7 THINGS YOU NEED TO KNOW ABOUT MEDICARE

As you head into retirement, we want to provide you with as much information as possible to help you understand your important federal retirement benefits.

This whitepaper contains information gathered primarily from Medicare.gov, and is only intended to be a general overview of the Medicare program as it exists in November of 2018. To get specific information and advice pertaining to your unique situation, it's important to meet with your personal financial advisor.

Keep in mind that the Medicare program is subject to change, and certain aspects of it vary by state.

1 IT'S NOT FREE

Medicare will not cover all of your health care costs when you retire.

Although studies have shown Medicare to be cheaper than individual health plans offered by private insurers, it's far from free.

For most people, health care will be their largest retirement expense—even with Medicare. In fact, some estimates rank health care at the top of the list of retirement expenses, exceeding housing and recreation costs combined.

An average retired couple aged 65 in 2018 may need approximately $280,000 saved (after tax) to cover health care expenses, according to Fidelity Investments.[1] Fidelity's estimate does not include other health-related expenses, such as over-the-counter medications, most dental services, and long-term care. And the costs will depend on longevity, health factors, and retirement age, as well as whether tax-deferred or after-tax dollars are being spent on health care services.

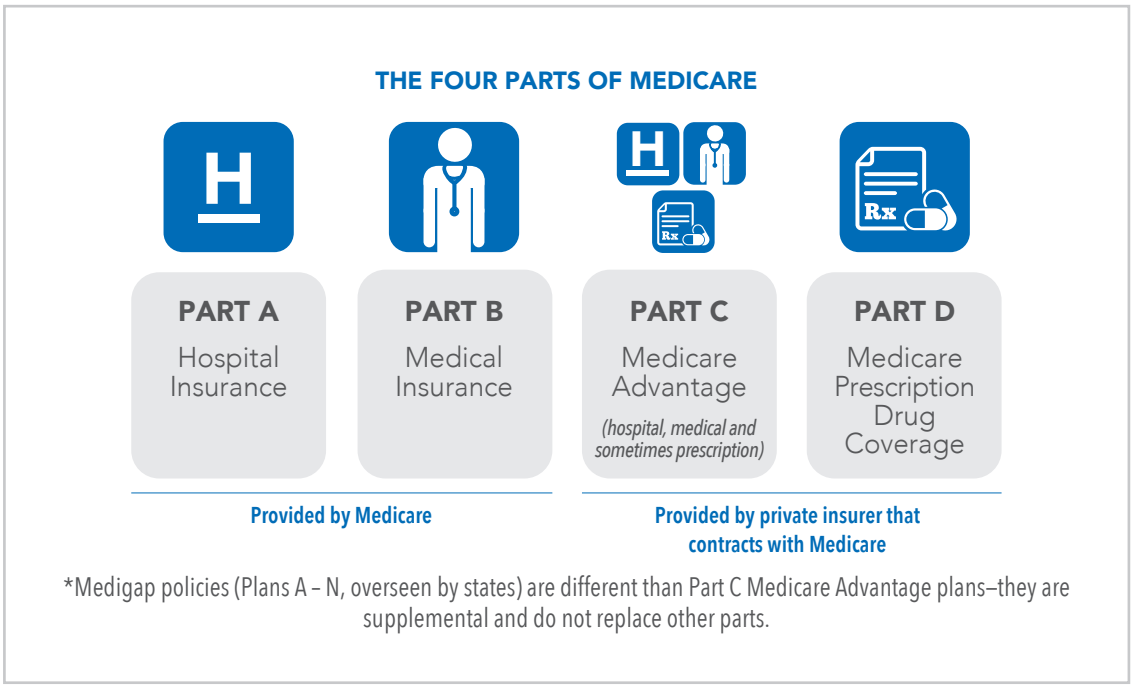
A broader estimate from HealthView Services found that total projected lifetime health care premiums (including Medicare Parts B and D, supplemental insurance and dental insurance) for a healthy 65-year-old couple retiring in 2018 are projected to be $363,946 in today's dollars.[2]

2 THERE IS NO OUT-OF-POCKET ANNUAL OR LIFETIME LIMIT

It's important to know that there is no yearly or lifetime out-of-pocket maximum when it comes to Medicare. And for Part B, you usually pay at least 20% coinsurance for approved costs, no matter how high they are.

