Social Security

Disclaimer: The information contained in this Learning Guide is based on the Social Security Administration’s presentations. The flow of the guide may differ slightly from the presentation, but the content included is the same.

Social Security is governed by federal law. The statements in this document are general. If there is a conflict between the law and this document, any decisions will be based on the law and not this document.

Agenda

This presentation covers information on:

- Eligibility
- Benefit Calculation
- WEP & GPO
- Medicare
- Resources

Social Security is a federally mandated social insurance program funded through payroll taxes. It was established in 1935 and consists of four parts:

1. Retirement benefits
2. Survivor benefits
3. Disability benefits
4. Medicare

For the purposes of this presentation, we’ll focus primarily on retirement benefits and Medicare.

Eligibility – How Do You Qualify for Retirement Benefits

Eligibility for Social Security benefits can be based on your work record, or on your spouse’s work record.

Eligibility – Your Work Record

While you’re working and paying into Social Security, you earn “credits” and can earn a maximum of four credits in a year. Forty credits are required to be eligible for benefits. This is usually reached in 10 years.

Eligibility – Your Spouse’s Work Record

Even if you have never worked under a position covered by Social Security, you may be eligible based on your spouse’s work record if you are at least age 62 and your spouse is receiving their Social Security retirement or disability benefits. You may also qualify for Medicare using your spouse’s work record at age 65.
Dual Entitlement
If you’re eligible in your own right and based on your spouse’s work record, you cannot receive both. You’ll receive the higher of the two. If eligible based on your spouse’s work record, that benefit is 50 percent of their original Social Security benefit.

When You Can Receive Benefits
The earliest age you can start receiving benefits is 62. Your benefit will be reduced by approximately 25 to 30 percent, so you’ll receive about 70 to 75 percent of your benefit. The reduction to your benefit is permanent and affects your spousal and survivor benefits. However, you’ll receive benefits for a longer period.

You can receive delayed retirement credits up to until age 70. Your benefit increases by 8 percent for each year you postpone receiving benefits past your full retirement age. Depending on your full retirement age, you may be able to receive up to 132 percent of your benefit.

The best time to receive benefits depends on your specific situation. Some things you should consider are:

- Your full retirement age and benefit calculation
- Amount of your future benefit and effect of early or delayed retirement
- How long you expect your retirement to last based on life expectancy
- Whether you plan to continue working
- Other sources of retirement income (pension, savings, and investments)
- Income taxes
- How your spouse might be affected

Full Retirement Age (FRA)
Your FRA with Social Security has nothing to do with when you can retire from CalPERS, but it determines the percentage of your Social Security benefit you’ll receive. If you collect your Social Security retirement benefit at your FRA, you’ll receive 100 percent of your benefit before any offsets are applied. Full retirement is age based on your year of birth. Use the Retirement Age Calculator to determine your FRA.

<table>
<thead>
<tr>
<th>Year of Birth</th>
<th>Full Retirement Age</th>
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<tbody>
<tr>
<td>1943 – 1954</td>
<td>66</td>
</tr>
<tr>
<td>1955</td>
<td>66 &amp; 2 months</td>
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<tr>
<td>1956</td>
<td>66 &amp; 4 months</td>
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<tr>
<td>1957</td>
<td>66 &amp; 6 months</td>
</tr>
<tr>
<td>1958</td>
<td>66 &amp; 8 months</td>
</tr>
<tr>
<td>1959</td>
<td>66 &amp; 10 months</td>
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<tr>
<td>1960 or later</td>
<td>67</td>
</tr>
</tbody>
</table>
Eligibility – Beneficiaries and Survivors

Social Security survivors and beneficiaries work differently than CalPERS survivors and beneficiaries.

Eligible survivors and beneficiaries for Social Security are:

- **Your child:**
  - Not married and under age 18, or
  - Under age 19 and still in high school, or
  - Not married and disabled before age 22

- **Your spouse:**
  - Age 60 for a survivor or Age 62 for a beneficiary, or
  - Any age if caring for a child under age 16

- **Your ex-spouse**
  - Married at least 10 years and
  - Divorced at least two years and
  - They haven’t remarried

Benefit Calculation – How Much Will I Receive in Retirement Benefits

Social Security will apply several formulas and calculations to determine your benefit. You can use the Retirement Estimator to estimate your Social Security retirement benefits.

