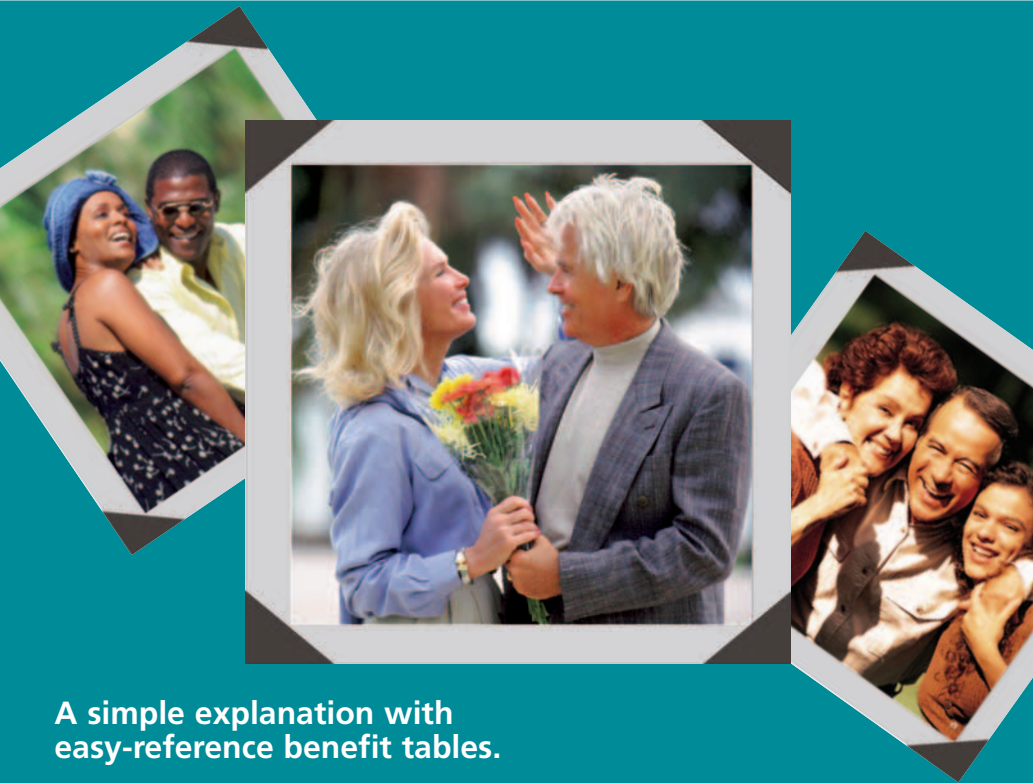


2007

Guide to Social Security and Medicare

35th Edition



A simple explanation with
easy-reference benefit tables.

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This symbol indicates a more in-depth example is provided.

2 Who Is Covered or Not Covered

Almost all employed and self-employed people are covered by Social Security and Medicare. Beginning in 1984, all members of Congress, the President and Vice President, cabinet heads, the Chief Justice of the United States, Associate Justices of the Supreme Court, other federal judges, and most political appointees were covered under the Social Security program.

The major exceptions are:

- **Most civilian federal employees hired before 1984** are covered by Medicare, but usually not by Social Security.
- **About 25% of state and local government employees** – Each state and local government unit with a pension plan decides whether to elect Social Security and Medicare coverage. Once elected, participation cannot be discontinued. Employees who are not covered by a retirement plan are covered by Social Security and Medicare. Employees hired after March 1986 pay the 1.45% Medicare tax even if they are not covered by Social Security.
- **Railroad workers** are covered under the federal Railroad Retirement system which is coordinated with Social Security.

Special provisions apply to:

- **Household workers** – In 2007, wages of **\$1,500** or more per year paid to workers age 18 and over to work at an employer's home are subject to Social Security and Medicare payroll taxes. Only payments in money are subject to these taxes for this type of work – not material items such as meals. The law exempts household workers under 18 who are students or who have another occupation that is their principal one.
- **Family employment** – If you are self-employed and hire your spouse, parent, or child age 18 or older in the course of your business, it is covered employment.
- **Agricultural workers** – If you are paid \$150 or more in a calendar year from one employer for farm work, or if that employer pays at least \$2,500 to all employees for labor during the year, you are generally subject to payroll taxes, and your earnings will count in figuring your benefits.

