



MEDICARE: A BEGINNER'S GUIDE

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BEGINNER'S GUIDE

The Importance of Medicare

When it comes to preparing for your retirement, there's no shortage of factors to consider. Making an income plan, deciding when and how to file for Social Security, and minimizing the impact taxes may have on your retirement are just a few of the issues you'll need to address. Crafting a retirement strategy that can support your preferred retirement lifestyle is no easy task. In fact, it's a financial challenge unlike any you've faced before.

The hallmark of a successful retirement is developing a financial strategy that ensures your money will last as long as you do. During this unique period in your life, how you distribute your money matters far more than how much of it you have or how adeptly you saved it. While it's easy to become entangled in the many different financial issues your strategy will encompass, none of it matters if it doesn't address your health needs and concerns. Having a comprehensive and affordable health insurance strategy is more than just a critical component of your retirement strategy; it's a critical component of your quality of life.

There's many different ways to accomplish this, but for many retirees Medicare is the most important. Medicare guarantees health insurance for most people older than 65, with certain disabilities or with certain diseases. Of the 60 million Americans who were Medicare recipients in 2018, more than 51 million of them were 65 or older, which makes Medicare a crucial element of a retirement strategy.¹

Similar to Social Security, Medicare is a federal social insurance program that you'd paid into during your career. And, like Social Security, getting the most out of what you've put in requires careful planning, research and the help of a professional.

For millions of retirees, having an effective Medicare strategy often means the difference between insulating their retirement savings from medical costs – or quickly depleting them. The importance of understanding your Medicare coverage can't be overstated: it's more than just your financial wellbeing at stake; it's your physical and mental wellbeing, as well.

The AB (CD)s of Medicare

Medicare coverage is divided into four parts, Parts A, B, C, and D, which are then essentially split into two basic categories: Original Medicare (Parts A and B) and additional coverage (Part C and/or D). When it comes to selecting the Medicare coverage that's right for you, it's important to understand the differences between these two categories.

Original Medicare, Parts A and B, is coverage that's provided directly by the federal government and these are the Medicare categories that most working Americans are automatically entitled to when they turn 65. Enrollment in Parts A and B is automatic for anyone who is 65 and already receiving Social Security or Railroad Retirement Board benefits, diagnosed with ALS (Amyotrophic Lateral Sclerosis, also known as Lou Gehrig's disease), or under age 65 and receiving disability benefits. For people entitled to Medicare but who are not eligible for automatic enrollment, they may be able to sign up for Original Medicare during an enrollment period and it may be critical for them to do so as delaying may result in late penalty fees.²

As with Social Security, a certain portion from each of your paychecks is automatically deducted to pay for Medicare. When the Medicare tax has been withheld from your pay for at least 40 calendar quarters, you're likely eligible for Part A coverage with no premium. Although Part B typically has a monthly premium, its monthly premium is determined by income level.

¹ <https://www.cms.gov/fastfacts/>

² <https://www.medicare.gov/sign-up-change-plans/how-do-i-get-parts-a-b/part-a-part-b-sign-up-periods>



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Parts C (Medicare Advantage) and D (Medicare Prescription Drug Coverage), on the other hand, are completely separate from Original Medicare, and provide additional or supplemental coverage that's offered via Medicare-approved private insurance companies. To enroll in Part C or D, you must decide which policy's coverage and monthly premium is right for you, and then purchase the policy from that carrier during an enrollment period.

Extent of Coverage

Each part of Medicare offers different medical coverage at varying costs.

Part A is hospital insurance that covers the costs of medical facilities, and offers coverage for medically necessary inpatient care at hospitals, skilled nursing facilities, hospices, and limited home health services. While most people don't pay a premium for Part A because they have already paid enough in Medicare payroll taxes, that doesn't mean that the coverage provided by Part A is entirely without cost.

For a hospital stay in 2020, you will pay:

- \$1,408 deductible per benefit period
- \$0 for the first 60 days of each benefit period
- \$352 per day for days 61-90 of each benefit period³

For any hospital stay lasting more than 90 days, Medicare will only pay for a portion of those additional days if you use one of your 60 "lifetime reserve days," at a cost to you of \$704 per day. If a hospital stay extends beyond 90 days in a benefit period and your lifetime reserve days, you will be responsible for all costs.

