Navigating Medicare and Social Security Choices

Baby boomers born between 1943 and 1954 are faced with a developing problem of an unanticipated one-year income gap. Medicare benefits still start at age 65. Part A (inpatient hospital, skilled nursing facility, and some home health care) is premium- free for couples, one of whom has worked 40 quarters or more, and part B (physician services, outpatient hospital services, certain home health services, durable medical equipment) is optional at $96.40 a month. However, full Social Security benefits don't start until age 66. Traditionally, premiums for Medicare were deducted from social security benefits before the recipient ever saw the net Social Security benefit. If you elect to pay the medicare premiums for a year (at age 65) before you receive social security benefits (at age 66 or later), the expense will be out-of-pocket rather than deducted from current social security receipts.

In a climate where many seniors are unemployed or facing early retirement, this can be an expense that was not planned for. Far more expensive than the $1,156.80 annual Medicare Part B premium is the secondary insurance premium. Whether employer-sponsored or paid individually, medicare supplemental insurance is necessary to cover the 20% of a Medicare approved amount that is not actually paid by Medicare. You can either choose to pay the premiums for the secondary insurance, or choose to self-insure by paying the 20% of the bill out-of-pocket. Both expenses can be significant depending on your health care needs.

Of course, a person can always apply a year early for Social Security benefits and take the actuarial penalty. This choice is very individualized and based upon factors such as health, the amount of benefits to be received, the health of your spouse, and financial need. Future health and financial status are unknown and trying to guess whether more total dollars are received over a lifetime by taking a smaller amount earlier versus a longer amount later is a gamble at best.

The trade-off involved in electing to take Social Security benefits at an earlier age is illustrated as follows: if an individual would get $1,000 per month at age 62, that amount would increase to $1,333 per month if he or she waited until age 66 to receive benefits (even without further earnings after age 62). Furthermore, the monthly benefit would increase to $1,760 if payments started at age 70. There is no benefit to waiting beyond age 70.

Married couples should plan to try to maximize their joint benefits. If both spouses worked more than 40 quarters, each spouse can start collecting independently at age 62 or later. Each spouse may choose to collect on their own account or to collect one-half of the spouse's account, whichever is greater. One social security benefit strategy is known as "claim now, claim more later." One spouse claims at normal full retirement, and the second spouse claims one half of that amount, postponing claiming on their own account. Then at age 70, the second spouse switches the claim to start receiving a full retirement amount from his or her own benefit account as though no prior payments were received.

If only one spouse contributed to Social Security for 40 quarters (referred to here as the "working spouse"), the second spouse (or "non-working spouse") is entitled to a minimum of half of the benefit of the working spouse. However, the working spouse has to file to collect before the non-working spouse can start getting half of the benefit. This can be troublesome if the non-working spouse is the older of the two.

A possible planning strategy is to “file and suspend.” The younger, working spouse can file for benefits, thus allowing the other spouse to start collecting half benefits. Then the working spouse can suspend payments immediately. By postponing the start of payments, the amount eventually paid to the higher earning spouse will be the same as if he or she had not filed for benefits until the payment suspension is lifted. This gets payments started (at half benefit) for the older spouse at 66 while the younger spouse may wait for full payment at 66.

If current income is not an issue for a couple, some might consider a “borrow and invest” strategy. Benefits could be collected as early as age 62 and then invested for the long term. At age 70, the benefits could be paid back to Social Security (without interest and without inflation adjustment) by filing Form 521 with the Social Security Administration. At age 70, benefits could be re-elected on the full balance of the taxpayer’s account as if nothing was received until age 70. The benefit would be the interest and appreciation net of income taxes and any capital gains tax on liquidation of the investment.

Developing a strategy to pay for Medicare and secondary insurance premiums and to maximize Social Security benefits must take into account personal health and financial circumstances. Consult a professional to help you analyze your situation and navigate the maze.