3 Who Receives Benefits

Social Security pays benefits when you retire, become disabled, or die if eligibility requirements are met. Your spouse and children may also be eligible for benefits when you become entitled or die. The following table shows who most often receives Social Security benefits.

When to Begin Retirement Benefits

If you have not reached full retirement age (FRA) and you are still working with substantial earnings, it is usually not advantageous to begin benefits. The benefits might not be needed for current living expenses, and they will be permanently reduced (page 18), subject to the earnings limit (page 25), and more likely to be taxed (page 10). It would also cause a reduction in benefits to your widow or widower (page 44).

If you are retired before reaching FRA, you may need to begin receiving benefits in order to meet your current living expenses. Benefits will at least be partially tax-free and they may enable you to delay drawing income from assets that are growing on a tax-favored basis.

If you do not need Social Security to meet your current living expenses and you are in good health, you might decide to delay entitlement until you reach FRA or later and receive larger benefits. The federal government guarantees your benefits for life, they increase with automatic annual cost-of-living increases, and the widow(er) benefit payable to your surviving spouse will be higher. A higher Social Security benefit that is payable for life and protected against inflation can help offset the risks you may have in the rest of your personal investment portfolio. These risks include inflation, poor investment performance, market downturns, and outliving your income-producing assets.

The following sections explain in detail, with examples, how early you can start your benefits, how they are reduced if you start them before you reach your full retirement age (FRA), and how they are increased by delaying them until FRA or later.

Each person needs to consider these options based on his or her own needs and circumstances, including health and life expectancy. There isn't one choice that is best for everybody.



Qualifications for Disability Benefits

To qualify for disability benefits, you must be so severely impaired, physically or mentally, that you cannot perform any substantial gainful work. The impairment must be expected to last at least 12 months or result in death. The determination is based on medical evidence. Disability benefits are not payable to people disabled solely due to alcoholism or drug addiction.

In addition, you must have a minimum number of credits of Social Security coverage (as defined on page 14) to be insured. Also, you must have earned some of these credits in recent years. The recent-years requirement does not apply to the blind.

The following table summarizes the requirements for anyone becoming disabled in 2007.

Year of Birth	Credits Required To Qualify for Disability Benefits in 2007
1942-45	40, with 20 earned in last 10 years
1946	39, with 20 earned in last 10 years
1947	38, with 20 earned in last 10 years
1948	37, with 20 earned in last 10 years
1949	36, with 20 earned in last 10 years
1950	35, with 20 earned in last 10 years
1951	34, with 20 earned in last 10 years
1952	33, with 20 earned in last 10 years
1953	32, with 20 earned in last 10 years
1954	31, with 20 earned in last 10 years
1955	30, with 20 earned in last 10 years
1956	29, with 20 earned in last 10 years
1957	28, with 20 earned in last 10 years
1958	27, with 20 earned in last 10 years
1959	26, with 20 earned in last 10 years
1960	25, with 20 earned in last 10 years
1961	24, with 20 earned in last 10 years
1962	23, with 20 earned in last 10 years
1963	22, with 20 earned in last 10 years
1964	21, with 20 earned in last 10 years
1965-76*	20 earned in last 10 years
1977*	19 earned after age 21
1978*	17 earned after age 21
1979*	15 earned after age 21
1980*	13 earned after age 21
1981*	11 earned after age 21
1982*	9 earned after age 21
1983*	7 earned after age 21
After 1983	6 earned in last 3 years

* The figure shown is the maximum number of credits required. Depending on month of birth and month of disability, the number can be up to 3 fewer, with a minimum of 6 credits.



Example – Survivor Benefits

In 2007, John dies at age 45, survived by a widow and three children. Each survivor is entitled to a monthly benefit based on John’s PIA of \$1,350. (Note: All benefits will increase with annual COLAs.)

