

Medicare, Social Security and Retirement

Paula McMillan,
CFP®, CPA, PFS, CGMA
Wealth Advisor
Stearns Financial Group
pmcmillan@stearnsfinancial.com



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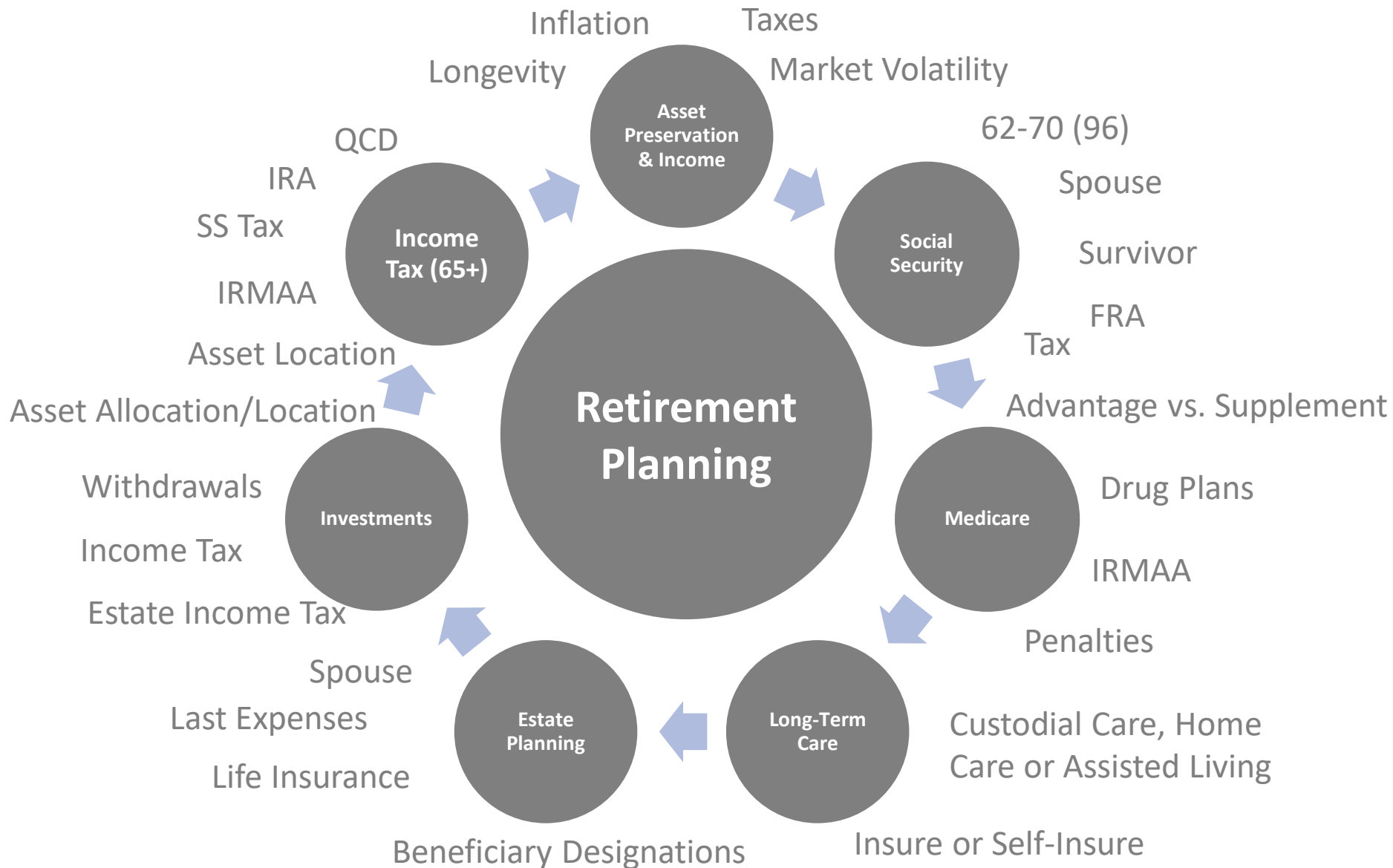
Financial Advisor helping clients with financial life planning and investment management needs in support of their desired lifestyle and goal attainment.

