7 THINGS YOU NEED TO KNOW ABOUT MEDICARE

1 IT'S NOT FREE

If you are under the impression that Medicare will cover all of your health care costs when you retire, you are mistaken.

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.

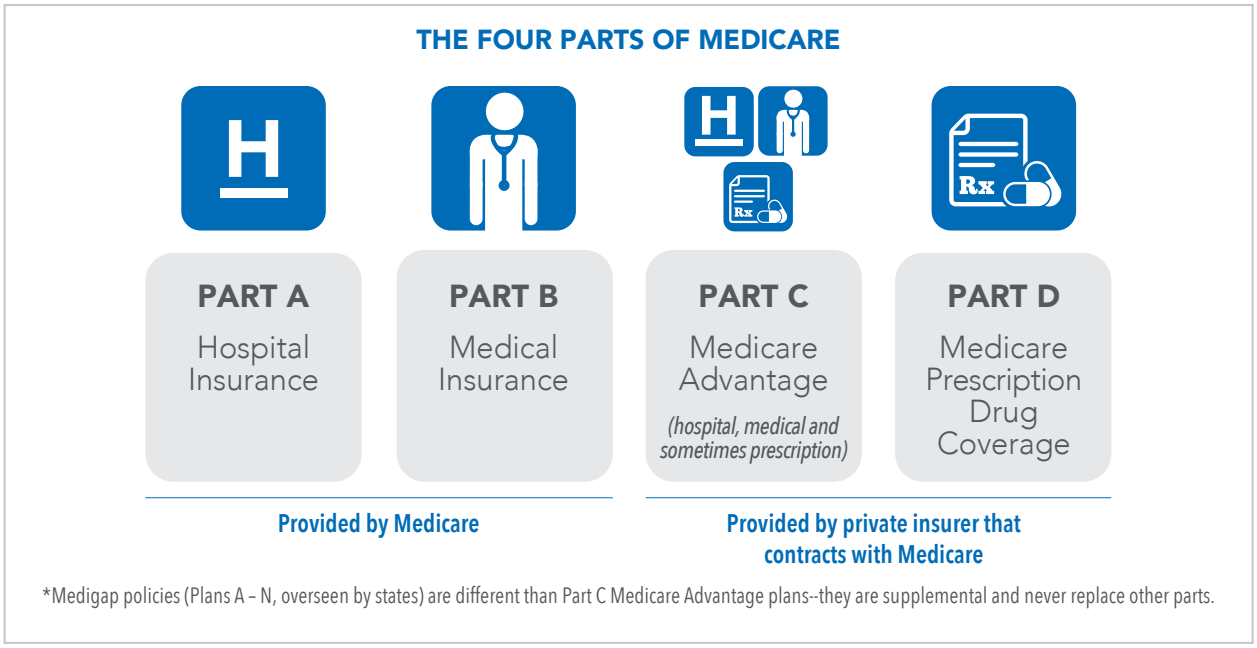
A 65-year-old healthy couple can expect to spend $266,600 over the course of their retirement on Medicare premiums alone, according to HealthView Services. A figure that Fidelity estimates is slightly lower at $245,000 per couple. Neither included out-of-pocket expenses, like co-pays or deductibles, or long-term-care costs in their estimates.

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. You usually pay at least 20% coinsurance for approved costs.

3 THE ALPHABET SOUP OF MEDICARE "PARTS"

Six months before you turn 65, you'll receive a 160-page catalog from the government: "Medicare & You." (Available via downloadable PDF here 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 **2016 costs**. Keep in mind that a higher income bracket means an **extra surcharge on Part B and Part D** premiums.

PART A
(Original Medicare - Hospital Insurance)

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, skilled nursing facility and/or hospice. Part A usually also 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 $1,288 deductible for each "benefit period,"** or health-care incident requiring hospitalization in 2016. It's important to remember that Part A is designed for inpatient care of less than 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 2016:

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

Days 61-90: **$322 coinsurance per day** of each benefit period

Days 91 and beyond: **$644 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)

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.

In 2016, retirees pay the standard premium of **$121.80 each month**. People with incomes higher than $85,000 (or higher than $170,000 for couples) may pay from **$171 to $389.80 per month** for Part B premiums.

