



Principal Funds

Social Security & Medicare

Get what's yours

Agenda

- **Social Security basics**
- **Medicare basics**
- **Resources**

Social Security eligibility



At least age 62 to collect benefit



Accrued 40 credits of coverage via payroll FICA taxes



May be eligible based on spouse's (or ex-spouse's) work history

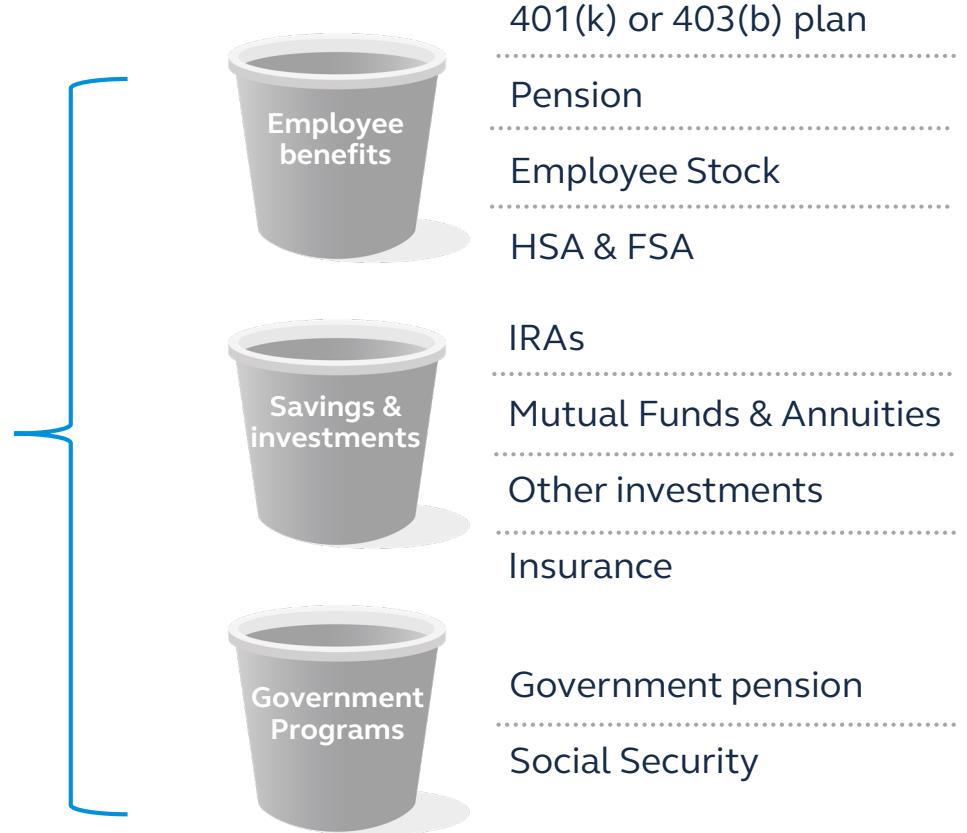


Benefit based on highest 35 years of indexed earnings

Retirement Income



Percentage of income replaced by Social Security for average earners



Social Security Full Retirement Age

Birth year	Full Retirement Age
1943 – 1954	66
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960 and later	67

Full Retirement Age

determines when someone can begin collecting **full** Social Security benefit payments.

Can claim as early as age 62

Birth year	Full Retirement Age	Benefit reduction
1943 – 1954	66	25.00%
1955	66 + 2 months	25.83%
1956	66 + 4 months	26.67%
1957	66 + 6 months	27.50%
1958	66 + 8 months	28.33%
1959	66 + 10 months	29.17%
1960 and later	67	30.00%

