



What's Medicare?

Medicare is the federal health insurance program for people age 65 or older and for certain younger people with disabilities. The enrollment period begins three months before your 65th birthday and continues for four months afterward. Without a qualifying exemption, failing to take action during this seven-month window can lead to significant, permanent financial penalties. Enrolling even a few months late will increase your premium for as long as you have Medicare. Thus, it's critical to make timely, informed decisions. This briefing will help you navigate the complexities of Medicare, so you can make the best choices for your own situation.

The ABCDs of Medicare

Five different insurance programs constitute Medicare. The federal government manages Parts A and B, which are collectively referred to as "Original Medicare." Private insurance companies offer Part C (Medicare Advantage), Part D (Prescription Drugs), and Medigap.



On their own, Parts A and B do not provide complete health insurance coverage. For example, they don't cover prescription drugs, dental care, or vision care. In addition, without supplemental coverage, you'll pay annual deductibles and 20% coinsurance for all expenses. To span these coverage gaps, you can purchase a supplemental Medigap policy or bundle all your benefits in a Medicare Advantage plan.

Our recommendation




The primary difference between Medigap and Medicare Advantage plans is cost. Medigap plans typically have higher monthly premiums, but Medicare Advantage covers fewer expenses and may leave you with more out-of-pocket expenses. Because Medigap plans provide the greatest flexibility and coverage over the long term, we recommend these policies for those who can afford them.

Three Steps for Medicare Coverage

1 Sign up for Part A and B on [Medicare.gov](https://www.medicare.gov)

PART A	PART B
	
Hospital insurance (inpatient)	Doctor visits and outpatient hospital visits

2 Choose your plan

PART C	or	PART D	+ Medigap (supplemental)
			
Joins Part A and B with additional coverage (most include drugs)		Prescription drugs	Out-of-pocket expenses NOT covered by Part A and B (deductibles, copays and other costs)
must have Medicare Part A AND Part B to enroll		must have Medicare Part A OR Part B to enroll	must have Medicare Part A AND Part B to enroll

3 Prepare for additional expenses (out-of-pocket drug costs, long-term care costs, etc.)

Eligibility and costs

Not everyone is eligible for Medicare. If you're not a U.S. citizen, you must be a permanent legal resident who has lived in the United States for at least five years. Additionally, you must be at least 65 years old or have received disability benefits for at least two years.

If you've paid Social Security and Medicare taxes on your wages for at least 40 quarters, you won't pay a premium for Part A. The current monthly premium is \$252 for those who have paid into the system for at least 7.5 years and \$458 for those with shorter work histories. You can continue working to fulfill the 10-year work minimum after you turn 65.

Work history does not affect your premiums for Part B. If you're not eligible for free Part A, you can opt out of it and enroll just in Part B, but you won't have coverage for hospital visits.

Choosing between Medicare Advantage and Original Medicare

You have two options to supplement Original Medicare. One is to add Part D and a Medigap policy. The other is to opt for Medicare Advantage, which typically includes Part D. You cannot use Medicare Advantage and Medigap simultaneously.

	Medigap (+ Part D)	Medicare Advantage
Advantages ✓	<ul style="list-style-type: none"> • Most U.S. doctors and facilities accept Medicare • Greater flexibility for individuals who spend time in multiple states • Some plans cover medical care when traveling outside the country • Benefits remain constant year to year 	<ul style="list-style-type: none"> • All benefits on one card • Lower monthly premium (\$36 average, in addition to Part B premium)¹ • Average benefits offered: 90% prescription drugs, 78% vision, 67% dental, 72% fitness² • Easy to switch policies during annual open enrollment period
Disadvantages ✗	<ul style="list-style-type: none"> • Higher monthly premium (\$140 average for Medigap + \$42 for prescriptions, in addition to Part B premium)^{3,4} 	<ul style="list-style-type: none"> • Higher costs for out-of-network doctors and facilities • Many plans require referrals to see specialists • Copay expenses add up with frequent doctor visits

State differences

The number of Medicare Advantage plans available varies dramatically from state to state, with none in Alaska and 254 in Florida.⁵ Medigap premiums also vary by state, but most states offer 10 different plans with distinct sets of standardized coverage.

Switching plans and “guaranteed-issue” rights

The decisions you make when you turn 65 will, in most cases, fix your health insurance options for years to come. Providing you make timely premium payments, Medigap policies are guaranteed to be renewable annually—even if you have health problems. Although costs typically rise over time, your benefits won't change.

However, if you drop your Medigap policy, there's no guarantee you'll be able to get it back. After the initial Medicare enrollment period, moving to a different state not covered by your Medicare Advantage plan is one of the few ways to receive a guaranteed-issue right. Even then, you may be limited in your choice of plans, depending on your state.