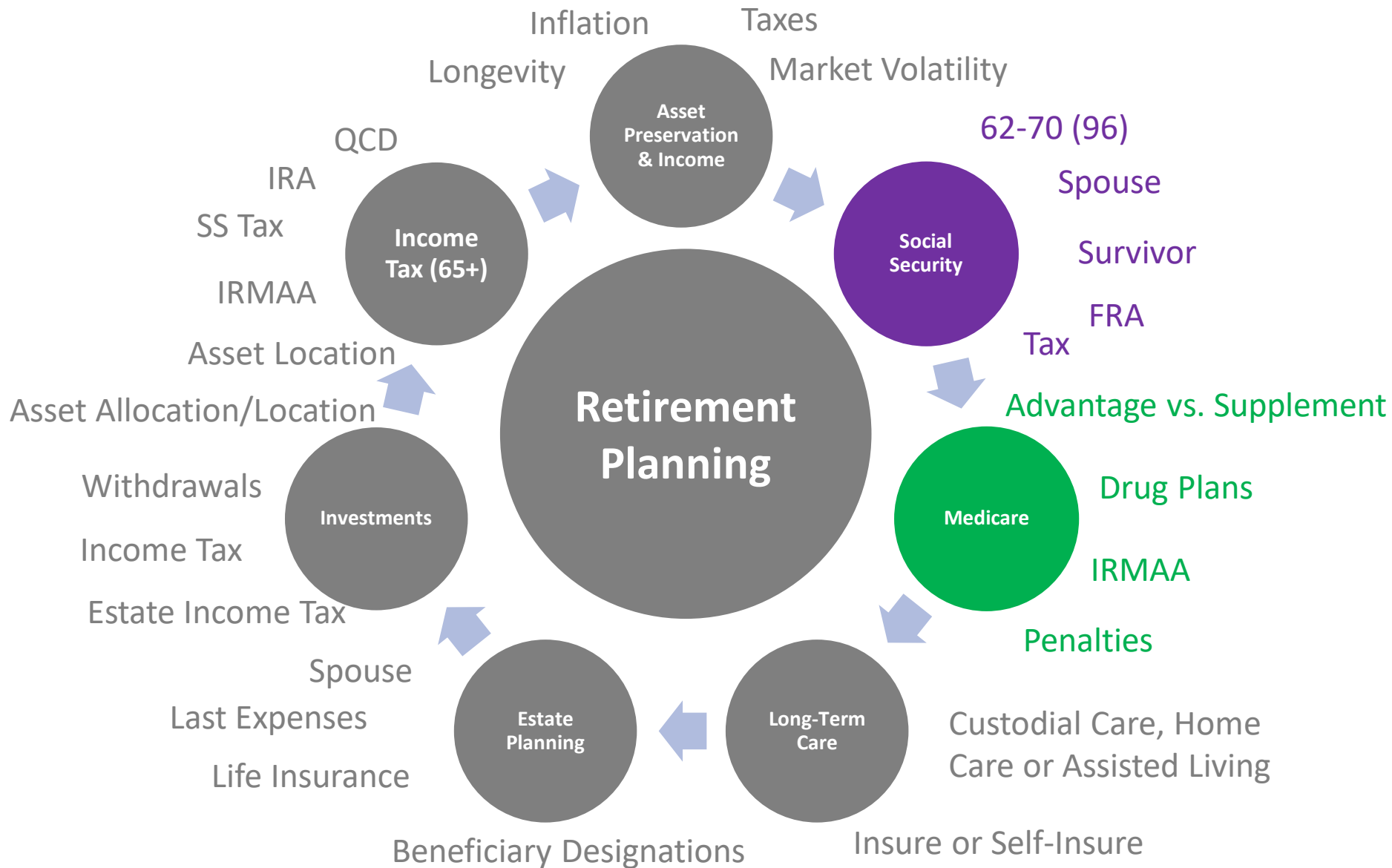
- Published and quoted in CNBC, US News & World Report, Kiplinger's, The AICPA Tax Adviser, AICPA Journal of Accountancy, The Business Journal, How Stuff Works and more.
- TEDx presenter on the topic of Retirement: Longevity and Security
- Creator of two national AICPA podcast series on retirement planning and women and wealth



- AICPA Advanced Personal Financial Planning Conference Investment Committee Lead
- Greensboro Estate Planning Council Board Member
- Society of Financial Service Professionals (SFSP) Board Member
- Society of Financial Service Professionals (SFSP) Foundation Board Chair
- NCACPA Triad Women's Initiatives Group Chair
- Plenteous Financial Forum Chair and Founder

pmcmillan@stearnsfinancial.com/336.337.9507





Baby Boomers Want to Know:

1. Will Social Security be there for me?
2. How much can I expect to receive?
3. When should I apply for Social Security?
4. How can I maximize my benefits?
5. Will Social Security be enough to live on in retirement?



