

Second Quarter 2025

Social Security & Medicare News

News that puts you in the know!



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How Working Affects Social Security Benefits

Individuals can work while receiving Social Security retirement or survivors' benefits. The retirement earnings test no longer applies to those **at full retirement age (FRA) or older**. Beneficiaries **under FRA** still face an earnings limit, which is separate from income taxes. If their earnings exceed this limit, their benefits, as well as those of family members based on their work record, will be reduced. If a family member's earnings exceed the limit, only that individual's benefit will be affected.

If benefits are started before attaining FRA and benefits are withheld because of the earnings test, a letter will be mailed three months before FRA indicating that benefits will automatically be reinstated at FRA.

Under Full Retirement Age (FRA)

For people under FRA throughout 2025, they can earn \$23,400. If earnings exceed this, then \$1 of benefits is withheld for every \$2 earned above \$23,400. Some benefits may still be payable depending on how much the earnings exceed the limit.

The good news is that when FRA is reached, benefits will be increased for any month benefits were not paid or reduced. Additional high earnings during this time could also increase the monthly benefit amount. This is an automatic process, and benefits are paid in December of the following year. For example, in December 2025, the person's benefit could be increased if the 2024 earnings raised the benefit. The increase would be retroactive to January 2025.

Example: Retire at Age 62

Ms. Johnson applies for benefits in January 2025. March 2025 is the first full month that she is age 62. She works throughout the year earning \$32,400. Her monthly Social Security benefit is \$1,000.

$$(\$32,400 - \$23,400) \div 2 = \$4,500$$

In this example, \$4,500 of benefits are withheld from March through June (\$1,000 x 4 = \$4,000), and a partial benefit of \$500 (\$1,000 - [\$4,500 - \$4,000]) is due for July. Her monthly benefit of \$1,000 is payable for August through December.

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At Full Retirement Age (FRA) or Later

If FRA is attained in 2025, a person can earn \$62,160 in the months before reaching FRA with no reduction in benefits. If earnings exceed this amount, then \$1 in benefits is withheld for every \$3 earned above \$62,160.

Regardless of earnings, benefits are payable for the month that FRA is reached and after.

If benefits are applied for after attaining FRA, the application can be retroactive for up to six months but not for any month before FRA. In the small percentage of cases where a person chooses not to receive benefits at FRA to earn delayed retirement credits (DRCs), it is still advisable to apply no later than FRA + 6 months. Benefits can be suspended if requested and reinstated at any time. At age 70, when DRCs can no longer be earned, benefits will automatically be reinstated. The following two examples show when benefits can start for a working beneficiary attaining FRA in 2025.

Example: Retire in Year Attaining FRA

Mr. Smith applied for benefits in January 2025 and attains FRA in July 2025. He is working throughout 2025, earning \$78,192. His earnings in the period January through June are \$65,160.

$$(\$65,160 - \$62,160) \div 3 = \$1,000$$

In this example, \$1,000 is withheld for the period January through October. If his monthly benefit is over \$1,000, then a partial benefit is payable for January, and the full benefit would begin with February.

If Mr. Smith is self-employed, his net profit in the year he attains FRA is prorated for purposes of the retirement earnings test. For example, if he has net profit of \$120,000, it is prorated at \$10,000 per month. In the above examples, his earnings would be \$60,000 for the period January through October. In some cases, self-employment income can be attributed to specific months, such as director fees paid for attending board meetings.

Special monthly test in the first year of retirement

Many people under FRA who retire mid-year have already earned more than the annual earnings limit. In this first year, the monthly test can be used so earnings prior to the month of retirement are not counted toward the earnings limit. If there is a month that a person is entitled to benefits and does not earn more than 1/12 of the annual earnings limit, a monthly test is used if it gives you better results than the annual test. If a person earns more than 1/12 of the annual limit, benefits are not payable for that month unless they are payable under the regular annual test.

For those who are **self-employed**, a special alternative test applies in the first-year benefits are received while also having a month without performing substantial services in self-employment. In general, less than 15 hours of services in a month is not considered substantial while more than 45 hours of services in a month is considered substantial. Between those guidelines, services are considered substantial if performed in a highly skilled occupation.

Example — Monthly Test in First Year of Retirement

Mr. Jones retires at age 62 on July 31, 2025. He will make \$45,000 through July. He takes a part-time job starting in August that pays \$500 per month. Even though his earnings for the year exceed the 2025 earnings limit (\$23,400), he will receive his full Social Security benefit for August through December due to the special test for the first year you retire. This is because his earnings in those months are less than 1/12 of the annual limit or \$1,290 for people under their full retirement age throughout 2025. If Mr. Jones earns more than \$1,290 a month in August through December, he will not receive a benefit for that month unless they are payable under the regular annual test. In 2015 and after, only the annual earnings limit will apply to him.

How Working Affects When to Enroll in Medicare

For people continuing to work past age 65, decisions need to be made about signing up for Medicare. The answer is not the same for everyone.

Medicare coverage starts the first day of the month that a person turns 65 ... so for people born on March 31, coverage starts March 1. Applications for Medicare can be filed three months prior to the birth month, so in this example, from March 1, applications would be submitted on December 1. Part A is premium-free for most people. **Part B has a monthly premium of \$185 in 2025** for current, new, and high-income Medicare beneficiaries, as well as individuals whose premium is paid by Medicaid. Beneficiaries with high incomes pay additional income-related Part B premiums.