¹ Gretchen Jacobson et al., “Medicare Advantage 2020 Spotlight: First Look,” KFF, October 24, 2019.

² Gretchen Jacobson et al., “A Dozen Facts About Medicare Advantage in 2019,” KFF, June 6, 2019.

³ Hillary Hoffer, “Medicare Isn't Enough for Retirees - Here's How Much Extra Coverage Costs in Every State, Ranked,” Business Insider, June 17, 2018.

⁴ Juliette Cubanski and Anthony Damico, “Medicare Part D: A First Look at Prescription Drug Plans in 2020,” KFF, November 14, 2019.

⁵ “Medicare Advantage Plans,” KFF, 2019.

Enrollment

The enrollment period for Parts A, B and D of Medicare is the seven-month window beginning three months before your 65th birthday.



Most people don't pay a monthly premium for Part A, so unless you contribute to a health savings account (HSA), there is no reason to delay enrollment. For those who do not qualify for free Part A premiums, the financial penalty for late enrollment lasts twice the number of years you delay beyond your enrollment period.



Without a qualifying exemption, failure to enroll during your designated window can result in a late-enrollment penalty of a 10% premium increase for every year past the enrollment period. This penalty lasts for as long as you are enrolled in Medicare.



Medicare Advantage. During the annual open enrollment period (October 15 – December 7), you can switch from Original Medicare to a Medicare Advantage Plan.



After the initial enrollment period, without a qualifying exemption, there is a 1% increase in the plan's premium for each month you delay enrollment. You can change your plan during the annual open enrollment period.



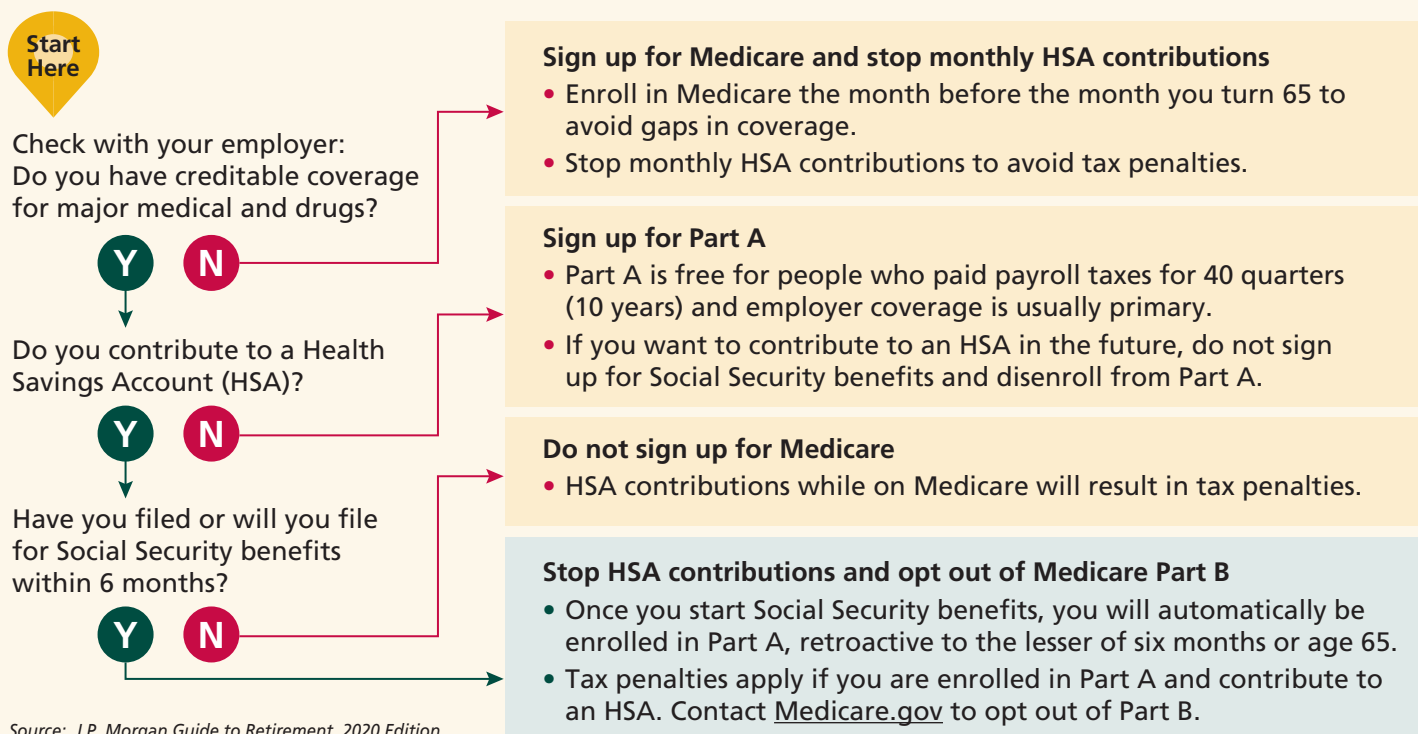
If you buy any Medigap policy within six months of signing up for Part B, you will pay the same price as a person in good health. Outside this window, there's no guarantee you'll be able to get coverage, and if you do, your rates will likely be higher.

