

Social Security and Medicare News

A quarterly newsletter



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Social Security Benefits Strategies

Several provisions were passed in the **Senior Citizens' Freedom to Work Act of 2000** to assist workers and their spouses to collect more in their retirement years. These measures also intend to encourage people to work longer.

Worker claims and then suspends benefits

A worker that continues to work and has attained full retirement age (FRA), but is not yet age 70, can claim and then suspend their benefit payment in order to allow their spouse to collect a spouse's benefit and to earn delayed retirement credits (DRCs). A current spouse cannot claim a benefit on the worker's record until the worker has applied. The DRCs the worker earns will also increase the benefit payable to a widow(er)—the widow(er) benefit would automatically become the higher amount including the DRCs.

Claim spouse's benefit now, then switch to your own higher benefit later

A married person that has attained FRA can claim a spouse's benefit and then switch to a benefit based on their own work record at a later date. This allows a person to collect a spouse's benefit now while earning DRCs up to age 70 on their own work record. People that are younger than FRA are not allowed to do this.

For example, a husband and wife are both at FRA, age 66, and have covered Social Security earnings that entitle them each to a \$1,400 monthly benefit. The husband files for benefits. The wife can now claim a spouse's benefit of \$700 (50% of her husband's benefit) and continue working and contributing towards her own Social Security benefit. At age 70, she files for her own retirement benefit that has earned DRCs and is about \$1,900 a month. Her spouse benefit stops and her higher retirement benefit amount starts.



The Social Security program will begin having annual deficits in 2027... until assets are depleted in 2041.

Earnings limit for 2008

The earnings test for people who have attained full retirement age (FRA) was eliminated in 2000. Beneficiaries at FRA or older can continue to work and collect their full Social Security benefit without any reductions.

If you are under FRA throughout 2008, you can earn \$13,560. If your earnings exceed this, then \$1 of benefits is withheld for every \$2 you earn above \$13,560.

If you attain FRA in 2008, you can earn \$36,120 in the period before the month in which you attain FRA with no reduction in benefits. If your earnings exceed this, then \$1 in benefits is withheld for every \$3 you earn above \$36,120.

Social Security's Future

Many questions have been raised since the Board of Trustees for the Social Security trust funds released their 2008 report. The report indicates that the Social Security program will begin having annual deficits in 2027 when "baby boomers" are retired in large numbers until assets are depleted in 2041. At that time, benefits will be reduced unless changes are made. Here are some of the frequently asked questions and answers regarding the future of the Social Security program.

What should I do to financially plan for my retirement?

Social Security was not intended to be the only source of income when earnings are lost due to

retirement, disability, or death. The program is designed to encourage people to build additional financial protection through pensions, savings, investments, life insurance, and other sources.

Social Security is the largest source of income for the majority of people age 65 and over. More than nine out of ten people age 65 and older receive Social Security benefits. For 21% of these people, Social Security is their only source of income, and for 65%, it is more than half of their income.

As a retiree already receiving Social Security benefits, will my monthly payment be reduced?

There are no plans to reduce benefits for current retirees. Social Security benefits will continue to be increased each year based on the cost-of-living adjustment effective each December (payable in January). Even without any changes, current benefits are expected to be fully payable until 2041.

If I retire in 10 years, will my scheduled benefit shown in my annual Social Security Statement be what I get?

Most plans for reform preserve the current benefit structure for near-retirees. Near-retirees are typically people age 55 or older. However, the program is expected to fall short of promised benefits starting in 2041. The 2008 Trustees Reports indicates that only 78% of benefits will be payable then.

Without changes to the Social Security program, what can a person age 26 this year expect in retirement benefits?

Based on the 2008 Trustees Report, the benefit payable could be 22% less starting in 2041 and could continue to be reduced every year afterwards.

Will my Social Security disability be reduced?

The proposed reform plans do not reduce the current disability benefits. Changes will be necessary for future beneficiaries due to the shortfall expected to begin in 2041.

How much is in the Social Security trust fund?