Survivor	Qualification for Benefit	Percent of John’s PIA	Unadjusted Monthly Benefits	Adjusted Monthly Benefits
Mary	Wife, age 45, caring for child under age 16	75	\$1,012	\$ 620
Bob	Age 18, in high school	75	1,012	620
Suzanne	Age 15	75	1,012	620
Bruce	Age 11	75	<u>1,012</u>	<u>620</u>
	Total		\$4,048	\$2,480

The Maximum Family Benefit is \$2,480. This means that everyone’s benefit must be reduced proportionately so that the total doesn’t exceed that amount.

One Year Later, Mary Returns to Full-Time Employment

Mary’s benefit is suspended because of high earnings. She will continue to have high earnings until after Bruce (the youngest child) attains age 16.

However, the rest of the family continues to receive the same total benefit. From the total original entitlement of \$4,048, subtract \$1,012 for Mary, leaving \$3,036. That’s still larger than the Maximum Family Benefit of \$2,480. The total stays the same, but each person’s benefit will now be for a different amount.

Readjusted Benefits

Bob	\$ 826
Suzanne	826
Bruce	<u>826</u>
Total	\$2,478

Bob Graduates from High School

When Bob graduates from high school at age 18, he is no longer eligible for benefits. His monthly benefit of \$826 stops. The other two children continue to be entitled. They each receive \$1,012 (75% of the PIA) for a total of \$2,024.

Suzanne, Age 18, Graduates from High School

Suzanne’s benefit stops. However, Bruce remains entitled to his benefit of \$1,012 until he is 18 (or 19 if still in high school).

Mary at Age 60

Mary can claim a surviving spouse’s benefit of \$965 a month for the rest of her life. That amount is 71½% of John’s PIA of \$1,350. Or, she can wait until she reaches her full retirement age (FRA) of 67. If she works after her benefits begin, she is subject to the earnings limit until her FRA (pages 25-28).

Mary at FRA (Age 67)

If Mary waits until FRA to receive benefits, she will get 100% of John’s PIA of \$1,350 a month.

9 Medicare

Medicare is a federal health insurance program for people age 65 and over and certain disabled people. Beneficiaries can receive healthcare services under the Original Medicare Plan or in some areas, a Medicare Advantage plan (MA) – formerly Medicare + Choice. MA plans include managed care plans, Private Fee-For-Service plans and Medical Savings Accounts.

Original Medicare has two parts: Part A (Hospital Insurance) and Part B (Medical Insurance). Part A pays some of the costs of hospitalization, limited nursing-home care, and hospice care. Part B primarily covers doctors' fees, most outpatient hospital services, and certain related services. Both Parts A and B cover many home health services. Medicare does not cover long-term nursing home care.

The Original Medicare Plan is available anywhere in the U.S. Under Original Medicare, you can go to any doctor or hospital that accepts Medicare patients. You or your other insurance pay the deductibles and coinsurance. Original Medicare generally does not cover prescription drug costs. The majority of beneficiaries are in Original Medicare. Most of them have supplemental coverage from an employer or union-sponsored retiree plan, from one of the standard Medigap Plans, or TRICARE for military retirees.

Many Medicare beneficiaries opt to receive healthcare services from a Medicare Advantage or MA plan, Part C, instead of Original Medicare. These plans are not available in all areas. You must be enrolled in Medicare Parts A and B before enrolling in an MA plan. Most plans require members to visit hospitals, doctors, and other healthcare providers that are approved by the plan. Many plans also offer additional benefits, such as prescription drugs, usually for an additional premium. Out-of-pocket expenses are often lower and more predictable under managed care.

Medicare helps pay for insurance coverage for outpatient prescription drugs under Medicare Part D (and through some Medicare Advantage plans). Insurance companies and other private businesses are approved by Medicare to sell this coverage, and only beneficiaries covered by Part A or Part B can enroll.

Who pays for Medicare? Part A is financed by payroll taxes and is usually premium free. A portion of Part B and Part D is financed by monthly premiums (generally, **\$93.50** for Part B and about **\$24** for Part D in 2007, with higher-income beneficiaries paying higher Part B premiums), and the rest is financed from general federal revenues. Certain deductibles, coinsurance, and copayments may also apply.

Eligibility and Enrollment

You are eligible for Medicare on the first day of the month that you turn 65. This age is not scheduled to rise as the full retirement age for Social Security benefits gradually rises to 67. Medicare is also available if you have been entitled to Social Security disability benefits for two years