

How Social Security and Medicare Work Together

Learn how these interrelated programs may impact your finances in retirement.

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SOCIAL SECURITY AND Medicare are social safety programs that Americans pay into during their working years through taxes. Both are designed to assist older Americans and distribute benefits to the disabled and their families. Social Security provides financial support, and Medicare is a health insurance program that helps cover doctor visits, hospital stays and other medical treatments.

While the programs are separate, Social Security and Medicare are intertwined in several ways. Here, we look at the connections between the two programs as well as what to expect when applying for benefits.

Eligibility for Social Security and Medicare

Both Social Security and Medicare are national programs managed by different organizations within the federal government. “Social Security is run by the Social Security Administration, whereas Medicare is run by the Centers for Medicare and Medicaid Services,” says Andy Panko, an IRS enrolled agent and certified financial planner at Tenon Financial in Iselin, New Jersey.

The Social Security Administration determines who is eligible to receive Social Security benefits as well as which individuals qualify for Medicare.

“Additionally, the Social Security Administration carries out a lot of the administrative functions for Medicare,” Panko says.

To be eligible for Social Security, workers must earn enough credits while they are employed. The minimum number of credits for most workers is 40 credits. The amount of earnings needed for one credit is \$1,360 in 2019, and individuals can earn up to four credits per year.

To receive Medicare, individuals usually need to be age 65 or older. Medicare is also available to some younger Americans with disabilities and those with permanent kidney failure which requires dialysis or a transplant. The Medicare program consists of different parts, including Part A for stays in a hospital or nursing home and some home health care, Part B for doctor services, outpatient care and medical supplies, and Part D for prescription drugs. Medicare does not provide coverage for certain health expenses, including long-term care, dental visits, eye exams and hearing aids.

Enrolling in Social Security and Medicare

Workers who are eligible for Social Security can begin their benefits any time between ages 62 and 70. “The longer they wait, the higher the benefit they are locking in for the rest of their life,” says Zuzana Brochu, a financial planner and senior vice president at People’s United Advisors in Burlington, Vermont.

Those who begin their benefits before their full retirement age, which is set by the Social Security Administration and determined by birth year, will receive a reduced amount in benefits. Seniors who enroll when they reach full retirement age can expect 100% of their benefit. Individuals who apply after

their full retirement age will receive an increased benefit, which can be as much as 8% more a year, until age 70.

An individual's benefit amount is determined by applying a formula to the income earned during working years. "Your Social Security benefit is based on your 35 highest-earning years," Brochu says. To apply, workers can fill out a form online, call the Social Security Administration or visit their local Social Security office.

In contrast, Medicare for seniors begins when they turn 65. "If you are already collecting Social Security benefits by the time you turn 65, you will automatically be enrolled in Medicare Parts A and B upon turning 65," Panko says.

Individuals who aren't receiving Social Security benefits at age 65 will not automatically receive Medicare. Those who haven't enrolled in Social Security by age 65 will need to contact the Social Security Administration to apply for Medicare benefits.

Medicare Costs Deducted From Social Security

Individuals enrolled in Medicare need to pay for the coverage. The exact amount owed can vary, depending on a person's retirement income and the health plans they select. Most people don't have to pay a premium for Medicare Part A. "Medicare Part B premiums are income-dependent," Brochu says. "They range from \$135.50 on the low end to \$460.50 monthly." Prescription drug coverage premiums for Part D are also based on income.

To determine the amount owed for Medicare, Social Security looks at the income listed on tax returns from two years ago. "If someone received a large bonus in 2017 and retired in early 2019, their Medicare premium in 2019 may be increased," says Patti Black, a certified financial planner and partner at Bridgeworth in Birmingham, Alabama. In such a case, an appeal can be sent to the government. "Let Social Security know you retired and your earned income is now \$0," Black says.

For those receiving Social Security benefits and enrolled in Medicare, the premiums for Medicare are usually automatically deducted from Social Security payments. "For most people, having their Medicare premiums taken out of their Social Security check is easy and convenient," says Alex Sutherland, president and investment advisor at LifePlan Group in Raleigh,

North Carolina. Individuals who are enrolled in Medicare but are not receiving Social Security will receive monthly or quarterly bills for Medicare premiums.