

# Everyone needs to plan ahead for Medicare

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Medicare is a national health insurance program for individuals age 65 and older, and people under 65 who are receiving a Social Security disability benefit. For most U.S. citizens age 65 and over, Medicare provides their primary source of healthcare coverage. According to a 2019 report by the Henry J. Kaiser Family Foundation (KFF)<sup>1</sup>, which studies healthcare trends, more than 60 million people ages 65 and over—and younger adults with permanent disabilities—rely on Medicare to help cover their healthcare costs.

However, Medicare does not cover all healthcare expenses. KFF reports that, in 2016, Medicare beneficiaries spent \$5,806 out of pocket, on average, including premiums for Medicare and other types of supplemental insurance as well as medical and long-term care services. Understanding these limits—and the potential health expenses you'll need to cover in retirement—is an essential part of retirement planning.

## Medicare's many parts

To understand Medicare, how it works, and what it covers, it's important to understand a few key points. First, with few exceptions, you should generally enroll for Medicare when you are first eligible during your initial enrollment period (IEP). Typically, your eligibility begins three months before your 65th birthday.<sup>2</sup>

Originally, Medicare was simply hospital insurance, called "Part A" and medical insurance, called "Part B." This program is generally referred to as "Traditional" or "Original" Medicare. Today, Medicare also includes "Part C," also known as Medicare Advantage, which is offered by private companies approved by Medicare, and "Part D," which provides prescription drug coverage.

Private carriers offer policies which provide coverage for some costs and services not provided by traditional Medicare, called Supplemental or "Medigap" coverage.

It's a good idea to explore how Medigap plans help cover some of the expenses not paid by Medicare. You must be enrolled in Original Medicare in order to enroll in a Medigap plan.

Understanding which parts fit together is the first step toward making coverage decisions.

<sup>1</sup> An Overview of Medicare. 13 Feb. 2019. KFF Henry J. Kaiser Family Foundation. <https://www.kff.org/medicare/issue-brief/an-overview-of-medicare/>.

<sup>2</sup> Social Security: Medicare. <http://www.ssa.gov/pubs/EN-05-10043.pdf> (September 2017)

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### Two main options for getting Medicare coverage

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Original Medicare	Medicare Advantage
Part A hospital insurance (covers part of the cost of hospitalizations)	Part C includes the same Part A and Part B coverage as original Medicare and may have additional benefits such as prescription drug coverage
Part B medical insurance (covers a portion of the cost of doctor visits and other healthcare services)	Optional add-ons
Optional add-ons	Part D prescription drug coverage (if not included in the Medicare Advantage plan you've chosen)
Part D prescription drug coverage	
Medicare supplemental insurance (Medigap)	

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### Medicare options

When enrolling in Medicare, you have a choice of two main ways to get your coverage. You may choose original Medicare (Part A alone or Parts A and B) or Medicare Advantage (Part C). If you choose original Medicare, you may be able to add Part D prescription drug coverage, Medigap coverage, or both. You have the option of adding Part D prescription drug coverage, but only if the Medicare Advantage plan you've chosen does not already offer it. If you join a Medicare Advantage plan, you don't need—and can't be sold—a Medigap policy.

Medigap plans, sold by federally approved private companies, help pay some of the healthcare costs that Parts A and B don't cover, such as your deductibles, copayments and coinsurance, and certain supplies and services excluded by Medicare. Medigap plans do not include prescription drug coverage. In most states, insurers can offer only standardized Medigap policies labeled A through N. All policies identified by a particular letter must offer the same benefits regardless of which insurer offers them. Cost is usually the only difference between different insurers' Medigap policies if they are identified by the same letter.

