MEDICARE AND SOCIAL SECURITY

Understanding the A-B-Cs and 1-2-3s for Your Clients

Why it could make sense for your clients to say "no" (for now) to Social Security.

Trying to help your clients decide the right time to apply for Social Security benefits? If you knew they were going to pass away at 65, you would certainly recommend they apply the minute they hit 62. But find out your client is going to beat the family record and live to 98 and your recommendation would likely be they wait until age 70 to optimize their benefits.

Unfortunately, accurate predictions of the future are in short supply so advisors have to make some educated guesses about when to recommend clients apply for Social Security.

"You're trying to hedge the 'what ifs,'" said Cindi Hill, CFP®, CRPC®, a retirement solutions consultant with CUNA Brokerage Services. "Although there are certainly no guarantees, we've found that unless a client's circumstances dictate otherwise, it can be a good idea to delay benefits as long as possible."

There are four things to keep in mind when making this decision.

Those who apply for benefits early face a lifetime penalty.

Although each client's circumstances will dictate the appropriate time to apply for Social Security, they must understand that application before full retirement age (FRA) will lead to a lifetime penalty. As the graphic at right shows, that could be $500 less a month, for the rest of the client's life. This amount doesn't increase at FRA. It would only go up if there was a cost of living adjustment (COLA).

Wait past retirement age and earn more.

On the flip slide, those who wait until they're past their FRA to apply will earn delayed credits, which increases their benefits by 8% per year. These delayed credits can be earned until age 70. "At age 70, the monthly benefit of $2640 would be 76% greater than it would for a client who applied at age 62 and received $1500 a month," Hill said.

Delaying until 70 can have big financial benefits.

A long-lived client can see big rewards for themselves and their spouse if they wait until age 70 to collect. For instance, in the example at right, which assumes that Bob lives to 85 and Betty lives to 90, they will see a total benefit that's $55,680 more than they would have received at age 66. And this doesn't include a COLA. If we assumed a 2.7% COLA, which is the inflation rate used by the Social Security Administration for long-term projections, the difference between the two strategies jumps to $126,646.

EARLY RETIREMENT

START AGE	PERCENTAGE APPLIED TO PIA	REDUCED LIFETIME BENEFIT
62	75.0%	$1,500
63	80.0%	$1,600
64	86.7%	$1,734
65	93.3%	$1,866
66	100.0%	$2,000

DELAYED RETIREMENT CREDITS

START AGE	PERCENTAGE APPLIED TO PIA	REDUCED LIFETIME BENEFIT
66	100%	$2,000
67	108%	$2,160
68	116%	$2,320
69	124%	$2,480
70	132%	$2,640

