Social Security, Medicare and Working Past 65

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Sure, everyone loves to talk about early retirement, but the reality is that many people work past the age of 65. According to the 2016 U.S. Bureau of Labor Statistics, 18.8% of Americans aged 65 and older reported being employed. The number has risen steadily since 2000 and now represents nearly nine million people, who may be seeking advice or guidance from their human resources departments on issues such as claiming Social Security and Medicare benefits. This article provides an overview of Social Security and Medicare benefits, claiming strategies and issues for consideration by those who continue working after the age of 65.

Social Security

Social Security is a vital source of guaranteed income in retirement. Unless individuals have a defined benefit pension through work or have purchased an annuity, this type of steady, monthly cash is not easy to come by. Many of the risks that concern retirement investors are not at play with Social Security income. The benefits are backed by the U.S. government and not affected by stock market moves. There is no risk of outliving these benefits, and a surviving spouse can continue to receive lifetime benefits after the primary claimant is gone, regardless of whether he or she worked and contributed to Social Security. Most importantly, regular cost-of-living adjustments (COLAs) help benefits keep pace with inflation.
Having a Social Security claiming strategy can add thousands of dollars to an individual’s guaranteed monthly lifetime income. Married couples, in particular, should pay attention to the timing of each spouse’s claim and take advantage of spousal as well as individual benefits as a way to maximize income. That’s why a Social Security strategy should be a part of every individual’s retirement income plan.

Assuming the claimant is eligible, Social Security provides a preset monthly retirement income payment that lasts for as long as the claimant lives. Generally, the longer a person works and the more he or she earns, the more he or she will receive from Social Security, so it makes sense for most people to wait until their “full retirement age” (or beyond) before starting benefits.

Claim Now or Wait?
Choosing when to claim is an individual decision, and there are certain circumstances under which it makes more sense to claim early. For example, those with health issues that shorten their life expectancy might want to claim as early as possible. Parents of disabled children may claim early in order to get benefits for a child. Or some claimants simply may need to get their hands on the money as soon as possible.

When Can Benefits Begin, and How Long Can a Start Date Be Postponed?
Barring disability or other extenuating circumstances, claimants may be eligible to begin taking Social Security benefits at the age of 62. But should they? That is an important question for their future financial security.

As shown in Table I, there is a big difference between the benefits paid to someone who takes Social Security early and benefits paid to those who wait until normal retirement age or until 70.

A person who starts receiving Social Security benefits at 62 would forfeit as much as $788 per month compared with the benefits he or she would have received at the age of 66 and as much as $1,696 per month compared with starting at the age of 70.

Many people also fail to take into account one very important factor when calculating the breakeven point for taking a reduced benefit or waiting. Unlike other forms of fixed retirement income, Social Security frequently applies a COLA increase to the monthly benefit. If a person fails to take into account the COLA of, say, 2%, the breakeven period will be off. COLAs also affect when a person reaches a breakeven point in total dollars received from Social Security.

Using the example in the table, with a 2% COLA for ten years, the difference in monthly payments for a person who waited until full retirement age would balloon from $788 per month in year one to $960 in ten years. For the individual who could wait until the age of 70 to begin drawing Social Security, the difference increases from $1,696 per month to $2,066 assuming ten years of COLAs.

All claimants should begin Social Security benefits by the age of 70, because delaying longer will not increase the benefit.

How Can One Determine the Benefit Percentages That Apply to an Age Group?
The Social Security website (www.ssa.gov) has a calculator to determine...
what a person’s full retirement age is based on birth year. The site also has a delayed retirement credits planner showing credits beyond the full retirement age. Social Security sends a personalized letter showing estimated benefits at different starting ages to those eligible about four months before their birthday each year.

What Benefits Are Available for Spouses?

A spouse may be eligible for a benefit of as much as half of the worker’s benefit depending on the spouse’s age at retirement. (See the calculator at www.ssa.gov for spousal benefit percentages.) If a spouse is eligible for a benefit based on his or her own earnings, and that amount is higher than the spousal benefit, Social Security pays the retirement benefit. Otherwise Social Security pays the spousal benefit. (A 2015 change in the law eliminated some spousal benefit claiming strategies for those born on or after January 2, 1954.)

Benefits for the Divorced or Widowed

People who are divorced or widowed and were married for at least ten years may have the opportunity to claim benefits on an ex-spouse’s record, even in cases in which the ex-spouse has remarried. For example, a woman claiming spousal benefits on her ex-husband’s record must be unmarried and aged 62 or older, and the benefit she is entitled to receive through her own record is less than the benefit she would receive based on her ex-spouse’s work.