### Original Medicare Part A (hospital insurance)

After you've met a deductible, Medicare Part A helps pay for inpatient hospital care, inpatient care in a skilled nursing facility (SNF), and medically necessary home healthcare and hospice care. The deductible is \$1,364 in 2019 per benefit period and is subject to an annual adjustment. A benefit period begins the day you're admitted as an inpatient in a hospital or SNF and ends when you haven't had any inpatient hospital care or skilled care in a skilled nursing facility for 60 days in a row. There are additional "per day" charges for lengths of stay past the initial 60-day period.

If you haven't paid the payroll taxes long enough to qualify for free Part A coverage, you may be able to purchase it if you meet certain conditions. See the publication "Medicare and You" for details.

### Original Medicare Part B (medical insurance)

After you've met an annual deductible that is separate from the Part A deductible, Part B helps pay for doctors' services and many other medical services and supplies not covered by Part A. These services and supplies are covered whether it's in a hospital, clinic or in

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Under Medicare, you are personally responsible for deductibles, copayments and charges exceeding an approved amount. Certain services and supplies are excluded from Parts A and B, including dental care, vision care and hearing aids. Medicare Advantage plans may cover some of these services, as well as other preventive care services. Be sure to compare plans for the most appropriate coverage options.

Long-term care is generally excluded from original Medicare and Medicare Advantage, as well as from employee and retiree health plans. Long-term care includes services to help you carry out essential daily activities like eating, bathing and dressing. Medicaid does cover long-term care, but only after most other resources are exhausted.

If you don't sign up for Part B when you're first eligible or if you drop Part B and then purchase it later, you may have to pay a higher premium rate for as long as you have Medicare. Your monthly premium for Part B may go up 10% for each full 12-month period that you could have had Part B, but didn't sign up for it.

Usually, you don't pay a late enrollment penalty if you meet certain conditions that allow you to sign up for Part B during a Special Enrollment Period.

your home. The 2019 annual deductible is \$185 and is subject to an annual adjustment. After the deductible is met, you pay 20% of the Medicare-approved amount. Supplemental "Medigap" coverage, if purchased, helps cover these additional costs.

Part B requires you to pay a premium. In 2019, the premium is \$135.50 each month, with higher premiums required if your annual income is more than \$85,000 if you are single or more than \$170,000 if you are married.

### Part C (Medicare Advantage)

Depending on where you live, you may have access to one or more Part C plans, also known as Medicare Advantage plans. If you join a Medicare Advantage plan, you get the same Part A and Part B benefits available through original Medicare, but your coverage comes from a federally approved, private company instead of directly through the Medicare program itself. Medicare Advantage plan delivery models vary, but are typically based on the "managed care" approach of a health maintenance organization (HMO) or preferred provider organization (PPO). Unlike original Medicare, depending on the specific plan you choose, you will have either low deductibles or none at all. You may be responsible for copayments for doctor's office visits and other services.

A Medicare Advantage plan may provide more coverage than what you'd get under original Parts A and B. For example, Medicare Advantage may offer vision, hearing or dental coverage, disease management programs, or health and wellness programs not included in original Medicare. Your monthly premium for Medicare Advantage will depend on the specific plan you choose. Medicare Advantage Plans have unique rules and deadlines for enrolling, changing and terminating coverage, so be sure to review these rules carefully to understand the requirements.

### Part D (prescription drug coverage)

If you're enrolled in Medicare, you are eligible for Medicare Part D prescription drug coverage, which is offered by federally approved private companies. There are many Part D plans to choose from. While all prescription drug plans (PDPs) must offer a basic level of coverage required by the federal government, plans often provide enhanced benefits and options in addition to basic benefits. Monthly premiums, annual deductibles and copayments vary widely among plans. Similar to Medicare Advantage plans, Medicare Part D plans have unique rules and deadlines for enrolling, changing coverage and terminating plans.

### Eligibility overview

Generally, you need to sign up for Medicare in order to be covered. If you're not properly enrolled in Medicare, any claims you submit for reimbursement will be subject to denial. Even if you are eligible for Medicare, there may be some situations where you might choose to defer enrollment because it makes better economic sense. It's a good idea to seek additional expert guidance before making such decisions.