Illustration Source: Horsesmouth

Full Retirement Age (FRA)

| Year of Birth | Full Retirement Age |
|----------------|---------------------|
| 1943–54 | 66 |
| 1955 | 66 and 2 months |
| 1956 | 66 and 4 months |
| 1957 | 66 and 6 months |
| 1958 | 66 and 8 months |
| 1959 | 66 and 10 months |
| 1960 and later | 67 |

Illustrative purposes only.

What if You Apply for Early Benefits?

You will receive a percentage of your PIA

| Apply at age | If FRA = 66 | If FRA = 67 |
|--------------|-------------|-------------|
| 62 | 75.0% | 70% |
| 63 | 80.0% | 75% |
| 64 | 86.7% | 80% |
| 65 | 93.3% | 86.7% |
| 66 | 100% | 93.3% |
| 67 | | 100% |

Illustrative purposes only.

What if You Apply for Delayed Benefits (After FRA)?

You will earn 8% annual delayed credits

| Apply at age | Benefit will be a % of PIA if FRA = 66 | Benefit will be a % of PIA if FRA = 67 |
|--------------|--|--|
| 66 | 100% | 93.3% |
| 67 | 108% | 100% |
| 68 | 116% | 108% |
| 69 | 124% | 116% |
| 70 | 132% | 124% |

Illustrative purposes only.

Baby Boomer Social
Security

QUESTION #3

When
Should I
Apply for
Social
Security?

ANSWER DEPENDS ON:

- 1 Health Status
- 2 Life Expectancy
- 3 Need for Income
- 4 Whether or Not You Plan to Work
- 5 Survivor Needs

Baby Boomer Social
Security

QUESTION #4

How Can I
Maximize
My
Benefits?

ANSWER:

- 1 Improve your earnings record
- 2 Delay the start of benefits
- 3 Take advantage of spousal and survivor benefits
- 4 Minimize taxes on benefits
- 5 Coordinate Social Security with overall retirement income plan

Impact of Continued Earnings

| | Age 67 benefit | Monthly income at 85 (today's dollars) | Monthly income at 85 with 2% COLAs | Cumulative benefits at 85 (today's dollars) | Cumulative benefits at 85 with 2% COLAs |
|----------------------------|----------------|--|------------------------------------|---|---|
| Stops working at 60 | \$2,000 | \$2,000 | \$2,856 | \$456,000 | \$548,173 |
| Keeps working until age 67 | \$2,551 | \$2,551 | \$3,643 | \$581,628 | \$699,195 |

1 Improve your earnings record

Illustrative purposes only.

Impact of Delaying Benefits

| PIA = \$3,000 FRA = 67 | Starting benefit | Monthly income at 85* (today's dollars) | Monthly income at 85* with 2% COLAs | Cumulative benefits at 85 (today's dollars) | Cumulative benefits at 85 with 2% COLAs* |
|------------------------------|------------------|---|-------------------------------------|---|--|
| Claims Social Security at 62 | \$2,100 | \$2,100 | \$3,311 | \$604,800 | \$766,631 |
| Claims Social Security at 67 | \$3,000 | \$3,000 | \$4,731 | \$755,191 | \$907,842 |
| Claims Social Security at 70 | \$3,720 | \$3,720 | \$5,866 | \$836,846 | \$974,888 |

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Delay the start of benefits

*** If Michael dies before age 85, this will be the amount of his wife's survivor benefit**

Illustrative purposes only.

Why Delay Benefits?

Bigger checks at start

Illustrative purposes only.

| Age at which benefits are claimed | % of PIA if FRA = 67 | Benefit without COLAs (\$) | Benefit with COLAs (\$) |
|-----------------------------------|----------------------|----------------------------|-------------------------|
| 62 | 70.00 | 2,100 | 2,100 |
| 63 | 75.00 | 2,250 | 2,295 |
| 64 | 80.00 | 2,400 | 2,497 |
| 65 | 86.67 | 2,600 | 2,759 |
| 66 | 93.33 | 2,810 | 3,042 |
| 67 | 100.00 | 3,000 | 3,312 |
| 68 | 108.00 | 3,240 | 3,649 |
| 69 | 116.00 | 3,480 | 3,997 |
| 70 | 124.00 | 3,720 | 4,359 |

Assumes PIA = \$3,000 and 2% annual COLAs from age 62

Why Delay Benefits?

More income later on

| Benefit at age | If claim at 62 | If claim at 67 | If claim at 70 |
|----------------|----------------|----------------|----------------|
| 70 | \$2,460 | \$3,515 | \$4,359 |
| 75 | \$2,717 | \$3,881 | \$4,812 |
| 80 | \$2,999 | \$4,285 | \$5,313 |
| 85 | \$3,311 | \$4,731 | \$5,866 |
| 90 | \$3,656 | \$5,223 | \$6,477 |
| 95 | \$4,037 | \$5,767 | \$7,151 |
| 100 | \$4,457 | \$6,367 | \$7,895 |

Assumes FRA is 67, PIA = \$3,000 and 2% annual COLAs from age 62

Illustrative purposes only.