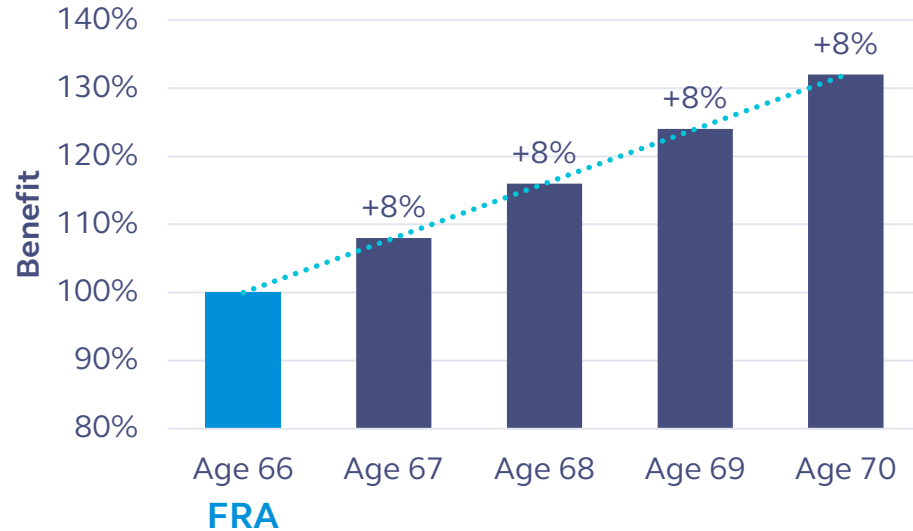
Impact

- ▶ Smallest monthly check
- ▶ Potential reduction penalty for employment
- ▶ May face benefit taxation sooner

