



# Transition to Retirement

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## **Introduction**

When working with beneficiaries who are approaching retirement age, beneficiaries may ask CWICs questions about possible changes to Social Security benefits. While CWICs are not trained to be experts on retirement benefits, they can provide beneficiaries with general information and explain how Social Security can help explore options in more detail.

## **CWIC's Role**

When counseling any beneficiary, CWICs should remember that the purpose of the WIPA program is to promote employment and enhance financial stability for beneficiaries receiving a benefit based on disability. Therefore, if a beneficiary who isn't interested in working asks about the transition to retirement, the CWIC should refer this person to Social Security for guidance. If a beneficiary is working or interested in working, CWICs need to be aware not only about how that work might affect the disability payment, but how Retirement Insurance Benefits (RIB) may play into a decision to work. CWICs should be able to share information about:

- The automatic changes that occur to disability benefits at full retirement age;
- The optional benefit changes that could occur so that CWICs recognize when to refer a beneficiary to Social Security for more information; and
- The impact, if any, that earned income has on retirement or age-related benefits.

When questions arise about the optional changes, such as switching from SSDI to early retirement, CWICs should refer beneficiaries to Social Security for guidance.

## **Retirement Terminology**

First, let's clarify some key terminology:

**Retirement Insurance Benefits (RIB):** This is the term used to describe a Social Security retirement benefit. To receive this benefit, a worker must have reached age 62. Additionally, the worker must have earned at least 40 Quarters of Coverage (credits). See Social Security's website for [more information about earning credits](http://www.socialsecurity.gov/retire2/credits.htm) (<http://www.socialsecurity.gov/retire2/credits.htm>).

**Full Retirement Age (FRA):** For many years the retirement age was 65. But, the 1983 Social Security Amendments included a provision to raise the full retirement age beginning with people born in 1938 or later<sup>1</sup>. The Congress cited improvements in the health of older people and increases in average life expectancy as the primary reasons for increasing the retirement age. Social Security's website provides a [tool for determining an individual's full retirement age](http://www.socialsecurity.gov/pubs/ageincrease.htm) here ([www.socialsecurity.gov/pubs/ageincrease.htm](http://www.socialsecurity.gov/pubs/ageincrease.htm)). Currently, retirement age is 66 for anyone born from 1943 through 1954.

**Reduced Retirement Insurance Benefits (Reduced RIB):** While insured workers can start receiving RIB as early as age 62<sup>2</sup>, the benefit amount will be less than the amount that would have been due at full retirement age<sup>3</sup>. Social Security will reduce the benefit by the total number of months prior to full retirement age that the individual received the RIB. Social security refers to this number of months as the reduction factor. For example, if the full retirement age is 66, the reduction in benefits at age 62 is 25%; at age 63, it's about 20%; at age 64, it's about 13.3%; and at age 65, it's about 6.7%.

**Annual Earnings Test:** Earned income can affect the reduced RIB based on a concept Social security refers to as the Annual Earnings Test (AET) or sometimes just the Earnings Test (ET)<sup>4</sup>. The AET has two amounts: one for those who are under the full retirement age the entire year, and another for the year during which the beneficiary reaches full retirement age. For those who have taken reduced RIB, when the individual reaches full retirement age, Social Security will recalculate the benefit amount. Any months that Social Security withheld or partially reduced the reduced RIB due to earnings from work or self-employment, or any months for

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<sup>1</sup> RS 00615.004 Full Retirement Age

<sup>2</sup> RS 00615.005 Reduced Benefits

<sup>3</sup> RS 00201.002 Retirement Benefits – Amount and Non-Payment of Benefits – Policy Principles

<sup>4</sup> RS 02501.021 The Earnings Test (ET)

which the person was concurrently entitled to Disability Insurance Benefits (DIB), will be removed from the reduction calculation, causing an increase in the benefit amount.<sup>5</sup>