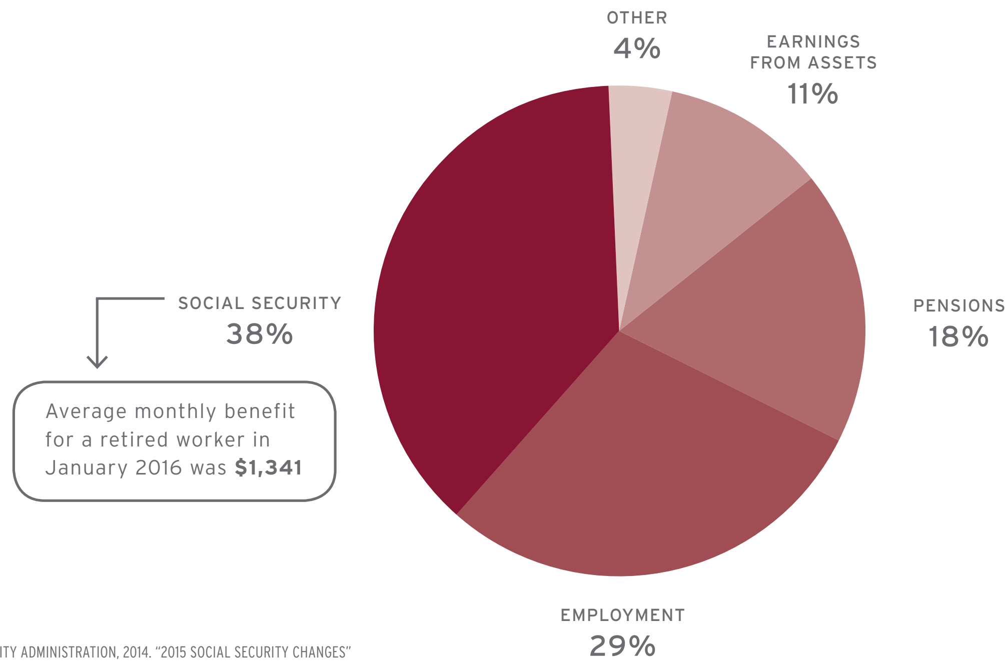
IF BOTH CLAIM AT 66	IF BOB WAITS UNTIL 70
Bob claims his full retirement age PIA of $2,000 at 66	Because Bob waited until 70 to claim his benefit, he's earned delayed retirement credits that increase his PIA to $2,640
Betty has her own PIA of $800, but begins the higher $1,000 spousal benefit at age 66 based on Bob's benefit.	With Bob waiting until 70, Betty begins receiving her own benefit of $800 at age 66. At 70, Betty will receive the higher spousal benefit of $1,000.
At 66, Bob and Betty have a combined payment of $3,000–at end of retirement*, they will have received a total of $840,000**	At 70, their combined payment is now $3,640–at end of retirement*, they will have received a total of $895,680**

* ASSUMES BOB LIVES TO 85 AND BETTY LIVES TO 90.
** ASSUMES NO COST-OF-LIVING ADJUSTMENTS (COLAs)

Clients will have to fund their own retirement until they apply for Social Security.

Until a client applies for Social Security, they will have to fund their own retirement, which might not be a possibility for many. According to research from the Social Security Administration, on average, Social Security payments make up 38% of a retiree's income sources and are the largest source of income in retirement.

AVERAGE MONTHLY INCOME PERCENTAGE FOR A RETIRED WORKER BY SOURCE



SOURCE: SOCIAL SECURITY ADMINISTRATION, 2014. "2015 SOCIAL SECURITY CHANGES"

What's the right decision for your clients? Financial planning tools can help you find out.

Although it's impossible to know exactly when to apply for Social Security, financial planning tools can offer some insights. "These allow financial advisors to analyze a variety of possible scenarios and we highly recommend using them," Hill said. "For instance, MoneyGuidePro® * has some good tools for estimating expenses in retirement."

ILLUSTRATION

Health Care Expenses in Retirement (SMART Goal)

Enter the following information.

Description: Health Care

Modified Adjusted Gross Income (MAGI)

The premiums you pay for Medicare Part B (medical insurance) and Part D (prescription drug coverage) are dependent on your MAGI, which is the total of your adjusted gross income and tax-exempt interest income. (See ssa.gov or SSA Publication No. 05-10536 for more information.)

Select your estimated MAGI in retirement: Up to $170,000

Health Care Cost Schedule

Period	Description	Bob						Betty						Annual Total
		Private Insurance Prior to Medicare	Medicare Part B	Medicare Part D	Medigap Policy	Out-of-Pocket	Bob Total	Private Insurance Prior to Medicare	Medicare Part B	Medicare Part D	Medigap Policy	Out-of-Pocket	Betty Total	
2015 - 2038	Both Medicare	$0	$1,259	$701	$2,100	$1,860	$5,920	$0	$1,259	$701	$2,056	$1,860	$5,876	$11,796
2039 - 2041	Betty Alone Medicare	$0	$0	$0	$0	$0	$0	$0	$1,259	$701	$2,056	$1,860	$5,876	$5,876
Total Lifetime Cost of Health Care (in current dollars)		$142,075						$158,647						

*MoneyGuide Pro is currently available from CUNA Brokerage Services for use at credit unions.