3 THE ALPHABET SOUP OF MEDICARE "PARTS"

Six months before you turn 65, you'll receive a catalog from the government: "Medicare & You." (Available via downloadable PDF[3] if you need some help falling asleep at night.)



While the program can seem overwhelming, here are the basics on Medicare Parts, along with their **2019 costs**. Keep in mind that a higher income bracket means **more costly Part B and Part D** premiums.

PART A
(Original Medicare - Hospital Insurance)[4]

Premiums for Medicare Part A, which pays for hospital care, are free for most people who've worked (and their spouses). It typically covers in-patient care at a hospital, as well as short skilled nursing facility and/or hospice stays. Part A also usually covers services like lab tests, surgery, doctor visits, and home health care related to a hospital stay. (Not all stays are covered; it is important to check beforehand.) For people who are frequently admitted to the hospital, the out-of-pocket costs can quickly skyrocket.

Part A has **a $1,364 deductible for each "benefit period,"** or health-care incident requiring hospitalization in 2019. It's important to remember that Part A is designed for inpatient care up to 60 days, and in addition to your deductible, longer stays carry high coinsurance charges with no annual or lifetime maximums.

Here are the coinsurance charges you will pay for longer hospital stays in 2019:

Days 1-60: $0 coinsurance for each benefit period

Days 61-90: **$341 coinsurance per day** of each benefit period

Days 91 and beyond: **$682 coinsurance per each "lifetime reserve day"** (you have a total of 60 "lifetime reserve days" that can be used toward the same or different hospital stays)

Beyond lifetime reserve days: **You pay all costs**

PART B
(Original Medicare - Medical Insurance)[4]

Medicare Part B is medical insurance, covering services and supplies that are medically necessary to treat a health condition. This can include outpatient care, lab work, preventive services, ambulance services, and durable medical equipment.

For 2019, retirees pay the standard premium of **$135.50 each month**. People in higher income brackets pay more.

The yearly deductible for Part B is **$185** in 2019.

After your deductible is met, you typically pay **20%** coinsurance for Medicare-approved amounts for most services from approved providers, with **no yearly maximum on what you may have to shell out**.

PART C
(Medicare Advantage)[5]

Medicare Part C, or Medicare Advantage, is not a separate benefit, it's the name used for private health insurers providing Medicare benefits. The companies providing these policies are paid by Medicare for approved expenses.

Medicare Advantage plans **replace** Parts A and Parts B, and usually replace optional Part D (drug) coverages. Federal law mandates that Part C cover all of the services provided by original Medicare Parts A and B except hospice care, which is always provided by Medicare. Part C providers are also required to cover emergencies and urgent care within the U.S. (but not outside the country).

Some Medicare Advantage plans include a reduction in the Part B premium. And many offer extra benefits, such as dental care, eyeglasses, or wellness programs, and Medicare prescription drug coverage (Part D).

Plan benefits and premium costs can change from year to year. There are many types of plans to choose from, and coverages, plan requirements, provider networks, and costs vary by carrier.

Here are the types[5] of Part C plans you may find:

HMO (Health Maintenance Organization) plans—In an HMO, you can only go to doctors, health care providers, or facilities in the plan's network, except in an urgent or emergency situation. You may also need to get a referral from your primary care doctor for tests or to see other doctors or specialists.

PPO (Preferred Provider Organization) plans—In a PPO, you pay less if you use doctors, hospitals, and other health care providers that belong to the plan's network and more if you use doctors, hospitals, and providers outside of the network.

PFFS (Private Fee-for-Service) plans—PFFS plans allow you to go to any doctor, health care provider, or hospital as long as they accept the plan's payment terms. The plan determines how much it will pay doctors, other health care providers, and hospitals, as well as how much you must pay when you get care.

SNPs (Special Needs Plans)—SNPs provide focused and specialized health care for specific groups of people, like those who have both Medicare and Medicaid, live in a nursing home or have certain chronic medical conditions.

HMOPOS (HMO Point-of-Service) plans—These HMO plans allow you to get certain services out-of-network for a higher copayment or coinsurance.

MSA (Medical Savings Account) plans—These plans combine a high-deductible health plan with a bank account. Medicare deposits money into the account (usually less than the deductible). You can use the money to pay for your health care services during the year. MSA plans don't offer Medicare drug coverage. If you want drug coverage, you have to join a Medicare Prescription Drug Plan.