- For those under full retirement age the entire year, earnings won't affect the benefit unless the beneficiary's annual earnings exceed \$18,240 (2020 figure). The benefit check will be reduced \$1 for every \$2 earned above that limit. For example, Jane is eligible for \$800/month (\$9,600/year) of reduced RIB in 2020, at the age of 63. She plans to work during the year and expects to earn \$24,000 (\$5,760 over the \$18,240 AET limit). As a result, she would end up being due \$3,180 less in reduced RIB ( $\$5,760 / 2 = \$2,880$ ) for 2020. Social Security would withhold three months of full benefits (January 2020 through March 2020) to account for the impact of her earned income. Starting in April she would begin receiving a partial reduced RIB payment. When Jane reaches full retirement age (FRA), Social Security would recalculate her benefit amount to credit her for any months that Social Security withheld full or partial benefit payments. This adjustment would result in a permanent increase in her benefit amount.
- For those who reach full retirement age during the year, earnings can affect the reduced RIB during the months prior to full retirement age. The benefit would be affected if earnings in the months before full retirement age exceed \$48,600 (2020 figure). The benefit will be reduced \$1 for every \$3 earned above that limit.

**Special Monthly Rule:** During the first year of retirement, Social Security may use a special monthly earning rule. With this rule, Social Security will pay the retirement benefit for any month the beneficiary's earnings fall below a certain limit (\$1,520 in 2020), regardless of the person's yearly earnings. This monthly figure is derived by dividing the current AET amount by twelve. CWICs should encourage beneficiaries to contact Social Security so they can find out if this rule will apply.

**Delayed Retirement Credits (DRC):** The concept of delayed retirement is unlikely to come up when advising Social Security disability beneficiaries; however, it's important to understand. When a person reaches full retirement age he or she may choose to delay starting retirement

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<sup>5</sup> RS 00615.482 Requirements for Reduction Factor Adjustments – Crediting Months

benefits<sup>6</sup>. Each month an individual delays receiving benefits will increase the monthly benefit amount by a fraction. Individuals may d RIB up to age 70.

## **Title II Disability Benefits and Transition to Retirement**

The transition to retirement benefits differs depending upon which Title II disability benefit the beneficiary receives.

### **Social Security Disability Insurance (SSDI)**

**Full Retirement Age (FRA) (automatic change):** When SSDI beneficiaries reach FRA, the SSDI benefit automatically converts to RIB. There are four key concepts to share with SSDI beneficiaries when this transition is approaching:

1. the benefit amount will not decrease in the transition to RIB<sup>7</sup>;
2. beneficiaries do not have to worry about earnings impacting their benefit once they are FRA and drawing RIB;
3. beneficiaries will not be subject to medical continuing disability reviews (CDRs) anymore, and
4. beneficiaries receiving RIB they may no longer participate in the Ticket to Work program.

A beneficiary doesn't need to take any action to get his/her benefit changed from SSDI to RIB. This change will occur automatically in the month of full retirement age. A beneficiary who has an active Plan to Achieve Self-Support (PASS) may continue his/her PASS to completion after reaching FRA<sup>8</sup>.

**Age 62 (optional change):** When SSDI beneficiaries reach 62 years of age, they may consider switching from SSDI to reduced RIB. There are a number of pros and cons that individuals must consider in making this decision. A major consideration is the monthly benefit amount. The SSDI benefit amount is the same as the RIB amount at FRA, but the reduced RIB is a lower

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<sup>6</sup> RS 00615.690 Delayed Retirement Credits (DRC) - General

<sup>7</sup> RS 00605.035 DIB Guarantee PIA

<sup>8</sup> SI 00870.006 Elements of a PASS

amount. Even so, there are a few situations in which a reduced RIB could be financially advantageous. For example, a beneficiary may elect a reduced RIB if he/she has a Worker's Compensation offset being applied to his/her SSDI, since the Worker's Compensation offset doesn't apply to reduced RIB. In that example, by taking reduced RIB, the beneficiary could have more total family income<sup>9</sup>. A beneficiary may also have a plan to work enough to make up the difference between the SSDI and reduced RIB amount. In this situation, the beneficiary may have more total income since the reduced RIB uses the AET. In either case, Social Security will give the beneficiary credit at FRA for any months he or she was entitled to both RIB and DIB, but elected to be paid under RIB.