For a skilled nursing facility stay in 2020, you will pay:

- \$0 for the first 20 days of each benefit period
- \$176 per day for days 21-100 of each benefit period

- All costs for any day of care beyond day 100 of the benefit period⁴

Part B is medical insurance that covers the costs of two types of services: medically necessary and preventative. Medically necessary services consist of services or supplies that are required to diagnose or treat a medical condition and that meet certain medical care practice standards. Preventative services include health care services to avert illness or assist in early detection. These services would include clinical research, ambulance services, durable medical equipment, mental health care, outpatient and inpatient care, second opinion before surgery, and a small selection of outpatient medication.

The cost of Part B varies according to income level, although for people who first enrolled in Part B in 2020, many will pay the standard monthly premium amount of \$144.60 and have a \$198 yearly deductible. Individuals who have an annual income greater than \$87,000 and couples who have a joint annual income greater than \$174,000 will have an extra charge added to their premium due to their higher income level.³

Part C is Medicare Advantage (MA) Plans, are policies offered by Medicare-approved private insurance carriers to provide you with the same benefits as Parts A and B, and many plans offer extra benefits by providing prescription drug coverage and/or coverage for additional services like vision, hearing, dental, and/or health and wellness programs. If you select a Medicare Advantage Plan, you'll still be enrolled in Medicare, but your medical coverage will be administered by your plan, not by Original Medicare. In other words, Medicare will pay your MA plan's insurance carrier a set amount for your care each month, instead of directly paying your healthcare provider (as is the case if you have Original Medicare). Consequently, while the coverage and cost of MA plans vary, they all provide the same baseline coverage (the benefits of Parts A and B) and either you or your MA plan will still need to pay the premium associated with Part B.⁵

³ <https://www.medicareinteractive.org/get-answers/medicare-health-coverage-options/original-medicare-costs/part-b-costs-for-those-with-higher-incomes>

⁴ <https://www.medicare.gov/coverage/skilled-nursing-facility-snf-care>

⁵ <https://www.medicareinteractive.org/get-answers/medicare-health-coverage-options/medicare-advantage-plan-overview/medicare-advantage-basics?>



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Part D is prescription drug coverage that's offered through private, Medicare-approved private insurance companies. Every Medicare Prescription Drug Plan has its own list of drugs, called a formulary, for which it will provide coverage. A formulary is divided into different tiers according to the cost of the drug: drugs on a lower tier generally have lower copayments than drugs on a higher tier.

As Parts C and D are provided by private insurance companies, the monthly premiums for these policies depend on the extent of their coverage and can vary between companies.

Prescription Coverage Gap

However, although costs vary from plan to plan, the payment structure for Part D can often create a gap in coverage. Essentially, you pay monthly premiums for Part D all year, and with most plans you pay 100 percent of your drug costs until you reach your deductible amount. After your deductible, the cost of your drugs is split between you and your plan. However, in 2020, once you and your plan have spent \$4,020 on covered drugs, you've entered the coverage gap, and now will have to pay 25 percent of the price of generic drugs and 25 percent of the price of brand-name drugs. You will not exit the coverage gap until you've spent out-of-pocket \$6,350 on prescription drugs. At that point, you will qualify for "catastrophic coverage" and will only have to pay a small copayment or percent for covered drugs for the rest of the year.⁶

Medicare Supplement (Medigap) Coverage

Just like with any insurance policy, there may be times when the Medicare plan you've chosen doesn't provide you with the coverage you need. To help limit those potentially devastating consequences, you can purchase a Medicare Supplement Insurance (Medigap) policy from a

private insurance carrier to bridge potential holes in your coverage. A Medigap policy can be used to help pay for some of your health care costs, like copayments, coinsurance and deductibles, that Original Medicare doesn't cover, or it can be used to provide you with coverage for services that aren't included in Original Medicare, like international travel medical care.

