



Medicare Primer for Individuals Nearing Retirement

One of the big unknowns when it comes to planning for retirement is the cost of medical care. One resource Americans can count on – at least at this point – is Medicare. But it helps to understand what Medicare is and isn't and its limitations.

Medicare is a government health insurance program that covers much of the cost of hospital stays and doctors' office visits for individuals over age 65, those with long-term disabilities, end stage renal disease and other specified health issues, as well as low-income beneficiaries.

Since President Lyndon B. Johnson made Medicare law by signing H.R. 6675 in 1965, every paycheck you have received has included a deduction for Medicare – currently 1.45% from employees with a 0.9% surtax on earnings over \$200,000, matched by an employer contribution of 1.45%.



Medicare does not pay for all of your health care costs. There are co-pays, deductibles, and premiums unless you qualify for a low-income program or have other additional insurance. Coverage also has limitations. The information below is a primer on Medicare. It is not intended as legal advice or as a comprehensive overview of an increasingly complex benefit. But hopefully, it will help you better understand one element of your medical coverage in retirement.

1. Enrolling in Medicare

If you are already receiving Social Security benefits, when you turn 65 you will be automatically enrolled in Medicare Part A and Part B. Part A is free. You definitely want to be enrolled in Part A. You can choose to turn down Part B, since it has a monthly cost; if you keep it, the cost will be deducted from your Social Security payments.

If you are not receiving Social Security, you must apply for Medicare during seven-month Initial Enrollment Period, which usually begins three months before the month you turn 65, includes the month you turn 65, and ends three months after the month you turn 65. Coverage starts the month you turn age 65. If you fail to sign up during this initial registration period, you could be charged higher premiums the rest of your life. The exception is if you delay registering for Medicare due to group insurance through your current job. You must sign up for Medicare within eight months of leaving your job, however, to avoid the higher premium costs the rest of your life.

2. Medicare Options

Medicare Part A covers inpatient hospital stays, care in a skilled nursing facility, hospice care, and some home health care. Medicare Part A is free if either you or your spouse paid Medicare payroll taxes for at least ten years. (People who aren't eligible for free Part A can pay a monthly premium of several hundred dollars.) There is currently a \$1,316 deductible if you are hospitalized. Additional costs will apply if you are hospitalized for more than 60 days.

Medicare Part B covers doctors' visits and outpatient services. In 2017, the standard premium for this initiating this coverage was \$134 per month. Premium costs are higher for individuals with a modified adjusted gross income of \$85,000 or higher or couples with income in excess of

\$170,000. In 2017, the Part B deductible was \$183 after which you would be responsible for 20% of the Medicare approved cost of services. Many preventive care services, such as flu shots, mammograms, cardiovascular screening every five years, screenings for cervical, prostate, and colorectal cancers, and an annual wellness visit, do not have any cost sharing, however, you could incur costs for tests and lab services.

Medicare Advantage and Medicare Part C are alternatives to traditional Medicare coverage offered by private health insurance companies, such as Medicare HMOs and PPOs, which provide coverage for Part A, Part B and (usually) Part D services in a single benefit package, typically with different premiums and restrictions. Costs and deductibles depend upon the level of coverage.

Medicare Part D covers prescription drug costs. There are a range of plans and coverages with premiums varying based on the coverage level you select. The average Part D premium in 2017 was \$34 a month. In addition to premium costs, there are co-payments, deductibles and other out-of-pocket costs. Part D coverage typically includes a "donut" hole, a coverage gap when you must pay out of pocket for all prescriptions. In 2017, the coverage gap began when a beneficiary's total drug costs reached \$3,700. While in the hole, you receive a 60% or 49% discount - depending on whether brand-name or generic drugs are used - until total out-of-pocket costs reach \$4,950. At that point, catastrophic coverage begins with the government picking up most of the costs.

Part D premiums and prescriptions covered change every year, so it can pay to shop around during the open enrollment period each year from October 15 to December 7.

A Medigap plan will pay for some of traditional Medicare's out-of-pocket costs and deductibles - but you must purchase a Medigap policy in the six months after you turn 65 and enroll in Medicare Part B. You can switch Medigap plans at any time, but you could be charged more or denied coverage based on your health if you choose or change plans more than six months after you first sign up for Part B.

3. Care exceptions

Medicare typically doesn't cover routine hearing, vision, foot or dental care; medical services outside of the United States, or more than 100 days of long-term care such as nursing homes or assisted living. Generally, Medicare does not cover costs for "custodial care" to help with activities of daily living, such as dressing and bathing.

Health care services not covered by Medicare include, but are not limited to alternative medicine - including experimental procedures and treatments, acupuncture, and chiropractic services (except when manipulation of the spine is medically necessary to fix a subluxation of the spine); cosmetic surgery (unless it is needed to improve the function of a malformed part of the body), and most non-emergency transportation. While there may be exceptions in specific circumstances, there are no guarantees. Even for Medicare-covered services, Medicare very rarely pays 100% of the cost. There will be deductibles and coinsurances.

Medicare may also opt not to cover:

- Services and supplies that are not medically reasonable and necessary
- Services and supplies denied as bundled or included in the basic allowance of another service
- Items and services reimbursable by other organizations or furnished without charge

If you anticipate retiring in the next two to three years, start checking out Medicare Advantage, Part C and Part D coverage now to better understand how those costs will impact you in retirement. Evaluate policies with your current state of health in mind as well as hereditary health patterns in your family. If you anticipate substantial long-term care requirements the early you purchase such coverage, the better. The older you are, the less likely you are to qualify for long-term care insurance.

Brian R. Carruthers, CFP, CMT