**EXAMPLE:** To fully understand this concept, it helps to look at an example. Denise receives \$1,000/month of SSDI (\$12,000/year). If she took reduced RIB it would be \$750/month (\$9,000/year). Looking at three earning scenarios it becomes clear that if Denise plans to earn below Substantial Gainful Activity (SGA) she is likely better off taking the SSDI, rather than reduced RIB. But, if Denise feels she can earn more than SGA and has exhausted her Trial Work Period, financially she could be better off switching to reduced RIB.

- \$1,065/month (\$12,780/year) in earnings:
  - SSDI: \$12,000/year SSDI plus \$12,780/year earnings equals \$24,780 income
  - Reduced RIB: \$9,000/year reduced RIB plus \$12,780/year earnings equals \$21,780 income
- \$1,289/month (\$15,468/year) in earnings:
  - SSDI: \$0/year SSDI plus \$15,468/year earnings equals \$15,468 income
  - Reduced RIB: \$9,000/year reduced RIB plus \$15,468/year earnings equals \$24,468 income
- \$2,500/month (\$30,000/year) in earnings:
  - SSDI: \$0/year SSDI plus \$30,000/year earnings equals \$30,000 income
  - Reduced RIB: \$5,870/year reduced RIB (after applying the 2020 AET) plus \$30,000/year earnings equals \$35,870 income

It's important to understand that by electing the reduced RIB, the beneficiary isn't giving up his/her current entitlement to SSDI. Instead, the beneficiary would be simultaneously entitled

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<sup>9</sup> DI 52150.030 Considering the Retirement Insurance Benefit (RIB) Option

to SSDI and reduced RIB, receiving the benefit that is most financially advantageous<sup>10</sup>. The SSDI entitlement would end when the beneficiary reaches FRA or the disability ends. When the individual reaches full retirement age, Social Security will recalculate the benefit amount. Social Security will remove any months of simultaneous RIB and SSDI entitlement from the reduction calculation causing an increase in the benefit amount<sup>11</sup>. After the beneficiary has elected to receive either reduced RIB or SSDI, if the beneficiary wishes to receive the other benefit, he or she may change the election. It's also worth noting that the beneficiary can maintain Medicare coverage based on his/her technical entitlement to SSDI if he/she elects reduced RIB<sup>12</sup>. This is of upmost importance because entitlement for reduced RIB doesn't come with entitlement to Medicare until age 65.

### **Social Security Disabled Widow(er) Benefit (DWB)**

**Full Retirement Age (FRA) (automatic change):** When a DWB beneficiary reaches FRA, the DWB automatically converts to a widow(er)'s benefit (WIB). There are several key concepts to share with DWB beneficiaries when this point is approaching:

1. the benefit amount will not decrease in the transition to WIB;
2. beneficiaries do not have to worry about earnings impacting their benefit;
3. beneficiaries will not be subject to medical CDRs anymore; and
4. enrollment in Ticket to Work is terminated<sup>13</sup>.

Beneficiaries don't need to take any action to get their benefit changed from DWB to WIB, it will occur automatically in the month of full retirement age. Beneficiaries who have an active Plan to Achieve Self-Support (PASS) may continue their PASS to completion after reaching FRA<sup>14</sup>. CWICs should note that FRA for surviving spouses differs from the FRA for retirees. For example, age 66 is FRA for surviving spouse's born from 1945 to 1956. For more information,

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<sup>10</sup> RS 00615.110 Reduced RIB as Affected by DIB (A – HA)

<sup>11</sup> RS 00615.482 Requirements for Reduction Factor Adjustments – Crediting Months

<sup>12</sup> DI 52150.030 Considering the Retirement Insurance Benefit (RIB) Option

<sup>13</sup> DI 55002.055 Policies Related to Ticket Terminations

<sup>14</sup> SI 00870.006 Elements of a PASS

refer to [Social Security's Retirement Benefits Table of Contents](https://www.ssa.gov/planners/retire/applying7.html)  
(<https://www.ssa.gov/planners/retire/applying7.html>).