STRATEGY #3

for maximizing your benefits

Take Advantage of Spousal and Survivor Benefits

Consider the following strategies:

- ▶ Married couples take advantage of spousal benefits as allowed
- ▶ Divorced spouses claim on former spouse's record if eligible
- ▶ Widow(er)s coordinate survivor and retirement benefits

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Take advantage of spousal and survivor benefits

Spousal Planning Analysis

Considerations/Assumptions for Bob and Betty:

- Age
- Primary insurance amount (PIA)?
- Life expectancy?
- Annual cost-of-living adjustments?

Compare Scenarios for Bob and Betty:

- Claim as soon as possible
- Claim at full retirement age
- One claims early while the other claims later
- Maximum benefit based on projected life expectancies



3

Take advantage of spousal and survivor benefits

Spousal Planning Analysis



Results Analysis:

- What are the lifetime benefits for each claiming scenario?
- What is the impact of delaying the higher earner's benefit?
- At what age do benefits break even? How does this age compare with Bob and Betty's thoughts on their likely life expectancy?

3

Take advantage of spousal and survivor benefits

STRATEGY #3

for maximizing your benefits

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3

Take advantage of spousal and survivor benefits

Divorced- Spouse Benefits

Same as spousal benefits if:

- ▶ Marriage lasted 10 years or more
- ▶ Person receiving divorced-spouse benefit is currently unmarried
- ▶ The ex-spouse is at least age 62
- ▶ If divorce was more than two years ago ex-spouse does not need to have filed for benefits



Illustration Source: Hoursemouth

Survivor Benefits

Survivor benefit will depend on:

- ▶ **The age at which the deceased spouse originally claimed his benefit (the “original benefit”)**
 - If deceased claimed before FRA, survivor benefit will be limited to the higher of the deceased spouse’s benefit or 82.5% of his PIA
 - If deceased claimed after FRA, the survivor benefit will include delayed credits
- ▶ **The age at which the widow claims the survivor benefit (the “actual benefit”)**
 - If survivor claims before FRA, the survivor benefit will be a fraction of the original benefit (e.g., 71.5% of PIA if claimed at 60)
 - If survivor claims at FRA or later, the survivor benefit will equal 100% of the original benefit

Rules for Survivor Benefits

- ▶ Couple must have been married at least 9 months at date of death (except in case of accident).
- ▶ Survivor must be at least 60 for reduced benefit (50 if disabled), or FRA for full benefit.
- ▶ Survivor benefit not available if widow(er) remarries before age 60 (or 50 for disabled survivor), unless that marriage ends.
- ▶ Divorced-spouse survivor benefit available if the marriage lasted at least 10 years.



Illustration Source: Hoursmouth

Consider:



Personal
Assets,
Annuities,
Pensions
and Other
Cash Flow



Retirement
Accounts
(including
RMDs),
Investment
Portfolio



Earnings
from Work

Earning Limit: if you're under full retirement age, the annual earnings limit is \$19,560. If you will reach full retirement age in 2022, the limit on your earnings for the months before full retirement age is \$51,960.

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Coordinate Social Security with overall retirement income plan