In the first step, Social Security reviews your wages, indexes them at today’s dollars, and uses the highest 35 years to determine the Average Indexed Monthly Earnings (AIME).

Earnings are indexed at today’s dollars, so that means earnings from years ago will reflect today’s value. If you don’t have 35 years of earnings, social security will use zeros for years where they weren’t earned.

The next step is to apply several benefit factors to the AIME. The “normal” first benefit factor for the formula is 90 percent. This is the only benefit factor impacted by the offsets or reductions.

The second benefit factor used is 32 percent and is applied to anything remaining of the AIME. If there is still a dollar amount left in the AIME, any excess is calculated using a 15 percent benefit factor. Most people collecting Social Security never reach the third benefit factor, as it usually only applies to high income earners.

The calculation percentages don’t change, but the dollar amounts do. The dollar amounts change when Social Security releases the new figures at the beginning of each year.

Non-Covered Employment

Non-covered employment can impact your Social Security benefits. Non-covered employment refers to employment where you didn’t contribute to Social Security at some point in your government employment.

The offsets that can impact your benefits are the **Windfall Elimination Provision (WEP)** and the **Government Pension Offset (GPO)**. If you’ve always contributed to Social Security, the WEP and GPO
won’t impact you. The WEP affects the benefits based on your work record, while the GPO affects the benefits you may be eligible for based on your spouse’s work record.

**Windfall Elimination Provision**

The WEP can apply if you:

- Reached age 62 after 1985
- Became disabled after 1985
- First became eligible for a monthly pension based on work where you didn’t pay Social Security taxes after 1985. This rule applies even if you’re still working.

The WEP is a recalculation of your Social Security benefit if you also have a pension from “non-covered” work where no Social Security taxes are paid. The normal Social Security formula is substituted with a new calculation that results in a lower benefit amount.

Social Security coverage for public employees isn’t automatic and not every agency is covered by a section 218 agreement. There are many government positions that don’t participate in the program.

For Social Security to determine how much the first benefit factor will be impacted by the WEP, they look at your years of substantial earnings. Use the [WEP Chart](#) and the [WEP Online Calculator](#) to see how WEP may affect your Social Security benefits.

**Government Pension Offset**

Like we mentioned before, you may be eligible for a Social Security retirement based on your spouse’s work record. The GPO can reduce your allowance if you didn’t contribute to Social Security while you were working and are receiving a benefit based on your spouse’s or widow(er)’s work record.

Many people believe the GPO is a reduction to your spouse’s benefits, but this isn’t true. It’s a reduction to YOUR allowance that you receive based on your spouse’s work record.

When GPO is applied, two-thirds of your government pension will be used to reduce the Social Security benefits you’re entitled to receive on your spouse’s record.

If you’re affected by the GPO, use the [GPO Calculator](#) to estimate your benefit under the GPO.

**Social Security and Working**

It’s possible to work and receive your Social Security benefits, but there are income limits. The limits are up to and including your full retirement age. Your Social Security benefits can be reduced by up to $1 for every $2 earned over the limit. The limit is higher during the year of your full retirement age, $1 for every $3 over the higher limit. There are no earning limits if you work and are over your full retirement age.
The annual earnings limit includes:

- Gross wages from employment
- Net earnings from self-employment

The annual limit doesn’t include:

- Inheritance payments
- Interest and dividends
- Pensions
- Capital gains
- Income from investments
- Other sources

**Medicare**

**Medicare** is a federal program that may affect your CalPERS health benefits if you are currently age 65 or older, turning 65 years of age, or if you’re disabled.

Medicare eligibility is based on your age, work history, and Social Security disability status. If you’re age 65 or older, you may qualify for Medicare through your past employment, or the employment of your current, former, or deceased spouse. If you are under age 65, you may qualify for Medicare through certain Social Security qualified disabilities.