**Age 60 (optional change):** A beneficiary may apply for Disabled Widow(er) benefits between 50 and 60 years of age<sup>15</sup>. DWB is basically a form of reduced widow(er)'s benefits, which can be drawn early (prior to age 60) due to disability. Once 60 years of age, an individual can apply for reduced widow(er)'s benefits, a benefit that isn't based on disability. An individual who is originally entitled to either reduced widow(er)'s (WIB) or disabled widow(er)'s benefits (DWB) may be entitled to the other benefit if all eligibility requirements are met and such entitlement would maximize his/her benefits. For example, a person entitled as a DWB may become subject to suspension because of SGA level work during the extended period of eligibility (EPE). In that case, if the claimant is between age 60 and FRA, electing to receive reduced WIB instead of DWB may maximize his/her benefits since benefits that aren't based on disability are subject to the Annual Earnings Test (AET) rather than the SGA test. The benefit amount isn't a factor in deciding which benefit to elect because it's the same regardless of whether the beneficiary keeps DWB or elects reduced WIB. Entitlement to DWB or reduced WIB doesn't terminate entitlement to the other; instead the beneficiary would receive one benefit and would be technically entitled to the other.

If a DWB elects reduced WIB but remains technically entitled to DWB, Medicare eligibility can continue. This is of utmost importance because entitlement for reduced WIB doesn't come with entitlement to Medicare until age 65. Upon attainment of full retirement age (FRA), all beneficiaries are converted to WIB so this election is only possible for those from age 60 to FRA<sup>16</sup>. When conversion occurs at FRA, the total number of months for which full or partial work deductions that Social Security applied to the reduced benefits will be removed from the benefit calculation<sup>17</sup>. Unlike DIB, however, months of entitlement to both DWB and reduced WIB will not change the calculation at Full Retirement Age.

## **Social Security Childhood Disability Benefits (CDB)**

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<sup>15</sup> DI 10110.001 Requirements for Disabled Widow(er)'s Benefits

<sup>16</sup> RS 00615.315 Simultaneous Entitlement to Widow(er)'s Benefits and Disabled Widow(er)'s Benefits (D and W)

<sup>17</sup> RS 00615.482 Requirements for Reduction Factor Adjustments – Crediting Months

**Full Retirement Age (FRA) and Age 62 (no change):** Age doesn't affect continued entitlement to CDB benefits. When a CDB beneficiary reaches FRA, the CDB remains CDB, in other words no change occurs. Terminating events for CDB do not include reaching FRA<sup>18</sup>. As a result, medical continuing disability reviews (CDRs) will continue to occur as required, the work rules and incentives remain the same, and Medicare continues based on CDB entitlement.

## **Medicare and Transition to Retirement**

When a Title II disability beneficiary has completed the Medicare 24-month qualifying period, entitlement for Medicare begins<sup>19</sup>. When the beneficiary turns 65 years of age, Medicare entitlement automatically switches to Medicare based on age<sup>20</sup>. At that point, the beneficiary will not need either of the Medicare work incentives (Extended Period of Medicare Coverage or Premium-HI for the Working Disabled) to maintain Medicare if earnings cause the Title II disability benefit to stop. A new period of Medicare entitlement occurs at age 65. As a result, any premium penalties the beneficiary had for Part B or Part D will be eliminated. Additionally, the beneficiary will have a new initial enrollment period for Part B, Part C (Medicare Advantage), and Part D.

## **SSI and Transition to Retirement**

There are two critical transition ages for aging SSI beneficiaries: age 62 and age 65.

**Age 62:** When SSI beneficiaries are age 62 or older, they could become eligible for RIB, based on their own work record. To be eligible on their work record, beneficiaries must have reached fully insured status. You may be thinking, "If they reached insured status, why don't they get SSDI?" Remember, the definition of insured status for disability is more prescriptive than the definition of insured status for retirement (known as fully insured). It's possible the beneficiary had enough credits for fully insured status but not enough recent credits, which is a requirement for disability insured status.

