

Wealth Planning **Update**

Maximizing your government retirement benefits



Key facts to know about Social Security and Medicare.

If you're thinking about retiring, enrolling in Social Security and Medicare will be high on your to-do list. But did you know that deciding when to retire and electing when to begin taking your Social Security benefits are two separate decisions?

Once you leave the workforce, you can wait before applying for Social Security in order to allow your benefit to grow. Medicare however is a little more clean cut. In most cases you should begin taking Medicare benefits at age 65. There is no benefit to waiting and you could even be penalized for doing so.

Should you delay your Social Security benefits?

Before you decide when to start tapping into these benefits, there are two terms to understand. First is your full retirement age (FRA), which is based on your year of birth. If you were born between 1943 and 1954, your FRA is 66. If you were born between 1955 and 1959, your FRA increases on a sliding scale until age 67, which is the FRA for those born in 1960 or later. The second term is your primary insurance amount (PIA). This is the benefit you would receive if you elected to begin benefits at your "normal" or full retirement age. Let's look at how it works:

Your Social Security benefit is calculated on your average indexed monthly earnings during the 35 years of your career in which you earned the most. Once your benefit is calculated, your PIA at your FRA is your 100% benefit base. You then have choices to make. You can:

- **Take your benefit as early as age 62.** In this case, your PIA will be permanently reduced by up to 30%. If you take your benefit early and are still working, it could be reduced even more if your earnings exceed the allowable limit.

- **Take your full benefit** at your FRA.
- **Allow your PIA to grow** by 8% per year up to age 70.

Typically, if you don't need the money and have other assets to rely on, it makes sense to delay. For example, a worker who retires at full retirement age in 2018 could be eligible for up to \$2,788 per month. The maximum benefit at age 62 drops to \$2,158, while someone who delays retirement until age 70 in 2018 could get as much as \$3,698 monthly. In order to qualify for these large payments you need to maintain a high income throughout a career of 35 years or more.

Other types of Social Security benefits

In addition to your individual PIA, there are other ways to benefit from Social Security.

Spousal benefits

Even if you've never worked under the Social Security system, you may still qualify for benefits based on your spouse's work record. If you wait until your FRA, your spousal benefit will be 50% of your spouse's benefit. For example, assume your spouse started receiving benefits at his or her FRA and is receiving \$2,000/month. If you begin spousal benefits at your FRA, you would receive \$1,000/month, for a total household income of \$3,000/month.

Similar to your individual benefit, if you take a spousal benefit early, your PIA will be permanently reduced by up to 30%. On the other hand, there is no advantage to delaying, as spousal benefits taken after your FRA do not grow as your individual benefit would.

Note: If you were born before January 2, 1954 and have already reached your FRA, you can elect to receive your spousal benefit while allowing your own benefit to grow until age 70 and then switch at that time. This strategy is most beneficial if your benefit is higher than 50% of your spouse's benefit. The law has changed and this "file and suspend" strategy is no longer available to anyone born after January 2, 1954.

Divorcee benefits

If you're divorced, you may be entitled to one-half of your ex-spouse's full retirement benefit if you begin benefits at your FRA. Even if your ex-spouse has not yet applied for their benefits, as long as they qualify for them you can apply. The same reduction rules apply to taking benefits early. You can take advantage of divorcee benefits if:

- You were married at least 10 years
- You are currently unmarried
- You are age 62 or older
- Your individual benefit is less than your spousal benefit

Survivor benefits

If you're a widow or widower, you can receive survivor benefits based on your deceased spouse's earnings. You may be entitled to up to 100% of your spouse's full benefit amount and can begin the

benefits as early as age 60. Note, however, that same reduction rules apply when taking benefits early.

In addition, if you have children under the age of 16, no matter your age, you would receive 75% of your deceased spouse's benefit. Your children would also receive 75% of their parent's benefit until age 16, unless they are disabled.

Disability benefits

If you have worked in jobs covered by Social Security, have a medical condition that meets the requirements, and have been unable to work for a year or more due to a disability, you may qualify for Social Security disability benefits. You must have a "total" disability; benefits are not paid for a temporary or partial disability.