STRATEGY #5

for maximizing your benefits

Coordinate Social Security With Overall Retirement Income Plan

THE TAX
ADVISER®



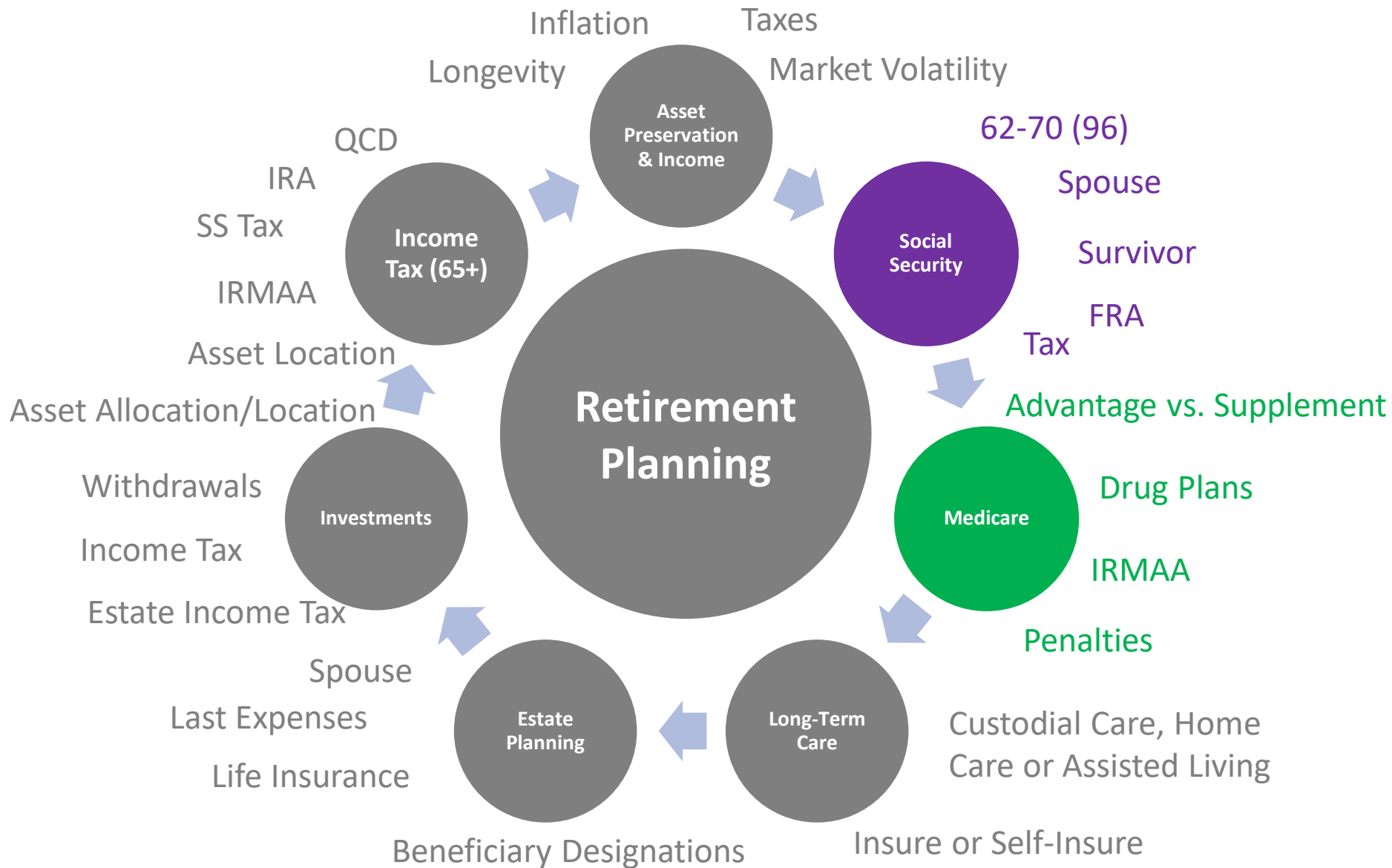
Top Seven Mistakes When Claiming Social Security Benefits

By Paula S. McMillan, CPA/PFS, CFP®, CGMA

Wealth Management Advisor, Stearns Financial Group

pmcmillan@stearnsfinancial.com/336.337.9507

At a recent AICPA conference, three CPA tax practitioners, including the author, engaged in a conversation about client services, noting in particular that all were fielding more questions from clients about timing strategies for claiming Social Security retirement benefits. Two of the CPAs heartily offered that they always advise clients to begin claiming benefits as early as possible — age 62.



Who Pays for Health Care in the U.S.?

Before age 65

- ▶ Employer group health insurance
- ▶ Retiree health insurance
- ▶ COBRA
- ▶ Individual health insurance
- ▶ Other

After age 65

- ▶ Medicare pays first
(except employer group plans that cover 20 or more employees if you or spouse is still working)
- ▶ Other insurance pays second



Illustration Source: Hoursmouth

What if You Don't Enroll in Medicare on Time?

- ▶ You may pay late-enrollment penalties.
- ▶ Your health care expenses may not be covered by insurance.
- ▶ Your private insurance options may be limited.

Medicare Options

Original / Traditional Medicare

Part A (Hospital)

Inpatient care, hospice care, and home health care.

Part B (Doctor)

Services from doctors/health care providers, outpatient care, home health care, durable medical equipment, and preventive services.

Part D (Drugs)

Covers cost of prescription drugs.

Supplemental Insurance

Private company insurance that helps pay the out-of-pocket cost of Original Medicare. Policies are standardized (the same no matter which insurance company sells it), and in most states named by letters, like Plan G or Plan N.

Advantage Medicare

Medicare Advantage is a Medicare-approved plan from a private company that offers an alternative to Original Medicare for your health and drug coverage. These “bundled” plans include Part A, Part B, and usually Part D.