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<sup>18</sup> DI 10115.050 Termination of Childhood Disability Benefit (CDB) Entitlement

<sup>19</sup> HI 00801.146 Entitlement to HI for the Disabled

<sup>20</sup> HI 00820.025 Termination of Disability HI (D-HI)

Since SSI is a benefit of last resort, a beneficiary is required to apply for RIB, even if it means filing for a reduced benefit amount (applying prior to FRA)<sup>21</sup>. If the SSI beneficiary is awarded RIB and his/her resulting countable unearned income exceeds the Federal Benefit Rate (FBR), then he/she will go into 12-month suspension status and termination would follow unless a change in benefits occurs. What's most critical to note about this scenario is that Medicaid eligibility based on SSI status would end. To maintain Medicaid, the beneficiary must be found eligible under a different Medicaid eligibility group. If the beneficiary isn't eligible under any other Medicaid eligibility group he or she may need to pursue private health insurance options since Medicare wouldn't become available until age 65.

It's important to note the beneficiary may also become entitled to a benefit based on a spouse's work record between age 62 and FRA, a widow(er) benefit between age 60 and FRA, and a disabled widow(er) benefit between ages 50-60. An SSI beneficiary would be required to take those benefits as well. CWICs should refer beneficiaries to Social Security to explore whether they could be entitled to any of these benefits.

**Age 65:** When SSI beneficiaries turn 65 years of age, they don't become eligible for a retirement benefit in the SSI program. In the world of SSI, the term "retirement" isn't used. Instead, when a person turns 65, he/she may be eligible for SSI based on his/her age ("aged individual"), based on their disability ("disabled individual"), or based on statutory blindness ("blind individual")<sup>22</sup>. The federal benefit rate (FBR) is the same regardless of the type of entitlement. Beneficiaries can choose which status is most advantageous if they meet the criteria for more than one. They can also change status if needed.

- **SSI based on age:** If a person is eligible based on age (65 years of age or older), he/she will not be subject to medical CDRs. Only the basic SSI income deductions are used in determining countable income: \$20 General Income Exclusion, \$65 Earned Income Exclusion, and ½ earned income disregard<sup>23</sup>. An aged individual can use a Plan to Achieve Self-Support (PASS) only if the individual received SSI benefits based on blindness or disability in the month before turning age 65.

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<sup>21</sup> SI 00510.001 Overview of the Filing for Other Program Benefits Requirement

<sup>22</sup> SI 00501.300 Multicategory Eligibility – General Information

<sup>23</sup> SI 00820.500 Earned Income Exclusions - General

- SSI based on disability or blindness: If a person continues to be eligible based on disability or blindness after age 65, he/she will still be subject to medical Continuing Disability Reviews (CDRs). The benefit of this status is that all the SSI income deductions are available in determining countable income: \$20 General Income Exclusion, \$65 Earned Income Exclusion, Impairment Related Work Expenses, Blind Work Expenses (if the person is considered a Blind Individual), and Plan to Achieve Self-Support.

Most importantly, 1619(b) is NOT available to aged individuals, only to those receiving SSI as blind or disabled individuals. CWICs should alert any SSI beneficiary approaching age 65 to the option to remain eligible as a blind or disabled individual, or switch to eligibility as an aged individual. If the beneficiary is planning to work, it could be to his/her benefit to maintain the disability or blindness status so he/she continues to have access to all the work incentives.

## **Medicaid and Transition to Retirement**

Those eligible for Medicaid based on receipt of SSI can maintain Medicaid eligibility when turning 65 years of age, regardless of whether they are eligible for SSI based on age, disability, or blindness. But, as noted above, it's important for CWICs to understand that 1619(b) doesn't extend to those only eligible for SSI based on age. It's only an option for those eligible for SSI based on disability or blindness.

There are a number of other Medicaid eligibility groups that may be available in a CWIC's state. If a beneficiary is receiving Medicaid through a different eligibility group, CWICs will need to research the details about changes, if any, which occur at age 65 in those other groups. For example, a state Medicaid Buy-In eligibility group may require the person be under age 65 to be enrolled.

## **Conclusion**

CWICs need to be prepared to provide the type of general information provided in this briefing paper to support beneficiaries as they reach retirement age. Since this is a complex and individualized topic, CWICs should also encourage beneficiaries to seek information from Social Security when they want to understand their options.

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