If she claims at full retirement age, the benefit will be equal to one-half of her former husband’s retirement benefit amount. Her benefits would not include any delayed retirement credits that her ex-husband may have received. The amount of benefits she receives has no effect on the amount her ex-husband and/or his current spouse receives.²

Surviving spouses also are entitled to receive benefits on a former spouse’s record. Surviving spouses can claim as early as the age of 60 for reduced benefits or receive full benefits at full retirement age. If the widowed spouse remarries after the age of 60, there is no impact on survivor benefit eligibility.³ Children younger than 18 or who have a disability also should qualify to receive survivor benefits.⁴

Are Social Security Benefits Taxed?

Yes, they are combined with other income sources and, depending on the recipient’s overall income, as much as 85% of the Social Security benefit may be taxable. Even though income tax does apply, other taxes such as FICA do not.

Can a Person Begin Benefits While Still Working?

Yes, and the age-based benefits are not affected by continued employment. However, the tax implications of beginning benefits while still receiving a salary should be considered. Determining the best time to claim benefits is a decision that includes assessing future needs, current financial factors and retirement plans. The Social Security Administration’s website is filled with information. The claiming strategy basics in Table II also may be a good place to start.

Medicare

The original Medicare was signed into law in 1965 and had two parts: Part A, which is broadly for inpatient hospital care, and Part B, which is generally for physician and office expenses. Part C, which is loosely called Medicare Advantage plans, was added later and allows private insurers to provide additional coverage beyond original Medicare. Part D was added in 2006 and provides the framework for private insurers to cover prescription drugs. Some Medicare Advantage plans include drug coverage.

Let’s go a little deeper on Medicare by looking at some common questions.
Do People Who Work Past 65 and Have Health Insurance Coverage Though Their Employer Need to Sign Up for Any Parts of Medicare?

No, people in this scenario are not required to sign up for any parts of Medicare. However, most people at this stage of their working career can get Part A at no cost. As a result, many choose to sign up for Part A and can do so online at www.medicare.gov or by visiting a Social Security office. (Note: This is not a typo. People sign up for Medicare by going to the Social Security office.)

One nuance of this situation is for those who have health savings accounts (HSAs) and want to continue to fund their HSAs. People can use HSA funds for Medicare expenses; however, they cannot continue to fund an HSA after signing up for any parts of Medicare. So those who feel strongly about continuing to fund an HSA should not sign up for Medicare Part A.

How Will the Coverage Work for Working People Who Sign Up for Medicare Part A?

The answer to this one depends on the size of the employer. The group health plan generally is the primary payer...
if the group plan has more than 20 employees. If the group plan has fewer than 20 employees, Medicare generally pays first.

**Is the Prescription Drug Certificate of Credible Coverage Important?**

Yes. Medicare prescription drugs are covered through Medicare Part D. This certificate verifies that a person working past the age of 65 was in a plan with actuarially sufficient prescription drug coverage. Those without this certificate could pay a Part D penalty, which is 1% of the Part D premium as established on a national basis by Medicare for each month past the age of 65 that the person did not have prescription drug coverage. Individuals must pay this penalty for as long as they have Part D coverage. Obviously, this penalty can add up to be a large amount of money over time. While most group plans fulfill this credible coverage requirement, employers should confirm this with their insurance carrier or administrator.

**What Steps Should Those Who Have Worked Past 65 Take With Medicare if They Will Stop Receiving Employer-Sponsored Health Insurance? Will They Pay Any Penalties?**

Plan participants working past the age of 65 technically have eight months from the date they come off of the group plan to sign up for Medicare. However, from a practical perspective, it is best to notify the Social Security office a few months before coming off of the group plan to facilitate the transition to Medicare.

Given that most people in this situation already are on Medicare Part A, they are actually just adding Medicare Part B at this time. However, if they fail to do this in a timely manner, they can end up with Part B penalties that are similar to the Part D penalty. Once a person has Part B coverage, he or she can shop the market for a Medicare supplemental plan, a Medicare Advantage plan or a Medicare cost plan. The person will also need a Part D plan unless he or she chooses a Medicare Advantage plan that includes drug coverage. Coverage varies across the country.

**The Role of Human Resources in Managing This Information**

It is important for HR professionals to understand the ramifications of Social Security and Medicare for people who work past 65. However, what is done with this information varies widely from company to company. Some HR departments guide employees who work past 65 every step of the way. Others have minimal involvement and direct these workers to outside resources. Ultimately, the approach needs to fit the company’s overall philosophy and objectives with respect to how it educates and guides employees and soon-to-be retirees in finding the appropriate solution for their situation.

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**Endnotes**

1. Beginning with people born in 1938 or later, the full retirement age gradually increases from 65 until it reaches 67 for people born after 1959.