In most cases, you’ll need to use doctors who are in the plan’s network.

Plans may have lower out-of-pocket costs than Original Medicare.

Plans may offer some extra benefits that Original Medicare doesn’t cover — like vision, hearing, and dental services.

When/How Do You Enroll in Medicare?

- **Initial enrollment period:**

- From 3 months before your age 65 birthday month to 3 months after:
 - Enroll in A unless you are in a 20+ employee “creditable” group health plan where you want to continue HSA contributions.
 - Enroll in B if not in a 20+ employee “creditable” group health plan, such as those:
 - Employed by a company with <20 employees
 - Not working
 - Self-employed
 - On COBRA
 - Receiving retiree health benefits
 - Employed by a company whose health plan is less comprehensive than Medicare
- ▶ Best time to sign up:
3 months before 65th birthday
- ▶ Coverage starts 1st of month turn 65

When/How Do You Enroll in Medicare?

- **Special enrollment period:**

- If you or spouse are covered by a group plan at 65 for 20+ people with “creditable” coverage.
 - Post coverage, 8 months to enroll in B and 63 days to enroll in D
-
- ▶ Best time to sign up: Before coverage ends
 - ▶ Coverage starts first of month of enrollment (if enroll no later than month after coverage ends) or first of month following enrollment if later

When/How Do You Enroll in Medicare?

- **General enrollment period:**
 - If you missed your initial or special enrollment period
 - General Enrollment Period / 1/1-3/31 – For everyone over 65 who missed the initial enrollment period or people currently enrolled in a Medicare Advantage Plan. Coverage starts 7/1.
 - Medicare Open Enrollment/Annual Enrollment Period/Fall Open Enrollment– 10/15-12/7 - Anyone who has Medicare can make changes for the upcoming year. (Note: You can change your Medicare Supplement Plan anytime. Just be aware that you might have to answer medical questions if you're outside your 6-month period that starts the first day of the month you're 65 or older and enrolled in Part B.)

Out-of-Pocket Costs Paid by Medicare Beneficiaries

- ▶ **Premiums**
 - Part B premiums paid to Medicare
 - Private insurance premiums for
 - Part D drug plan plus Medigap policy or
 - Medicare Advantage plan
- ▶ **Other out-of-pocket costs**
 - Deductibles
 - Portion of doctor bills not paid by Medicare
 - Services not covered by Medicare

Monthly Premiums

PART
A

Paid to Medicare

- ▶ \$0 if self or spouse paid into Social Security \geq 40 quarters (10 years)
- ▶ \$274/mo. if 30-39 quarters SS
- ▶ \$499/mo. if $<$ 30 quarters SS

PART
B

Paid to Medicare

- ▶ \$170.10/mo. in 2022
- ▶ Plus income-related adjustment if applicable

PART
D

Paid to Private Insurer

- ▶ Varies with plan
- ▶ Plus income related adjustment paid to Medicare if applicable

Source: <https://www.medicare.gov/your-medicare-costs/medicare-costs-at-a-glance>

Monthly Premiums for Parts B & D Including Income Related 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 |
|-----------------------|------------------------|--------------------------------|---|--|--|--|---------------------------|
| ≤ \$91,000 | ≤ \$182,000 | ≤ \$91,000 | \$170.10 | \$0.00 | \$40.00 | \$0.00 | \$210.10 |
| \$91,001 – \$114,000 | \$182,001 – \$228,000 | | \$170.10 | \$68.00 | \$40.00 | \$12.40 | \$290.50 |
| \$114,001 – \$142,000 | \$228,001 – \$284,000 | | \$170.10 | \$170.10 | \$40.00 | \$32.10 | \$412.30 |
| \$142,001 – \$170,000 | \$284,001 – \$340,000 | | \$170.10 | \$272.20 | \$40.00 | \$51.70 | \$534.00 |
| \$170,001 – \$499,999 | >\$340,001 – \$749,999 | \$91,001 – \$408,999 | \$170.10 | \$374.20 | \$40.00 | \$71.30 | \$655.60 |
| ≥\$500,000 | ≥\$750,000 | ≥\$409,000 | \$170.10 | \$408.20 | \$40.00 | \$77.90 | \$696.20 |

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

Source: <https://www.medicare.gov/your-medicare-costs/medicare-costs-at-a-glance>

Deductibles (Amount You Pay)

PART
A

\$1,556

per spell of illness

PART
B

\$233

per year

PART
D

\$480

per year

- ▶ Waived for some preventive services such as flu shots, some mammograms and Pap smears, bone mass tests, prostate screening, diabetes tests, some others

Source: <https://www.medicare.gov/your-medicare-costs/medicare-costs-at-a-glance>