### Signing up for Medicare: Your initial enrollment period

If you're already getting a Social Security benefit, you will typically be enrolled in Medicare Parts A and B automatically, and coverage will begin the first of the month you turn 65. If your birthday is on the first day of the month, your coverage will automatically

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begin the first of the month immediately preceding your 65th birthday. A Medicare card will be mailed to you by the Social Security Administration. If you don't want Part B, or if you wish to enroll in Medicare Advantage as an alternative to original Medicare, follow the instructions that come with the card.

If you're close to 65 and not getting a Social Security benefit, you must sign up in order to receive either original Medicare or Medicare Advantage. You can sign up without penalty during your Initial Enrollment Period (IEP), a seven-month period which begins three months before the month you turn 65 and ends three months after the month you turn 65. If you enroll in Part A and/or Part B during the month you turn 65 or during the last three months of your IEP, the start date for your Medicare coverage will be delayed, potentially resulting in a gap in your health coverage. To avoid such gaps, it's generally best to sign up when you first become eligible. See the chart below for an illustration of the IEP.

### Special enrollment periods

Once your Initial Enrollment Period ends, you may be able to sign up for Medicare during a Special Enrollment Period (SEP), without penalty. If you do not sign up for Part A or Part B when first eligible because you're covered under a group health plan based on current employment, such as your own, a spouse's, or a family member's if you're disabled, you can sign up for Part A and/or Part B:

1. Anytime you're still covered by the group health plan, or
2. During the 8-month period that begins the month after the employment ends or the coverage ends, whichever happens first.

The following table illustrates the operation of Initial and Special Enrollment Periods:

Initial Enrollment Period									
3 months before	2 months before	1 month before	Month turn age 65	1 month after	2 months after	3 months after	4 months after	5 months after	6 months after
Enroll in any of these months →			Coverage starts						
			Enroll →	Coverage starts					
				Enroll →		Coverage starts			
					Enroll →			Coverage starts	
						Enroll →			Coverage starts
							Enroll (SEP) →	Coverage can start*	
								Enroll (SEP) →	Coverage can start*

\* The SEP can only be used once the individual's IEP is over.

Source: CMS Partner Tip Sheet – Understand the Order of Medicare Parts A and B Enrollment Periods (May 2014)

### **General enrollment periods**

If you don't apply during your IEP, and do not meet the requirements to enroll during a SEP, you will generally have to wait until an upcoming "General Enrollment Period" (GEP) to apply. In such cases, you might have to pay more for coverage. GEPs are January 1 to March 31 of each year, and coverage begins July 1.

To enroll in original Medicare, contact your local Social Security office or go to [medicare.gov](https://www.medicare.gov). To enroll in a Medicare Advantage plan, contact the insurance carrier offering the specific plan of your choice. Make sure you fully understand how and when to enroll for Medicare, since missing a key date can affect your ability to receive coverage or result in penalties. Visit [medicare.gov](https://www.medicare.gov), call the Medicare helpline at 1-800-MEDICARE, or seek expert advice if needed.

### **Things to consider when you have employer coverage**

If you continue to work and are covered by an employer health plan with an employer of 20 or more employees, you are not required to sign up for Medicare. However, even though you are covered under your employer's plan, you should consider signing up for Part A during your IEP. Typically, workplace plans will provide your primary coverage, but Part A may pick up some of the costs not covered by the workplace plan, and in most cases, you won't have to pay any premiums for Part A anyway.

If you are currently employed and covered by an employer group health plan, and the employer has 20 or more employees, you may wish to postpone your application for Part B coverage until your employment or healthcare coverage ends, whichever comes first. Considering the level of coverage provided by your employer's plan, it may not be cost effective to pay the premium for Part B. In these situations, you can use SEP rules, allowing you to enroll in Part B at a later date without penalty. You should check with your employer to ensure they meet the "20 or more" rule before making this decision.

