways to Raise Your Social Security Benefits	<a href="#">Sample</a>	<a href="#">PDF</a>
Social Security Planning for Couples: Maximizing Survivor Benefits	<a href="#">Sample</a>	<a href="#">PDF</a>
Should Business Owners Put Spouses On Payroll?	<a href="#">Sample</a>	<a href="#">PDF</a>
Social Security Claiming Under the New Rules	<a href="#">Sample</a>	<a href="#">PDF</a>
6 Savvy Questions About Social Security (For COIs)	<a href="#">Sample</a>	<a href="#">PDF</a>
Social Security for Divorced Individuals	<a href="#">Sample</a>	<a href="#">PDF</a>
Social Security For Minor Children	<a href="#">Sample</a>	<a href="#">PDF</a>
Social Security for Widows	<a href="#">Sample</a>	<a href="#">PDF</a>

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**Virtual Workshop: February 22–25, 2021**

Deepen your understanding of the nuances, learn the range of claiming strategies, and build your base of Social Security and Medicare expertise.

- What does longevity mean for your clients? Working longer? Filing restricted? Helping dependents? Planning for widows?...
- SS and Medicare will continue to be critical topics in 2020 and beyond...
- Get up to speed on the growing and complex ways the two biggest retirement programs interact and impact retirees and pre-retirees...

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