Coinsurance (Amount You Pay)



HOSPITAL:

\$389

for days 61–90

\$778

for days 91–150

SKILLED NURSING:

\$194.50

for days 21–100



ASSIGNED CLAIMS:

20%

of Medicare approved rate

UNASSIGNED CLAIMS:

20%

of approved rate + balance of actual charge up to an additional 15% of the approved charge

Source: <https://www.medicare.gov/your-medicare-costs/medicare-costs-at-a-glance>

Part D Coinsurance

Medicare's standard benefit design; individual plans vary and may pay more

- ▶ Under standard drug plan design, beneficiary pays:

\$480

deductible

25%

of drug costs after deductible has been paid to retail costs of \$4,330

Small copayment

once out-of-pocket spending has reached \$7,050

- ▶ **But...drug plans vary widely**
 - Some will pay more
 - It will be important to find a plan that covers the drugs YOU take

Source: <https://www.medicare.gov/your-medicare-costs/medicare-costs-at-a-glance>

What Medicare Covers



Hospital
100% of first 60
days



Medical services
(doctor visits,
outpatient services)
80% of Medicare-
approved amount



Some
preventive
services
(flu shots, certain
screenings)



Illustration Source: Hoursmouth

See “Medicare & You” for complete list of covered services.
Call 800-633-4227 or go to www.medicare.gov.

What Medicare Does Not Cover

- ▶ Long-term care
- ▶ Care delivered outside the U.S.
- ▶ Dental care
- ▶ Vision care
- ▶ Hearing aids
- ▶ Cosmetic surgery
- ▶ Acupuncture and other alternative care
- ▶ Amounts over Medicare-approved amount
- ▶ Amounts not covered by deductibles and coinsurance (20%)



Medigap Plans

| Medigap Benefits | A | B | C | D | F | G | K | L | M | N |
|---|------|------|------|------|------|------|------|------|------|------|
| Medicare Part A coinsurance and hospital costs up to an additional 365 days after Medicare benefits are used up | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Medicare Part B coinsurance or copayment | 100% | 100% | 100% | 100% | 100% | 100% | 50% | 75% | 100% | 100% |
| Blood (first 3 pints) | 100% | 100% | 100% | 100% | 100% | 100% | 50% | 75% | 100% | 100% |
| Part A hospice care coinsurance or copayment | 100% | 100% | 100% | 100% | 100% | 100% | 50% | 75% | 100% | 100% |
| Skilled nursing facility care coinsurance | | | 100% | 100% | 100% | 100% | 50% | 75% | 100% | 100% |
| Medicare Part A deductible | | 100% | 100% | 100% | 100% | 100% | 50% | 75% | | 100% |
| Medicare Part B deductible | | | 100% | | 100% | | | | | |
| Medicare Part B excess charges | | | | | 100% | 100% | | | | |
| Foreign travel emergency (up to plan limits) | | | 80% | 80% | 80% | 80% | | | 80% | 80% |

- * Starting in 2020, Plans C and F are not be available to people new to Medicare
- * For Plans K and L, after you meet your out-of-pocket yearly limit and Part B deductible, the Medigap plan pays 100% of covered services for the rest of the calendar year. Out-of-pocket limits: Plan K \$6,620; Plan L \$3,310
- * Plan N pays 100% of the Part B coinsurance, except for some copayments.

Source: www.medicare.gov/supplement-other-insurance/compare-medigap/compare-medigap.html

Typical Medicare Budget Today

Insurance Premiums

| Expenditure | Monthly amount |
|--------------------------|-----------------|
| Part B premium | \$170.10 |
| Medigap premium | \$200.00 |
| Part D drug plan premium | \$40.00 |
| Total | \$410.10 |

For illustrative purposes only.

Typical Annual Health Care Budget Today

Insurance Premiums and Out-of-Pocket Costs

| Expenditure | Annual amount |
|--|---------------|
| Insurance premiums: \$410.10 x 12 | \$4,921.20 |
| Prescription drugs: out-of-pocket costs | \$650 |
| Dental out-of-pocket | \$450 |
| Vision out-of-pocket | \$300 |
| Alternative care out-of-pocket | \$200 |
| Total | \$6,521.20 |

For illustrative purposes only.



