

GUIDE TO MEDICARE PLANNING

Health Insurance After Age 65

Whether you are retired or still working, Medicare will likely become part of your life after you turn 65. In the United States today, most health plans pay secondary to Medicare. So if you are currently covered by a retiree health plan, an individual policy, or a small employer group plan, you must enroll in Medicare when you turn 65.

If you don't, your insurance claims may not be paid. And if you do not enroll in Medicare on time, you will be subject to late-enrollment penalties. The only people who are exempt from enrolling in Medicare at 65 are workers and spouses who are covered by an employer group plan that covers 20 or more employees. Their time will come later.

What does this mean for you? Sometime before your 65th birthday you will need to find out two things:

1) Will you be able to maintain your current insurance coverage after you turn 65?

2) If so, how does that coverage work with Medicare?

If you are still working, or if you are retired and covered by a retiree plan, your employer or benefits administrator may be able to answer these questions.

Here are some possible situations:

Your current coverage will terminate when you become eligible for Medicare at 65. In this case you will enroll in Medicare and find supplemental coverage to fill the gaps that Medicare doesn't cover.

Your current coverage will continue, but you will still be advised to enroll in Medicare. This is because many health plans work with Medicare. After Medicare pays the amount it is required to pay, the health plan picks up some or all of the costs Medicare doesn't cover.

Your current coverage may continue, but at a high cost to you. In this case you may decide to opt out of your current plan, enroll in Medicare, and find less expensive supplemental coverage to fill the gaps.

Your (or your spouse's) current employer offers excellent group coverage to 20 or more employees. In this case you may continue with the plan after you turn 65. However, once you retire you will need to enroll in Medicare.

What You Need to Know About Medicare

Medicare is a national health insurance program for people over 65 and people under 65 who are receiving Social Security disability benefits. Participation is essentially mandatory if you want to have health insurance in this country. While you can – and probably should – have additional private insurance, you must enroll in Medicare in order for supplemental insurance to take effect.

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When you turn 65, Medicare becomes the primary payer. Under original Medicare, any private insurance you may have is secondary and will not pay until Medicare has paid its share. The only insurance that remains primary to Medicare is employer group coverage that covers 20 or more employees. So if you or your spouse is still working and covered by an employer group plan that covers 20 or more employees, you do not need to sign up for Medicare when you turn 65. Otherwise you do.

What Medicare covers

There are several parts to Medicare. Part A covers part of the cost of hospitalizations. Part B covers part of the cost of doctor visits and other health care services. Part D covers part of the cost of prescription drugs and is offered through private insurers.

Under original Medicare, when you go to the hospital under Part A or incur a medical expense under Part B, the bill is first sent to Medicare. The government will pay the portion it is responsible for, such as 80% of your doctor bill, and the remaining amount is billed to you. If you have supplemental insurance, your other insurance may pay all or part of the bill that remains after Medicare has paid its share.

Part D works a little differently because the insurance is offered through private companies that contract with Medicare. In order to have your prescription drugs covered by insurance, you need to find a Medicare drug plan offered in your area. You will have several drug plans to choose from, each having its own drug list and offering slightly different coverage at differing prices. A key part of enrolling in Medicare is shopping for prescription drug plans and finding one that offers the coverage you need for the drugs you take at a price you can afford.

How much Medicare costs

Some people think Medicare is free. This is not true. Part A may be free if you or your spouse has paid into Medicare for more than ten years. But when we say “free” we are only referring to the monthly premiums. If you are hospitalized, you will pay a deductible before Medicare pays its share. And if your hospitalization lasts for more than 60 days, you will be responsible for paying part or the entire daily rate.

Part B is not free for anyone, except those who qualify for special assistance for being poor. Medicare charges a monthly premium that is deducted from your Social Security check if you are receiving Social Security. If you haven't started Social Security yet, you will get a bill from Medicare. High-income people pay an extra amount on top of the base premium. In addition to the monthly premium, there is an annual deductible that you or your supplemental insurance must pay before Medicare pays its share. And because Medicare pays only part of the bill, you or your other insurance pays the remaining amount. There is no limit to the out-of-pocket expenses you could pay under Medicare alone. This is why most people have supplemental insurance.

Medicare subsidizes prescription drug coverage through payments to private insurers offering Part D prescription drug plans. Still, you will likely have to pay a monthly premium to the insurer offering your drug plan. In addition to the monthly premium, there may be an annual deductible as well as a copayment or coinsurance each time you get a prescription filled. Terms and premiums vary among drug plans, which is why you'll need to shop carefully for the right plan for your needs.

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How to enroll in Medicare

Some people think Medicare is automatic. This is only true if you are receiving Social Security when you turn 65. If you are not receiving Social Security, you will need to proactively sign up for Medicare three months before your 65th birthday. You do this through the Social Security Administration, by calling 800-772-1213 or online at www.socialsecurity.gov.