Eligibility is determined by credits. When you work and pay Social Security taxes, you earn up to four credits per year. Generally, you need to have accumulated 40 credits, and 20 of those must have been earned during the last 10 years. If you become disabled at a relatively young age, you may require fewer credits.

Furthermore, qualified family members may also be entitled to disability benefits. This includes your spouse, ex-spouse, children, and adult children who are disabled before age 22. There is a family maximum limit that depends on your earnings but is generally between 150% and 180% of your disability benefit.

The screenshot shows the Social Security website interface. At the top, there is a navigation bar with the Social Security logo, a search icon, a menu icon, language options, and a sign-in link. Below the navigation bar is a large hero image featuring a woman and a man looking at a laptop, with the text "Putting you in control. Learn what you can do online." To the right of the hero image are four smaller images: "Retirement" (a woman and child), "Disability" (a woman and child), "New Medicare cards are in the mail" (an elderly couple), and "Change of Address" (a woman and man). Below these images are four service tiles, each with an icon and a brief description:

- my Social Security**: Check out your Social Security Statement, change your address & manage your benefits online today.
- Social Security Number**: Your Social Security number remains your first and continuous link with Social Security.
- Retirement Estimator**: Calculate your benefits based on your actual Social Security earnings record.
- FAQs**: Get answers to frequently asked questions about Social Security.

Getting started with Social Security

Begin by visiting [SSA.gov](https://www.ssa.gov) and establishing your online "my Social Security" account. You'll be able to access your Social Security Statement, see estimates of your benefits, and more. You can use the information in your SSA account to verify your earnings and request corrections if necessary.

Apply for Medicare before turning 65

Whether you continue working or not, you should apply for Medicare benefits three months before your 65th birthday. Medicare Part A is free, if you're eligible, while Part B requires a monthly premium. If you choose not to enroll in Part B at age 65, a late enrollment penalty of 10% per year will be added to your premium. It's typically advisable to apply for both parts A and B at age 65, if you're eligible.

Medicare has four parts:

- **Part A** is hospital insurance and helps pay for inpatient care in a hospital or skilled nursing facility (following a hospital stay). Part A also pays for some home health care, and hospice care.
- **Part B** is medical insurance and helps pay for visits to doctors, outpatient care, home health care, durable medical equipment, and some preventive services. Monthly premiums are based on income and currently range from \$134-\$428.60 per month.
- **Part C**, Medicare Advantage, includes all benefits and services covered under Part A and Part B. Some plans include prescription drug coverage (Medicare Part D) as well as other out-of-pocket expenses. You can have either Medicare Part C or a non-government Medigap policy, but not both.
- **Part D** helps cover prescription drug costs.

Medicare Part A is free for U.S. citizens and permanent residents who are age 65 or older and are eligible to receive Social Security benefits, are eligible for railroad retirement benefits, or have paid Medicare taxes through a government job. If you don't meet these requirements, you may still be able to obtain Part A benefits if you pay a monthly premium.

Even if you have ample savings for your retirement years, government benefits can go a long way toward helping to meet your needs. Making the most of Social Security and Medicare will also enable you to pass on more of your personal wealth to future generations. For these reasons, it's important to evaluate your family's needs before making permanent decisions about your government benefits. Ask your financial professional to provide you with a Social Security analysis, which can demonstrate the effects of various timing decisions on your Social Security benefits.



What about long-term care coverage?

Neither Medicare nor Social Security benefits cover long-term care expenses. If you're concerned about meeting the costs of long-term care in retirement, ask your financial professional to help!

We can review your specific situation and evaluate whether you may be able to self-insure or may benefit from long-term care insurance.



Megan Bishton is a Financial Planner with BMO Private Bank. Megan specializes in providing customized financial planning solutions to high net worth individuals and families as part of an overall personal wealth management strategy. She joined the organization in 2000 and has over 18 years of experience in the financial services industry.

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¹ Source: "10 Frequently Asked Social Security Benefit Questions." *U.S. News & World Report*. May 14, 2018. <https://money.usnews.com/money/retirement/social-security/articles/frequently-asked-social-security-benefit-questions>

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