The Social Security trust funds are managed by the Department of the Treasury. The funds assets were \$2.2 trillion at the end of 2007 – virtually all invested in special-issue U.S. government bonds. The Social Security program is financed primarily by payroll taxes (84%), interest on trust-fund assets (14%), and revenue from the federal income taxation of Social Security benefits (2%).

Why is there a big financial problem for Social Security?

Social Security's future challenges are due to the aging baby boomers, low fertility rates, and increasing life expectancies. The long-term financing problems will not affect current retirees and those nearing retirement for many years. With people living longer and lower birth rates, the beneficiary to worker ratio has

changed dramatically. Currently, there are 3.3 workers for each Social Security beneficiary. By 2032, there will be 2.1 workers for each beneficiary. This lower ratio indicates there will not be enough workers to pay scheduled benefits if no changes are made in the program.

What changes could fix the problem?

The Social Security program's financial crisis could be eliminated by implementing one or a combination of these basic alternatives. The quicker the problem is addressed the less severe the changes will have to be.

1. Increase the Social Security payroll tax immediately from 12.4% (6.2% each for employees and employers) to 14.10%.
2. Reduce all current and future benefits by about 12%.
3. Transfer funds from general revenues.
4. Use private savings accounts or direct investments for prefunding future benefits.
5. Gradually lift the maximum taxable earnings (\$102,000 in 2008) for the Social Security tax. This would affect a very small percentage of taxpayers.

Social Security's future challenges are caused by the aging population, lower birth rates and increasing life spans. The projected trust fund deficits should be addressed by Congress so any changes can be phased in gradually and allow adequate planning for future retirees. Timely legislative action will ensure that Social Security continues to protect future generations.



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Medicare Part B Premium

The Medicare Modernization Act of 2003 changed how Part B premiums are calculated for some high-income beneficiaries. This higher premium affects about 4-5 percent of Medicare beneficiaries, so most people will continue to pay the standard monthly premium. For beneficiaries affected by this law, here are the answers to some frequently asked questions.

What Do You Pay for Part B (Medical Insurance)?

The standard Part B premium is \$96.40 per month in 2008. In 2008, beneficiaries with higher incomes have to pay additional income-related Part B premiums, as shown in the table below. These income-related premiums are scheduled to rise again in 2009.

Annual income for most unmarried filing individual	Annual income for married filing jointly	2008 monthly Part B premium
0 to \$82,000	0 to \$164,000	\$ 96.40
over \$82,000 to \$102,000	over \$164,000 to \$204,000	\$122.20
over \$102,000 to \$153,000	over \$204,000 to \$306,000	\$160.90
over \$153,000 to \$205,000	over \$306,000 to \$410,000	\$199.70
over \$205,000	over \$410,000	\$238.40

How is the Part B premium collected?

The premium is deducted from your monthly Social Security benefit; otherwise, the government bills you quarterly in advance.

What tax year is used to determine my income?

In 2008, the income is generally based on your 2006 federal income tax return filing status and adjusted gross income. This information is acquired from the Internal Revenue Service.

What if my income has gone down due to marriage, divorce, or a spouse's death?

The Social Security Administration should be contacted in the event of a new marriage, divorce, or death of a spouse. You will need to provide proof of the event (certified document) and an estimate of your reduced income – for example, your 2007 tax return.

What is covered by Part B (Medical Insurance)?

Part B primarily covers physicians' services, most outpatient hospital services, and certain related services that Part A doesn't cover. Part B also covers some preventive services like exams, lab tests, and shots. Long-term nursing home care is not currently covered.

What is the Special Enrollment Period?

If you are eligible for Medicare at age 65 and have group health plan coverage based on your or your spouse's current employment (with an employer of 20 or more employees), you will normally not want to enroll in Part B until the employer plan coverage ends. You can enroll in Part B during your Special Enrollment Period at any time while still covered under the group plan or up to eight months after such coverage ends.

What if I enroll later than I should have?

If you enroll late, or if you drop out and enroll again, you may have to pay a higher premium. It is a permanent 10% premium increase for each full 12 months that you could have been, but were not, enrolled in Part B. However, in most cases, there is no premium surcharge when late enrollment occurs during a Special Enrollment Period.

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