For more information on available plans, consult with your financial advisor.

MEDIGAP
(Medicare Supplement Insurance)[6,7]

In Massachusetts, a Medigap policy is private insurance that helps supplement or pay some of the costs in combination with original Medicare Parts A and B, including copayments, coinsurance, and deductibles. Beneficiaries are eligible for enrollment in a Medicare Supplement insurance plan in Massachusetts if they are already enrolled in Original Medicare. Medicare Supplement insurance plans cannot be used in combination with a Medicare Advantage (Part C) plan.

Massachusetts is among only three states in which Medigap policies are structured differently than the more standardized policies sold in most states. If you live in Massachusetts, you have guaranteed issue rights to purchasing a policy.

There are two basic plans to choose from: The Core Plan and the Supplement 1 Plan.

Both plans cover the basic benefits below:

- Inpatient hospital care: covers the Part A coinsurance plus coverage for 365 additional days after Medicare coverage ends
- Medical costs: covers the Part B coinsurance (generally 20% of the Medicare-approved amount)
- Blood: covers the first three pints of blood each year
- Part A hospice coinsurance or copayment

The Core Plan covers:

- Basic benefits
- 60 days per calendar year of inpatient days in mental health hospitals
- Some state-mandated benefits, including yearly Pap tests and mammograms, and other state-mandated benefits

The Core Plan doesn't cover:

- Part A: inpatient hospital deductible
- Part A: skilled nursing facility coinsurance
- Part B: deductible
- Foreign travel emergency

The Supplement 1 Plan covers:

- Basic benefits
- Part A: inpatient hospital deductible
- Part A: skilled nursing facility coinsurance
- Part B: deductible
- Foreign travel emergency
- 120 days per calendar year of inpatient days in mental health hospitals
- State-mandated benefits, including yearly Pap tests and mammograms, and other state-mandated benefits

Medicare.gov side-by-side comparison chart[7] of Massachusetts Medigap policies:

Medigap Benefits	Medigap Plans	
	Core Plan	Supplement 1
Basic benefits	Yes	Yes
PART A: inpatient hospital deductible	No	Yes
PART A: skilled nursing facility coinsurance	No	Yes
PART B: deductable	No	Yes
Foreign travel emergency	No	Yes
Inpatient days in mental health hospitals	60 days per calendar year	120 days per benefit year
State-mandated benefits (yearly Pap tests and mammograms. Check your plan for other state-mandated benefits.)	No	Yes

PART D
(Prescription Drug Coverage)[8]

Individuals are eligible for Part D prescription drug coverage (administered by private insurance companies) if they're signed up for Medicare Part A and B (or Part C replacement). Prescription drug coverage varies by plan and types of drugs covered. Additionally, if you don't sign up for Part D (or Part C including drug coverage) when you're first eligible, you may have to pay a Part D late enrollment penalty[9] for as long as you have a Part D plan. The penalty amount depends on how long you went without it.

> Additionally, higher income individuals pay an extra premium amount based on their adjusted gross income as reported on their tax returns from two years prior–from $12.70 to $77.40 per month extra in 2019 (based on 2017 tax returns.) This extra amount is collected by Medicare, not your insurance carrier, and most people have this extra amount taken out of their Social Security check. For a further explanation of the additional premiums, see the section on Higher-Income Beneficiaries.

Part D plans are allowed to charge deductibles of up to $415, but deductibles vary, and some Part D plans don't have a deductible. You may have heard of the "donut hole" when it comes to Part D—this refers to yearly drug costs that exceed $3,820 but are under $5,000 (when catastrophic coverage kicks in).[10,11,12] The percentage you save in the coverage gap will increase each year through 2020. In addition, you'll continue to get the 65% discount on covered brand-name prescription drugs.[13]

Year	You'll pay this percentage for for brand-name drugs in the coverage gap	You'll pay this percentage for for generic drugs in the coverage gap
2019	25%	37%
2020	25%	25%

Source: Medicare.gov. The Official U.S. Government Site for Medicare.

4 WHAT MEDICARE DOESN'T COVER IS A LOT

Neither Parts A nor B cover any of the following, although Part C Medicare Advantage or Medigap supplemental plans may offer some coverages depending on their policy terms.