### **When to enroll: Additional exceptions and limitations**

The SEP does not apply to people on COBRA or retiree health benefits, so careful attention should be given to electing Part B when first eligible. There are also additional rules governing SEPs for people currently covered by Medicare Parts C and D.

People with disabilities, those covered by insurance purchased through the Health Insurance Marketplace, a key part of the Affordable Care Act, and those living outside the United States may also be subject to special rules and limitations.

Individuals with Health Savings Accounts (HSAs) cannot continue to contribute to the account if they are enrolled in Medicare. This may be a reason not to enroll in Parts A or B while currently employed and contributing to your HSA. People who are receiving Social Security and are automatically enrolled in Medicare Parts A and B and who wish to continue contributing to their HSA account should contact the Social Security Administration to discuss available options.

### **Retiree health coverage**

If you are retired and have Medicare and group health plan (retiree) coverage from a former employer, generally, Medicare pays first for your healthcare bills, and then your group health plan coverage pays second.

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You generally will not need to purchase Medicare Part D coverage if you already have “creditable coverage” from your employer’s plan. Creditable coverage is Medicare drug coverage that is at least as good as the minimum drug coverage provided under Part D of the Medicare program. If the Medicare coverage from your employer does not meet the minimum Medicare standards, you may buy additional coverage. Keep in mind those individuals who do not enroll in Part D when first eligible, but who enroll later, will have to pay a higher premium permanently, unless they can show evidence of creditable coverage, so it’s important to know whether your plan meets these requirements. Your employer will send you a notification letter letting you know what type of coverage the company provides.

### **Additional points about Medicare**

With healthcare costs continuing to outpace the general inflation rate, it’s critical that you learn more about how Medicare works. Primarily, you will need to do the following:

- Keep an eye on the calendar. Be aware of your key dates for signing up for Medicare. Remember, if you sign up during your initial enrollment period or a general enrollment period, you cannot be denied coverage if you’re otherwise eligible for Medicare.
- Become more familiar with the original Medicare plan. Think about whether you’d like to enroll in Part B when first eligible, or whether you should delay and elect Part B during a Special Enrollment Period after other coverage has ended. Also, explore Part D and Medigap insurance plans offered in your area. More information is available at [medicare.gov](https://www.medicare.gov) and through your State Health Insurance Assistance Program (“SHIP”). SHIPs can answer your questions about Medicare and help you obtain coverage. Consider contacting an insurance broker to help.
- Learn about Medicare Advantage as an alternative. Compare the costs and benefits of Medicare versus the various Medicare Advantage plans available in the area where you live. Be sure to check out the hospital and medical providers included in each plan’s network to ensure your preferred or local hospital is included.

### **Plan around your HSA**

Once you enroll in Medicare, you can no longer contribute to a health savings account (HSA). However, you may use money already in the account to reimburse yourself for uninsured medical expenses. If your employer plan covers more than 20 employees, you may choose to defer enrollment in Medicare and continue contributing to your HSA account. Companies with fewer than 20 employees can require you to enroll in Medicare. Making decisions about your HSA and Medicare can be complicated and may require a careful cost-benefit analysis to determine which of several options will pay off best for you. Ask your employer’s benefits office or your insurance company, or contact Medicare.

### **Understand your long-term healthcare costs**

Make sure you have a plan to address gaps in your medical coverage, including the exclusion of most long-term care services under Medicare and retiree health plans. A good portion of your retiree healthcare costs will probably have to be paid out of your income and savings, and you need to consider these out-of-pocket costs in your overall retirement planning.

### Planning for Medicare

Many factors, ranging from where you live to how long you will continue working to your medical history and general health, need to be considered when planning for healthcare costs in retirement. Medicare is an important part of that equation. As you build your retirement and Medicare plans, be sure to consult your TIAA advisor, who can help you understand your options.



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