Interim Report
North Carolina Association
of Certified Public Accountants

Top Five Things You Need to Know About Medicare

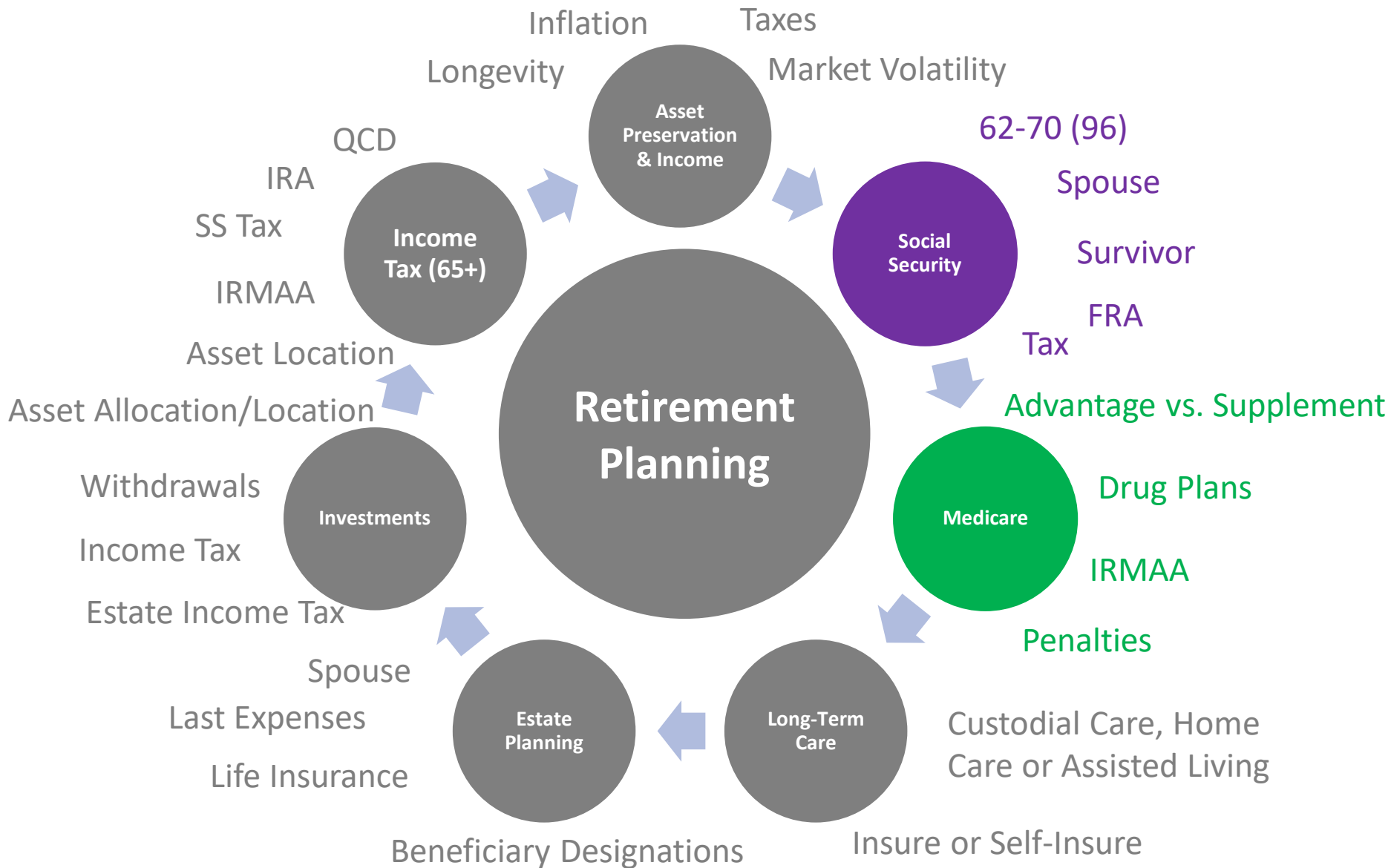
By Paula McMillan, CPA/PFS, CFP, CGMA

With 30 years of market volatility, taxes, inflation and no paycheck, retirement planning can be daunting. Making healthcare decisions can be particularly tricky. Healthcare costs tend to inflate more than other costs, often compound as needs increase with age, and must be managed within a new system at age 65—Medicare. Unfortunately, procrastination and last-minute decisions, can win out over good planning when met with:

- Inherent Medicare program design complexities,
- Insurance salespeople incentivized with conflicts of interest,
- Generalized, disjointed information served up by the media,
- Well-meaning friends and family (and even advisors) offering the wrong advice for the individual situation, with only a surface-level of knowledge.

Irreversible decisions, overpayment and penalties could adversely impact an uninformed consumer's health and finances for years to come.

As a financial advisor specializing in retirement planning, I help people plan and navigate through bumpy retirement terrain, like Medicare decision-making, to maximize their financial positions, minimize risks, live their desired lifestyle and check off those bucket lists along the way. When making Medicare decisions, specifically, there are five things you should know:





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