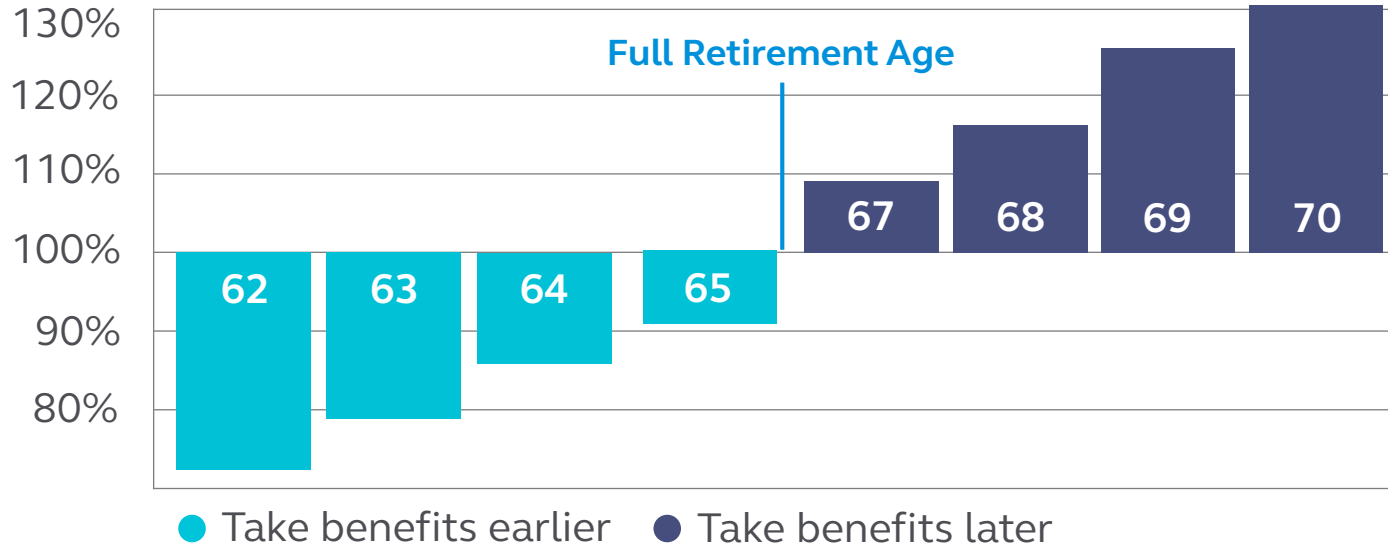
Claiming at age 70

Impact

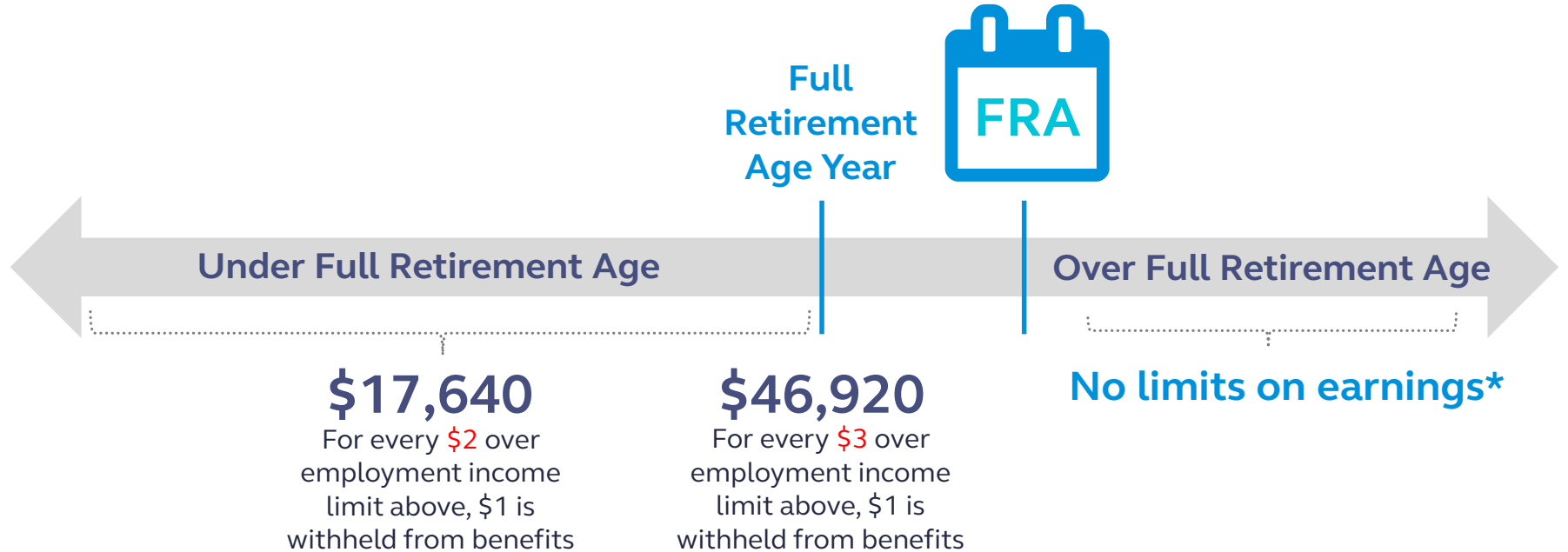
- Highest monthly check
- No penalty for employment
- 8% increase per year after Full Retirement Age



When should I take my benefit?



Working while collecting



Taxes and Social Security

Filing single

Provisional income	Benefits subject to tax
Under \$25,000	0%
\$25,000 - \$34,000	Up to 50%
Over \$34,000	Up to 85%

Married filing jointly

Provisional income	Benefits subject to tax
Under \$32,000	0%
\$32,000 - \$44,000	Up to 50%
Over \$44,000	Up to 85%

Provisional income

Adjusted Gross Income (AGI) + tax-exempt income + ½ Social Security benefit

Note: State and local taxes may differ.
Source: Social Security Administration.