- Care outside of the U.S.
- Eye exams (except for diabetics), vision care, or eyeglasses
- Hearing exams or hearing aids
- Most dental care services or dentures
- Acupuncture or alternative treatments
- Routine foot care (except for diabetics)
- Cosmetic surgery
- Amounts not covered by deductibles and coinsurance (20%)
- Limited physical therapy, occupational therapy, speech pathology services
- Long-term care (LTC)* or custodial care, unless specific requirements are met

  *(Medicare won't provide coverage for the 60 days in an LTC facility unless the patient was in a hospital for three consecutive days within a 30-day window.)

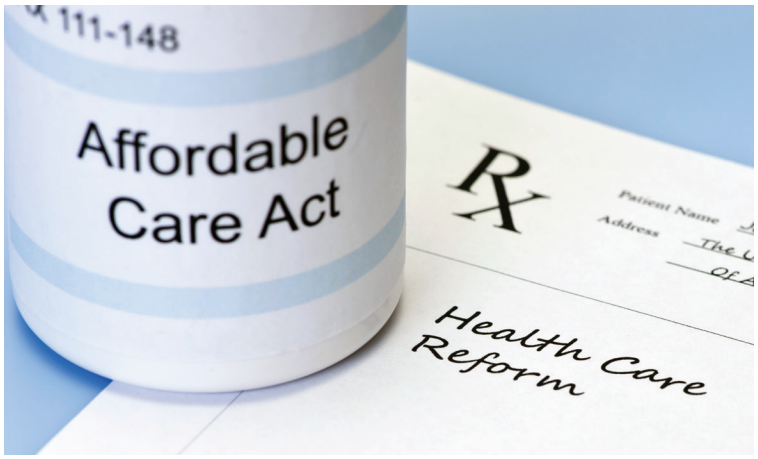
People are living longer than ever and women have a greater risk of needing long-term care because they often live longer than men. The cost of nursing care varies by state, but it is always expensive at an average $7,441 per month[14] for a semi-private room as of 2018.

It's estimated that 52% of Americans turning 65 today will develop a disability serious enough to require long-term services and support, although most will need assistance for less than two years. About one in seven adults, however, will have a disability for more than five years.[15] Medicare doesn't cover past 60 days if you become incapacitated and need nursing care, unless you qualify for Medicaid, which requires a complete spend-down of assets. People can risk losing their home and everything they hoped to leave their heirs due to unexpected incapacitation and the need for an assisted living facility or nursing care, although there are some spousal protections in place. Be sure to have an estate plan. And research your long-term-care coverage options.

5 MEDICARE IS MANDATORY

There is no way to opt out of Medicare once you are 65 if you receive Social Security. And health insurance coverage is still required by the Affordable Care Act *until 2019*.

Again, starting with the 2019 plan year (for which you file taxes in April 2020) the penalty for not having health insurance no longer applies.



6 YOU HAVE 3 MONTHS AFTER YOU TURN 65 TO SIGN UP… OR YOU COULD PAY MORE

If you are already receiving Social Security benefits, you don't need to do anything to enroll in Medicare. You will be automatically enrolled in Medicare Parts A and B effective the month you turn 65.

Otherwise, you must enroll in Medicare when you turn 65, unless you're covered by an employer group plan that covers 20 or more employees (based on the current employment of you or your spouse). Most people sign up for Part A (usually free) within the initial enrollment period, but this may impact your ability to contribute to an HSA (Health Savings Account), so it is very important to check with your financial advisor.

If your employer group plan has less than 20 employees, you may also want to sign up for Part B during the seven-month initial enrollment period that begins three months before you turn 65. Medicare becomes the primary insurer by default if you are 65 with a group health insurance plan that covers 20 or fewer employees. In addition to possible penalties, if you don't enroll in Medicare at 65, your group insurance may refuse claims. Similarly, not enrolling in a Part C or Part D plan at 65 may cause your premiums to be higher permanently.

It is very important to check with an expert when making decisions about your Medicare options to better understand how your Medicare plan choices may impact your finances.

7 YOU USUALLY PAY FOR MEDICARE BY HAVING IT DEDUCTED FROM YOUR SOCIAL SECURITY CHECK

Premiums for most Medicare plans may be deducted directly out of your Social Security benefit check, so keep that in mind when planning your monthly retirement income. If you are not already receiving Social Security benefits when you turn 65, you must sign up for Medicare through the Social Security Administration during a Medicare enrollment period.

