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# Maximizing Social Security and Medicare Benefits: A Guide for Investors

Deciding how and when to claim Social Security and enroll in Medicare is a critical part of retirement planning. The choices you make can have lasting implications for your income, taxes, and healthcare costs, particularly for investors with more complex financial situations. Understanding how these programs work and how they interact can help you make more informed decisions as you approach retirement.

## Understanding Social Security and Medicare

Many individuals assume that Medicare and Social Security must be taken together, which is incorrect. While both are federal programs, they serve different purposes and can be elected at different times. Because the timing and tax treatment of Social Security and Medicare differs, it is important to evaluate them separately while considering how they fit into your broader financial plan.

- **Social Security** is a federal program that provides retirement, disability, and survivor benefits based on your earnings history.
- **Medicare** is a federal health insurance program primarily for individuals aged 65 and older.

## Social Security Basics

Social Security is an income supplement earned through payroll taxes during your working years. If you are eligible to receive benefits, you can choose **when to begin claiming them**. Here's how it works:

- **You can choose to take Social Security benefits beginning at age of 62** at a reduced level or delay them until age 70.
- **Each year you delay taking benefits, your monthly benefit increases**, which can make delaying Social Security more advantageous in some circumstances.
- **If you delay benefits beyond your full retirement age, your monthly benefit increases** by approximately 8% per year until age 70.
- The decision of when to take Social Security should be evaluated in the context of your overall financial circumstances.
- Depending on your income, **up to 85% of your Social Security benefits may be subject to federal income tax.**

## Timing Considerations for Social Security

Your personal Social Security strategy depends on a variety of factors, including:

- Lifestyle and spending needs
- Health and longevity considerations
- Types of investment and retirement accounts you own
- The impact of taxation on your retirement income
- Marital status

Once you decide **when to begin benefits**, you can apply through the **Social Security Administration**. You will generally receive your first Social Security payment the month after your benefits begin.

## Social Security Timing Scenarios

Because the age at which you claim benefits can significantly affect both lifetime income and taxes, it is often helpful to **seek guidance from your wealth advisor** or CPA. Here's why:

- **How you fund retirement and how that income is taxed matters:** If you have sufficient assets to cover living expenses, delaying Social Security until age 70 may increase lifetime benefits. However, if

retirement income is coming primarily from tax-inefficient sources (for example, a retirement account taxed at ordinary income tax rates), it may make more sense for your Social Security strategy to take your benefit earlier to help manage overall tax exposure.

- **Married couples face additional Social Security strategy considerations:** If you are married and both spouses are eligible for benefits, you will need to consider the timing of when each benefit is claimed, whether you both wait, claim one benefit earlier, or claim both at the same time. Claiming both benefits simultaneously could increase taxable income and potentially push you into a higher tax bracket.

## Premium Payments and Tax Reporting

Before enrolling in Medicare and Social Security, it is important to understand how each benefit impacts the other. Here's why:

- **Your Medicare premiums will be automatically deducted from your monthly Social Security payment.** If you are not receiving Social Security benefits, you will generally be billed for the Medicare premiums quarterly.
- **Navigating Social Security and Medicare decisions can be complex** and requires consideration of your household's overall financial situation, including whether you choose to claim or delay Social Security benefits.
- **The goal should be to maximize the benefits** you receive while avoiding missteps that could result in unnecessary costs or penalties.

Once you begin taking Social Security, you will receive Form **1099-SSA** annually, which reports total Social Security benefits received and amounts withheld for Medicare Part B and Part D premiums. This information should be provided to your CPA or tax preparer.

## Medicare Basics

When you are three months away from turning 65, you should begin evaluating Medicare enrollment. You have a seven-month Initial Enrollment Period that begins three months before your 65th birthday month and ends three months after.

If you are working past 65 and have qualified employer sponsored coverage from an employer with 20 or more employees, you may be able to delay Medicare enrollment without penalty. Once employment coverage ends, you generally have eight months to enroll.

## Parts of Medicare

Below are the most common parts of Medicare. Note there are additional supplemental Medicare plans (not to be confused with parts) offered through private insurers.

- **Part A (Hospital Insurance):** Typically premium free for individuals with sufficient work history and covers inpatient hospital care and hospice services.
- **Part B (Medical Insurance):** Covers outpatient care, doctor visits, and preventative services and requires a monthly **standard premium** that may increase based on income.
- **Part C (Medicare Advantage):** A bundled private insurance alternative to Parts A and B that often includes prescription drug coverage and additional benefits but may involve network restrictions and referral requirements.
- **Part D (Prescription Drug Coverage):** Covers prescription medications and requires a monthly premium, so make sure to **compare plan options**.

## Penalties for Late Enrollment

Failing to enroll in Medicare on time can result in penalties:

- A late enrollment penalty generally applies to Medicare Part B and Part D.
- Part B penalties typically increase premiums by 10 percent for each full 12 month period of delay and may be permanent.
- Part D penalties are based on the number of months you were eligible without creditable prescription coverage.
- Part A penalties may apply only in limited cases where premium-free Part A is not available.