The yearly deductible for Part B is **$166** in 2016.

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

PART C
(Medicare Advantage)

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. Part C plans are mandated by federal law to 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 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.

MEDIGAP
(Medicare Supplement Insurance)

Medigap plans are NOT Part C plans. They are not compatible, and if you have a Part C plan, it is illegal for anyone to sell you a Medigap policy. Medigap policies never replace Original Medicare Plans A or B, in fact you are required to have Parts A and B in order to purchase a Medigap policy. Medigap policies are supplemental. Medigap policies only cover one spouse—each person has to buy their own policy.

In general, a Medigap policy is private insurance that helps supplement or pay some of the costs not covered by original Medicare Parts A and B, including copayments, coinsurance and deductibles. Unless the policy is a "Medicare SELECT" policy, a Medigap policy can be used in any U.S. state or territory. Medigap policies issued after January 1, 2006, do not offer prescription drug coverage. You must buy a standalone Part D plan if you want that coverage as well as a Medigap plan.

Some Medigap policies also offer coverage for services that Original Medicare (Parts A and B) doesn't cover, like medical care outside the U.S. If you have Original Medicare and you buy a Medigap policy, Medicare will pay its share of the Medicare-approved amount for covered health care costs, then your Medigap policy pays its share. Medigap policies generally don't cover long-term care, vision or dental care, hearing aids, eyeglasses or private-duty nursing.

Insurance companies must sell standardized policies identified by most states by letters A through N (the letters A-C adding to immense consumer confusion.) They must all provide the same basic benefits, but some policies offer additional benefits and costs vary widely. See this chart comparing Medigap plans side-by-side: https://www.medicare.gov/supplement-other-insurance/compare-medigap/compare-medigap.html Medigap policies are guaranteed renewable as long as you pay the premium. However, premiums can go up. You may drop a Medigap policy, but you may not be able to get it back.

PART D
(Prescription Drug Coverage)

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 on average is $41 per month in 2016, but 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 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 $72.90 per month extra in 2016 (based on 2014 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.

Part D plans are allowed to charge deductibles of up to $360, 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 $3,310 but are under $4,850 (when catastrophic coverage kicks in.) **Part D plan holders must pay for 100% of their drug costs during this time.** This donut hole will close in 2020 as a result of the Affordable Healthcare Act.

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, vision care or eyeglasses*
- *Hearing exams or hearing aids*
- *Most dental care services or dentures*
- *Acupuncture or alternative treatments*
- *Routine foot care*
- *Cosmetic surgery*
- *Limited physical therapy, occupational therapy, speech pathology services*
- *Amounts not covered by deductibles and coinsurance (20%)*
- *Long-term* or custodial care*

*It's estimated that 70% of people over the age of 65 will need some form of long-term care assistance. 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 to 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 in place. And research your long-term-care coverage options.

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 $6,844 per month for a semi-private room.

5 MEDICARE IS MANDATORY (BECAUSE HEALTH CARE COVERAGE IS)

Health insurance coverage is now required by the Affordable Care Act.

If you have Original Medicare (Part A and Part B), a Medicare Advantage plan (Part C), or Medicare Part A only, then you meet the Affordable Care Act requirement to have health insurance. However, if you are only enrolled in Medicare Part B, this does not satisfy the minimum essential coverage requirement.

6 YOU MUST SIGN UP WITHIN 3 MONTHS OF TURNING 65…OR 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 experts recommend everyone sign up for Part A (free for most people) within the initial enrollment period.

If your employer group plan has less than 20 employees, experts recommend that you also sign up for Part B during the seven-month initial enrollment period that begins three months before you turn 65—or you risk paying penalties. Medicare becomes the primary insurer by default if you are 65 and have a group health insurance plan that covers 20 or fewer. If you don't enroll, your group insurance may refuse claims that would have been covered by Part B.

Even if you don't have to enroll in Part B, you may want to enroll in Part D drug coverage at 65 to avoid late penalties that may apply if your drug coverage through your employer is less "creditable" than a plan you can get through Medicare.

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.

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.			

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.

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.

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