Medicare has four parts:

1. **Medicare Part A** – Hospital insurance that helps pay for inpatient hospital stays, skilled nursing facilities, hospice care, and some home care. Generally, if you, or your current, former, or deceased spouse worked at least 10 full time years under Social Security/Medicare-covered employment, you’ll receive Part A at no cost. If you’re not eligible for premium-free Part A, you don’t have to enroll in Medicare.

2. **Medicare Part B** – Medical insurance that helps to pay for outpatient healthcare expenses, including doctor visits. Everyone has the option to purchase Part B at age 65 or under age 65 with certain disabilities, even if you’re not entitled to premium-free Part A. The Social Security Administration establishes the cost of Medicare Part B annually.

3. **Medicare Part C** – Medicare advantage and combination plans. CalPERS Medicare plans include Part C coverage

4. **Medicare Part D** – Prescription drug coverage. All CalPERS Medicare plans include Medicare Part D. Once you’re enrolled in a CalPERS Medicare plan, the health plan will enroll you in Medicare Part D. Do not enroll in any non-CalPERS Medicare Part D plan. Doing so will cancel your CalPERS health coverage.
Medicare Enrollment
You may have multiple opportunities to enroll in Medicare.

The **General Enrollment Period** is from January 1 through March 31. If you enroll during the general enrollment period, you may be subject to a late enrollment penalty. This penalty causes your Part B premium to increase 10 percent for each 12-month period you were eligible but didn’t enroll. If you enroll during the general enrollment period, the coverage goes into effect July 1. You can also use the general enrollment period to change plans.

The **Initial Enrollment Period** begins three months before your 65th birthday and ends three months after your 65th birthday. Social Security may automatically enroll you if you’re receiving Social Security benefits.

If you’re working past age 65 and enrolled in an Employer Group Health Plan (EGHP), or if your spouse is still working and you’re covered under their EGHP, you can elect to defer your Medicare Part B enrollment. Notify Social Security if you decide to defer. Once the EGHP has been terminated, you can enroll in Medicare Part B during the **Special Enrollment Period**.

Four months prior to your or your dependent’s 65th birthday, CalPERS will send you a letter notifying you of the requirements to coordinate your CalPERS health coverage with Medicare. The notice will provide information about specific requirements and instructions for enrollment, including any needed supporting documents.

**Medicare Cost**

The Social Security Administration establishes the Medicare Part B premiums annually. The monthly premium you pay is based on the income you report to the Internal Revenue Service. The Income Related Monthly Adjustment Amount (IRMAA) increases the Part B premium for those with a higher income. The IRMAA is based on your modified gross income reported on your tax return from the previous two years.

Everyone enrolled in Medicare Part B is required to pay a premium. If you receive Social Security benefits, the premium will be deducted from your benefits. If you don’t receive Social Security benefits, you’ll be billed on a quarterly basis. If you fail to pay your premium, your Medicare Part B coverage and your CalPERS health benefits will be cancelled.

**Resources**

**my Social Security**

If you aren’t receiving benefits yet, you can:

- Verify your earnings record
- Check your personalized retirement and disability benefit estimates
- Replace your card

Your Social Security earnings record won’t reflect the WEP if you’re impacted. Whether you’re impacted or not, the estimated benefits are based on criteria that may not apply to you. For example, the statement
will show benefit amounts based on three different ages, your earliest age to collect at 62, your FRA, and maximum age of 70. Each of the benefit amounts assume you’re working until each of those ages.

If you’re receiving your benefits, you can:

- Update your address, phone number, and direct deposit information
- Print a benefit verification letter
- Get a replacement SSA-1099-1042S

**How to Apply for Benefits – Social Security**

You can apply for Social Security benefits:

- On the [Social Security website](#)
- By [contacting Social Security by phone](#) to schedule an appointment
- At your local [Social Security office](#)

**How to Apply for Benefits – Medicare**

You can apply for Medicare benefits:

- On the [Medicare website](#)
- By [contacting Medicare](#)
- At your local [Social Security office](#)