## Medicare Enrollment Periods and Penalties

Medicare Part	Key Enrollment Period	Late Enrollment Penalty
Part A (Hospital)	Initial Enrollment Period (IEP): 7 months starting 3 months prior to your 65th birthday.	Applies only if you do not qualify for premium-free Part A. Premium may increase by 10% for twice the number of years you delayed enrollment.
Part B (Medical)	Same IEP as Part A. General Enrollment Period (GEP): Jan. 1 – Mar. 31 each year.	10% increase in premium for each full 12-month period you were eligible but did not enroll. Penalty typically lasts for life.
Part C (Advantage)	Annual Election Period (AEP): Oct. 15 – Dec. 7 each year. Other special periods may apply.	No direct penalty, but you must enroll in parts A and B first and may face their penalties.
Part D (Drugs)	Same IEP as Part A & B. AEP: Oct. 15 – Dec. 7.	1% of the national base beneficiary premium for each month you were eligible without creditable prescription drug coverage. Penalty typically lasts for life.

## Understanding IRMAA

Higher income retirees may be subject to an Income Related Monthly Adjustment Amount, known as IRMAA, which increases Medicare Part B and Part D premiums. IRMAA is determined using your modified adjusted gross income from two years prior. Potential sources of retirement income that could trigger an IRMAA might include:

- Portfolio income
- Rental property income
- Pensions
- Annuities

IRMAA begins for single filers at \$109,000 of their modified adjusted gross income (MAGI) and joint filers at \$218,000 of their MAGI. Below is the table from the Social Security website showing the associated monthly adjustments for Part B and Part D.

Because IRMAA is based on historical income, it may not reflect your current financial situation. In certain cases, you can appeal the determination for an adjustment to the increased premium amount through the Social Security Administration if you experience specific life changing events. You will need to substantiate your appeal with a copy of your tax filing for the amount being appealed.

Beneficiaries Filing Individual Tax Returns (MAGI)	Beneficiaries Filing Joint Tax Returns (MAGI)	IRMAA	Total Monthly Part B Premium (Including IRMAA)
< \$109,000	< \$218,000	\$0.00	\$202.90
> \$109,000 and < \$137,000	> \$218,000 and < \$274,000	\$81.20	\$284.10
> \$137,000 and < \$171,000	> \$274,000 and < \$342,000	\$202.90	\$405.80
> \$171,000 and < \$205,000	> \$342,000 and < \$410,000	\$324.60	\$527.50
> \$205,000 and < \$500,000	> \$410,000 and < \$750,000	\$446.30	\$649.20
> \$500,000	> \$750,000	\$487.00	\$689.90

IRMAA thresholds and premiums are set annually and are based on modified adjusted gross income from two years prior. This illustration assumes 2024 modified adjusted gross income (MAGI) and reflects 2026 Medicare Income Related Monthly Adjustment Amount (IRMAA) thresholds and premiums.

To enroll in Medicare, you can [apply online](#), or call 1-800-772-1213. You can also apply in person at your local Social Security office.

## Strategic Considerations for High-Net-Worth Investors

Navigating Social Security and Medicare enrollment as a high-net-worth investor involves strategic considerations that differ significantly from standard advice, focusing heavily on tax implications and premium adjustments for optimized benefit timing. Here are some tips:

### Align Social Security and Medicare Benefits with Your Wealth Plan

Delaying Social Security may help maximize inflation adjusted income over time, particularly for a surviving spouse. At the same time, managing taxable income can help mitigate premium surcharges. Proactive, multi-year income planning can help ensure federal benefits complement your overall wealth and tax strategy.

### Coordinate Retirement Accounts and Tax Strategies

Strategic Roth IRA conversions in early retirement may help reduce future required minimum distributions and manage long term tax exposure. Coordinating these decisions with Social Security and Medicare enrollment can help smooth income and minimize premium adjustments.

### Take a Holistic Approach to Maximize Benefits and Reduce Penalties

Viewing Social Security claiming, Medicare enrollment, and portfolio withdrawals as interconnected decisions, rather than isolated events, can help optimize outcomes and reduce the risk of penalties or unintended tax consequences.

## Next Steps and Working with an Advisor

At Kayne Anderson Rudnick, our wealth advisors help clients evaluate how Social Security and Medicare decisions fit into a broader financial plan as circumstances evolve. Thoughtful planning can help ensure these benefits support your long-term goals.

Contact your [KAR wealth advisor](#) to discuss how Social Security and Medicare decisions can be integrated into your overall financial strategy.

## Social Security and Medicare FAQs

### At what age should I take Social Security and Medicare?

The optimal age to claim Social Security depends on your financial situation and health. Medicare eligibility begins at 65, regardless of when you claim Social Security.

### Do I need to take both Social Security and Medicare together?

No, you do not need to take Social Security and Medicare together. You can enroll in Medicare at 65 independently of when you choose to claim your Social Security retirement benefits.

### Should I wait until “full retirement” to take my Social Security benefits?

Waiting until your full retirement age, typically between 66 and 67, or beyond increases your Social Security monthly benefit and may be a strategic choice if you have other income sources.

### What if I continue to work after 65?

If you continue to work past 65 with qualifying employer sponsored health coverage, you may be able to delay Medicare Part B enrollment without penalty. Individual circumstances vary and should be reviewed carefully.

### How many parts of Medicare do I need? Are they all free?

You typically need Parts A (hospital), B (medical), and D (prescription drugs) for comprehensive Medicare coverage. Part A is usually premium-free if you have sufficient work history, while Parts B and D require monthly premiums.

### How is Medicare billed?

If you are receiving Social Security benefits, Medicare premiums are typically deducted from your monthly payment. Otherwise, Medicare issues quarterly premium bills.



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