Still working at age 65

If you are still working at age 65, you may need to follow a customized approach for Medicare enrollment. For example, you may be able to defer enrollment in Parts A and B without financial penalty, depending on the size of the company you work for and whether you receive Social Security benefits. Navigating the decision tree is complicated, so we recommend you consult with your employer's human resources department.

65 and Working: Should I Sign Up for Medicare?

Assumes adequate employer coverage and qualification for Medicare at age 65



Part B premiums

Your monthly premium for Part B is based on your modified adjusted gross income from two years prior, as reported on your individual tax return. If your income has changed, you can file an appeal.

Planning for inflation

Health care costs have been rising 5% annually, twice the base inflation rate for most other goods and services. You have to plan not only for a rise in insurance costs as you age but the increasing costs of health care generally. Consider maintaining an emergency reserve fund for high out-of-pocket cost periods. The nearby illustration shows how costs grow over time, based on an annual increase of 5.4%. The second bar bakes in an additional contingency for uncertainties, reflecting a total annual growth in costs of 6.0%.

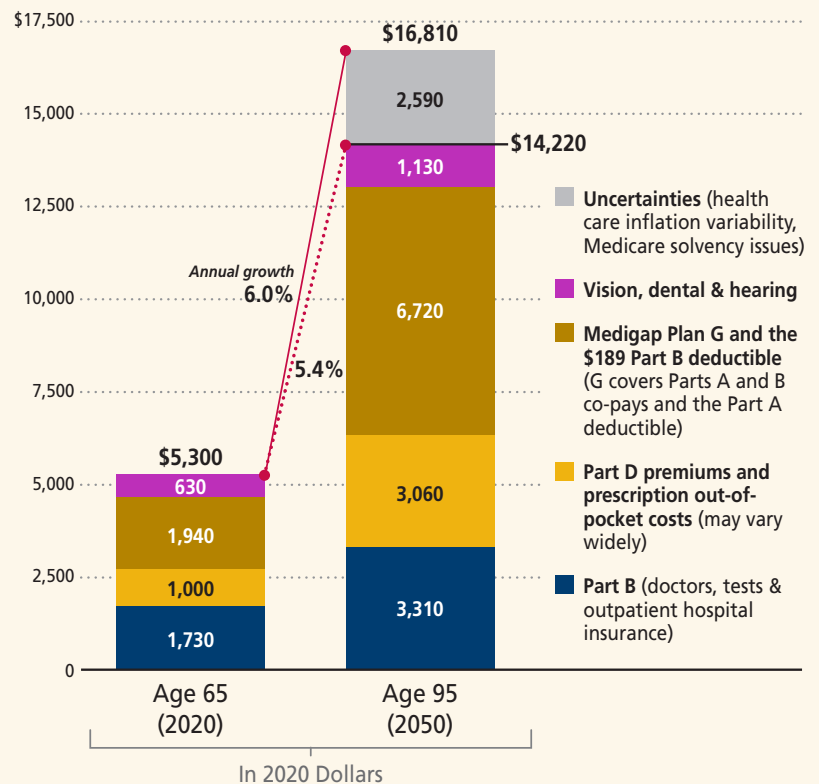
Long-term care

Despite a majority of Americans needing long-term care later in life, even the most comprehensive Medigap policies do not cover long-term assistance with daily activities such as eating and bathing. Parts A and B cover long-term care only if you require skilled medical services or rehabilitative care. While the average stay in a nursing home is 835 days, the average stay covered by Medicare is only 22 days.⁶ Some Medicare Advantage plans now offer supplemental benefits such as in-home care coverage, but these are insufficient for long-term care. For more information, see our “**Long-Term Care 101**” briefing.

⁶ “Who Pays for Long-Term Care?” LongTermCare.gov, October 10, 2017.

June 2020

Original Medicare Costs in Retirement
(in 2020 dollars)



Source: J.P. Morgan Guide to Retirement, 2020 Edition.



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