Even though Medicare coverage can begin at age 65, there are some key considerations when choosing when to apply for Medicare Parts A and B to avoid paying penalties or for coverage that is not needed.

Currently have employer coverage

1. If coverage is under a health plan sponsored by an **employer with 20 or more employees** based on current employment of the individual or their spouse, it is usually better to wait until retirement to apply for Medicare Part A and Part B for two reasons.
 1. The employer health plan is the primary payer. Part B would offer little, if any, additional coverage to justify paying the Part B premium.
 2. The six-month open-enrollment period to enroll in a Medigap (Medicare Supplement) plan begins with the first month an individual is age 65 or over **and enrolled in Part B**. If enrollment in Part B occurs more than six months before enrolling in a Medigap plan, it might not be possible to get the desired Medigap coverage.

If the decision is made to enroll in Medicare while still having employer health insurance, only Part A should be applied for. The Social Security Administration must be informed that Part B is not wanted because the process is to automatically sign up for both. Documentation of employer coverage should be kept in case of a dispute with Medicare over penalties when eventually applying for Part B.

2. **If working for a smaller company (less than 20 employees)**, Medicare is typically the primary payer, and enrollment in Part B should be at age 65. Job-based coverage might not pay for health services without the employee having both Part A and Part B. It is important to ask the employer about their health plan coverage.

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Employer Coverage Ends

At age 65 or older, Medicare Part A and/or Part B (if Part A is already held) can be started when employer-sponsored coverage ends. There is an **eight-month special enrollment period** that begins the month after employer-sponsored coverage ends or employment ends, whichever happens first.

Employees can enroll in COBRA coverage that typically lasts for 18 months after employment ends, but for those 65 or older, it **can only be elected for eight months**. COBRA is not considered “health insurance” for Medicare purposes so waiting beyond the eight months may result in penalties.

Contributions to a Health Savings Account (HSA)

For people enrolled in a high-deductible health insurance plan and having a **health savings account (HSA)**, contributions to the HSA must stop at least six months before applying for Medicare Part A or B.

HSA contributions can continue until the month of turning 65, since eligibility for Medicare has not yet been established, so there is no penalty.

For example:

- If you turn 65 in July and apply for Medicare in April, May, or June, stop HSA contributions by June 30.
- If your birthday is July 1, stop contributions by May 31. This is because the SSA rule says you turn an age on the day before your birthday, so people born on the first of the month reach an age at the end of the prior month.

HSAs and Medicare are tax-favored accounts, and the U.S. Tax Code does not allow an individual to have two that cover the same healthcare benefits. If there is an overlap in HSA contributions with Medicare coverage, a tax penalty will apply because:

- Medicare Part A can **backdate coverage up to six months from the application date**, but no earlier than the first Medicare-eligible month.
- **Contributions to an HSA are not allowed** once Medicare coverage is started.

HSAs can be used to pay for qualified medical, pharmacy, dental, and vision expenses (including deductibles, premiums, and copayments). HSAs are a great tool to use for future healthcare costs in retirement and to save on taxes with the **triple tax-free advantage**. This means that when the HSA funds are used for qualified expenses, taxes do not need to be paid on the contributions, earnings, or withdrawals.

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Part B Penalty for Late Enrollment

An extra 10% is due for each year an individual could have signed up for Part B but didn't. This is prorated for months. The Part B penalty is:

- Added to the monthly Part B premium.
- Due each month and never expires.
- Recalculated annually by the Social Security Administration.
- Higher premiums may be paid depending on your income.

Example of the Part B late enrollment penalty in 2025

If an individual waited 2 full years (24 months) to sign up for Part B and didn't qualify for a Special Enrollment Period, the 20% late enrollment penalty would have to be paid (10% for each full 12-month period that the person could have been signed up), plus the standard Part B monthly premium (\$185 in 2025).

\$185	2025 Part B standard premium
<u>+ \$37</u>	20% (of \$185) late enrollment penalty for 24 months
\$222	2025 Part B monthly premium plus the late enrollment penalty

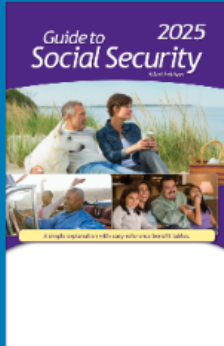
Conclusion

In general, large employers pay a part of the health insurance premium so it can be better for employees age 65 or older to stay in the employer plan rather than to elect Medicare Parts A and B. The net premium may be lower by staying with the employer. The answer of what to do varies for each person, so it is key to look at all the options for health insurance coverage, the costs of each option, and when to stop contributions to an HSA. Many seek advice from a tax professional or financial planner to help make the best decisions.

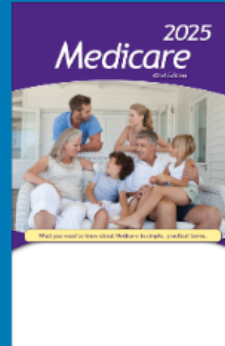
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