A Medigap policy can only be used in conjunction with Original Medicare. Whereas a Medicare Advantage Plan provides you with Medicare benefits through private means, a Medigap policy is meant to complement your Original Medicare coverage. Just as its name implies, a Medigap policy is not standalone coverage, instead it's a way to cover some expenses not covered by Original Medicare. If you have Original Medicare and choose to purchase a Medigap policy, then your Medicare policy will pay its Medicare-approved portion for covered health care costs and your Medigap policy will pay its share. A Medigap policy won't provide you with impenetrable coverage because there are many services the policies won't cover: long-term care, vision or dental care, hearing aids, eyeglasses, or private-duty nursing.⁶

Because Medigap policies are offered through private insurance carriers, the cost and extent of the coverage varies greatly. Each insurance company determines its own premiums, and many insurance companies charge different premiums for identical coverage. It's crucial to understand the method by which an insurance company prices, or "rates," its Medigap policies, because there are three ways to do so. When shopping for a Medigap policy, it's not only important to make sure you're comparing policies that offer the same type of coverage, but also policies that have the same pricing, because the way a Medigap policy is rated can profoundly impact on your bottom line.

1. A Medigap policy that's community-rated or No-Age-Rated means a Medigap policy's premium

⁴ <https://www.medicare.gov/coverage/skilled-nursing-facility-snf-care>

⁵ <https://www.medicareinteractive.org/get-answers/medicare-health-coverage-options/medicare-advantage-plan-overview/medicare-advantage-basics?>

⁶ <https://www.medicareresources.org/faqs/how-will-my-medicare-prescription-drug-costs-change-this-year/>



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is the same across the board – regardless of the policyholder's age. The monthly premium can still go up but, if it does, it won't be an age related increase.

2. An Issue-Age-Rated Medigap policy means the monthly premium is determined by how old the policyholder is when they purchased the Medigap policy and will not increase with age.

3. An Attained-Age-Rated Medigap policy means the monthly premium is based on the policyholder's current age and will increase as they gets older.⁷

As you begin considering whether a Medigap policy may be right for you, the Medicare website lists the below items as important facts to consider:

- 1.** You must have Medicare Part A and Part B.
- 2.** If you have a Medicare Advantage Plan, you can apply for a Medigap policy, but make sure you can leave the Medicare Advantage Plan before your Medigap policy begins.
- 3.** You pay the private insurance company a monthly premium for your Medigap policy in addition to the monthly Part B premium that you pay to Medicare.
- 4.** A Medigap policy only covers one person. If you and your spouse both want Medigap coverage, you'll each have to buy separate policies.
- 5.** You can buy a Medigap policy from any insurance company that's licensed in your state to sell one.
- 6.** Any standardized Medigap policy is guaranteed renewable even if you have health problems. This means the insurance company can't cancel your Medigap policy as long as you pay the premium.

7. Some Medigap policies sold in the past covered prescription drugs, but Medigap policies sold after Jan. 1, 2006 aren't allowed to include prescription drug coverage. If you want prescription drug coverage, you can join a Medicare Prescription Drug Plan (Part D).

8. It's illegal for anyone to sell you a Medigap policy if you have a Medicare Medical Savings Account (MSA) Plan.⁸

As you can see, both the cost and coverage of Medicare varies greatly, depending on what type of plan you select. Maintaining the vitality of both your physical health and your retirement assets requires developing a strategy to efficiently manage your insurance costs. When it comes to selecting the right plan, it's critical to work with a financial professional who can help you select the plan that provides the necessary coverage at the appropriate cost. Your health care plan and coverage need to be as unique as you are. Make sure you work with a professional who will take the time to craft a strategy that will help protect both your health and retirement.

⁵ <http://www.medicare.gov/part-d/costs/coverage-gap/part-d-coverage-gap.html>

⁶ <http://www.medicare.gov/supplement-other-insurance/medigap/whats-medigap.html>

⁷ <http://www.medicare.gov/supplement-other-insurance/medigap/costs/costs-of-medigap-policies.html#collapse-4670>

⁸ <http://www.medicare.gov/supplement-other-insurance/medigap/whats-medigap.html>