Other benefit options

Spousal benefit

- Spouse may collect a higher spousal benefit (up to 50% of their spouse's FRA benefit)
- To receive a spousal benefit other spouse must be collecting a benefit

Divorced spousal benefit



- Married for at least **10 years** and **not** currently remarried
- 62 or older to collect and be divorced for at least 2 years if ex has not yet filed for their benefit

Survivor & divorced survivor

- A widowed spouse or divorced widow(er) may collect survivor benefit (up to 100% of deceased spouse's or ex-spouse's benefit)
- 60 or older to collect

Social Security case study

Full Retirement Age: 66

Example: Sam and Ann	Age 62 benefit amount	Age 66 (FRA) benefit amount	Age 70 benefit amount
Sam 	\$750	\$1,000	\$1,320
Ann 	\$1,800	\$2,400	\$3,168
Spousal benefit*	\$840	\$1,200	\$1,200

Medicare

Typical household healthcare costs

Average household spending

- Age: **65-74**
- Average annual healthcare cost per person: **\$6,373**
- Percentage of total average annual spending: **12.2%**

A retired couple with average prescription drug expenses would need **\$280,000** to have a **90% chance** of meeting their healthcare costs during retirement.

Those are just out-of-pocket costs beyond Medicare coverage.

Fidelity Retiree Health Care Consulting Estimate, 2018.

Medicare

Part A helps with hospital costs

Part B helps with doctor's care and outpatient care

Part D stand-alone prescription drug plan

Medigap (supplemental) plans fill in some of the financial gaps in Parts A and B

Part A



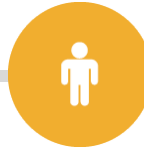
Part B



Optional add-on Part D



Optional add-on



Part C Part C combines hospital costs, doctor's and outpatient care

Prescription drug coverage through Advantage plans, as built-in coverage or no cost in some plans

Additional benefits such as vision, hearing services, health screenings, advice lines

Original Medicare costs

Part A = \$0 premium (if met 40 quarters)

Part B = \$135.50 (higher if subject to IRMAA*)

Part D = \$51.28 (natl. avg. monthly premium)³

Medigap = \$143 (natl. avg. monthly premium)⁴

Estimated total = \$329.78 monthly premium

May not include co-pays or deductibles

(Depends on your Medigap Plan)

*Income-related monthly adjustment amount (IRMAA)

³ Centers for Medicare and Medicaid Services (CMS), "Annual Release of Part D National Average Bid Amount," July 31, 2018.

⁴ *Business Insider*, "Medicare Isn't Enough for Retirees," June 18, 2018

Medicare Advantage costs

Part C base premium	=	\$135.50 (higher if subject to IRMAA*)
Additional plan premium	=	\$40 (natl. avg.**)

Estimated total = \$175.50

Total average monthly premium varies by state and local jurisdiction as well as by plan

*Income-related monthly adjustment amount (IRMAA)

**National average premium for Medicare Advantage + prescription drug coverage plans.

Initial enrollment period

If receiving Social Security:

- Auto enrollment at age 65

7-month enrollment window:

- 3 months before 65th birth month
- 3 months after 65th birth month

If enrollment deadline is missed:

- Must wait until general enrollment period: January 1 through March 31 of each year

- Part B monthly premium penalty may apply, equal to 10%, for each full 12month period that you could have had Part B, but failed to enroll.

Special enrollment period

If covered by a qualified group plan:

- Sign up for Part A or Part B anytime
- During an 8-month window after employment ends:
 - Qualified group coverage is lost

COBRA and retiree plans:

- Don't count as qualified coverage

Open enrollment period

Once covered under Medicare:

Enrollees can change plans:

- Original Medicare to Medicare Advantage
- Medicare Advantage to Original Medicare
- Medicare Advantage to Medicare Advantage
- Part D to another Part D



**Annual enrollment Period
is from October 15 to
December 7.**

Resources

- **Principal Resources**
principal.com/retire
 - **Center for Medicare & Medicaid Services**
800-633-4227
medicare.gov
 - **Social Security Administration**
800-772-1213
socialsecurity.gov
- **State Health Insurance Assistance Program**
medicare.gov/contacts
 - **Eldercare Locator**
eldercare.gov

The content of this presentation is based upon reliable source material and is believed to be correct as of the time of creation; however, it is subject to change at any time without warning. Investors should consider consulting with their tax professionals prior to making decisions due to their unique circumstances.

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