If you are already receiving Social Security when you turn 65, Medicare Parts A and B are automatically deducted from your check, and coverage starts the first of the month that you turn 65 years old. Medicare Part B premiums must be deducted from Social Security benefits if the monthly benefit amount covers the deduction. If the monthly benefit does not cover the full deduction, you will be billed quarterly. You must proactively decline Part B if you have or choose different coverage.

You may elect deduction of Medicare Part C (Medicare Advantage) and/or Part D from your Social Security benefit, but it is your responsibility to ensure that the right premium deductions take place. Enrollments in Medicare Parts C and D (private plans) are not automatic and you must choose your private insurer and proactively enroll. You have other options (besides Social Security check deduction) to pay the premiums for these private plans, which differ by provider. Most offer check, automatic debit, or credit card payments.

If Not Automatically Enrolled
Your 7-Month Initial Enrollment Period

	No Delay			Delayed Start			
If you enroll in Part B	3 months before the month you turn 65	2 months before the month you turn 65	1 month before the month you turn 65	***The month you turn 65***	1 month after you turn 65	2 months after you turn 65	3 months after you turn 65
	Sign up early to avoid a delay in getting coverage for Part B service. To get Part B coverage the month you turn 65, you must sign up during the first three months before the month you turn 65.			If you wait until the last four months of your Initial Enrollment Period to sign up for Part B, your start date for coverage will be delayed.			

RULES FOR HIGHER-INCOME BENEFICIARIES

If you have higher income, you'll pay an additional premium amount for Medicare Part B and Medicare Part D prescription drug coverage. The additional amount is known as the income-related monthly adjustment amount. The Social Security Administration determines if you'll pay higher premiums and uses your recent federal tax return provided by the Internal Revenue Service (IRS) to make the adjustments based on your modified adjusted gross income (MAGI).

For Medicare Part B, if the Social Security Administration determines that you're a higher-income beneficiary, then you will pay a larger percentage of the total cost of Part B. Also, if your income is above a certain limit, you'll pay an income-related monthly adjustment amount in addition to your plan premium for Part D drug plans.

For Medicare prescription drug coverage, you'll pay monthly premiums plus an additional amount if you're a higher-income beneficiary, again, based on what you report to the IRS. The Social Security Administration says it ties the additional amount you pay to a base beneficiary premium determined by law, rather than your own premium amount from your insurance carrier. If you're a higher-income beneficiary, the amount is deducted from your Social Security check. If the amount is greater than your monthly Social Security payments, or you don't receive monthly payments, you'll get a separate bill from another federal agency.[16]

Income-Related Monthly Adjusted Amounts for Part B and Part D for 2019 are listed below:

Beneficiaries Who File				
Individual Tax Return With Income	**Joint Tax Return With Income**	**Income-Related Monthly Adjustment Amount**	**Total Monthly Premium Amount**	**Part D Prescription Drug Premiums**
$85,000 or less	$170,000 or less	$0.00	$135.50	your plan premium
above $85,000 up to $107,000	above $170,000 up to $214,000	$54.10	$189.60	$12.40 + your plan premium
above $107,000 up to $133,500	above $214,000 up to $267,000	$135.40	$270.90	$31.90 + your plan premium
above $133,500 up to $160,000	above $267,000 up to $320,000	$216.70	$352.20	$51.40 + your plan premium
above $160,000 & less than $500,000	above $320,000 & less than $750,000	$297.90	$433.40	$70.90 + your plan premium
$500,000 or above	$750,000 or above	$325.00	$460.50	$77.40 + your plan premium

Sources: Centers for Medicare & Medicaid Services, https://www.cms.gov/newsroom/fact-sheets/2019-medicare-parts-b-premiums-and-deductibles
Medicare.gov, https://www.medicare.gov/drug-coverage-part-d/costs-for-medicare-drug-coverage/monthly-premium-for-drug-plans

It's clear that planning for health expenses and coverage when you retire has a significant impact on your enjoyment of your Golden Years. Call us to discuss how we can help you create a retirement income plan, protect yourself and your family against the catastrophic financial effects of an unplanned illness and give you the confidence that comes with taking action to help secure your future.

If you have any questions about how Medicare fits in to your retirement plan, don't hesitate to contact us to discuss your individual situation.

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Sources:

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