However, enrolling in Medicare through the Social Security Administration only takes care of Parts A and B. If you want Part D, you will first need to choose a prescription drug plan. Then you can enroll in Part D through the private insurer or through Medicare.

If you don't enroll in Medicare during the appropriate enrollment period, you may have to pay a late-enrollment penalty when you finally do enroll. There are two main enrollment periods for Parts A and B:

Initial enrollment period: The initial enrollment period is for everyone who will be signing up for Medicare at 65 — that is, everyone who is not retaining ≥ 20 employee employer group coverage past age 65. The initial enrollment period starts three months before you turn 65. Although it extends for a full seven months, you will want to enroll during the first three months in order to have Medicare coverage start on the first day of the month you turn 65.

- **Special enrollment period.** If you are covered by an employer group plan that covers 20 or more employees when you turn 65, you have a special enrollment period that entitles you to sign up later. To avoid coverage gaps, you'll want to enroll in Medicare before your group coverage ends. However, late-enrollment penalties can be avoided if you enroll before the end of the seventh month after your group coverage ends.

If you miss your initial or special enrollment period, the only other time of the year you may enroll in Medicare is during the general enrollment period, which runs January 1 - March 31 of each year. If you sign up during this period, your Medicare coverage will become effective on July 1. Late enrollment penalties may be added.

As for Part D, you have several choices depending on your other insurance. If a retiree plan will be serving as your supplemental insurance, and if that plan includes creditable prescription drug coverage, you probably won't be signing up for Part D during your initial or special enrollment period. However, if that coverage ever ends, you must sign up for Part D within 63 days or pay a late-enrollment penalty. Be sure to save the annual statement you get from your insurance company saying your drug coverage is creditable. Medicare will ask for it, and if you can't provide it you may be charged a late-enrollment penalty.

How to get supplemental insurance

Because there are so many out-of-pocket costs associated with Medicare, part of your Medicare enrollment process will be shopping for private plans. You should do this well before your Medicare effective date so your supplemental insurance will start at the same time.

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Supplemental insurance (“Medigap”): Medicare supplemental insurance is also known as Medigap. It is designed to cover the gaps Medicare does not cover, such as some deductibles, co-payments, and coinsurance amounts for Medicare-approved services. There is a range of choices available to you, and if you sign up during your initial or special enrollment period, you cannot be denied coverage regardless of your health status. Policies are standardized so that all policies identified by the letter A through N offer the same benefits. For example, plan F, which is the most popular and comprehensive, provides the same benefits no matter which insurance company you buy it from. For this reason, price and service become key issues when shopping for supplemental insurance. If your employer offers retiree coverage, you may not need to buy supplemental insurance. Your retiree plan may offer better coverage at a lower price. However, you may still need to enroll in Medicare Parts A and B.

Medicare Advantage plans. These plans offered by private insurers provide another way to get Medicare and either limit access to a network of specific providers (HMO) or encourage care through a specific provider network (PPO). They are sometimes called Part C. Insurers offering Medicare Advantage plans contract with Medicare and receive a per-capita amount from Medicare. They are then responsible for delivering all care under Parts A and B. Most also offer Part D prescription drug coverage. If you enroll in a Medicare Advantage plan, you may get extra services such as vision care or wellness programs in addition to Medicare gap coverage. You must enroll in Parts A and B and pay Part B premiums, along with any premiums charged by the Medicare Advantage plan. Medicare Advantage plans are distinct from Medigap policies. If you have a Medicare Advantage plan you may not apply for a Medigap policy.

Important note if you have a health savings account (HSA) paired with a high-deductible health plan (HDHP). Enrolling in Medicare will cause HSA contributions to stop. By law, contributions to an HSA may be made after age 65 only if you are not enrolled in Medicare. If your plan covers fewer than 20 employees, you will need to enroll in Medicare at 65 and stop contributing to the HSA. If your plan covers 20 or more employees, you may defer enrolling in Medicare and keep making contributions to the HSA. If you wish to continue making contributions to the HSA, you should not enroll in Medicare Part A or B.

What if You Are Already on Medicare?

Savvy Medicare planning does not stop when you enroll in Medicare. In fact, if you, or even your parents, are already on Medicare, you should periodically review your other plans to make sure you have the coverage you need and are not paying too much in premiums.

There is a wide variation in premiums charged by the private insurers offering Part D prescription drug plans, Medigap policies, and Medicare Advantage plans. Furthermore, prescription drug plans and Medicare Advantage plans are free to change their coverage terms and premium pricing annually. Medigap plans are more stable in terms of their benefits since the plans are standardized, but insurance companies can and do raise their premiums from time to time. And the marketplace may have changed since you bought your policy; you might be able to get the same policy for a lower price now. Or maybe you’d like to change to a different plan.

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If you have a Part D drug plan or a Medicare Advantage plan, be sure to watch your mail in the fall of each year. That's when the drug plans and Medicare Advantage plans announce their benefits and prices for the coming year. You should read this information carefully so you can decide if you want to keep your current plan and pay the new premium (if it has changed) or shop for a new plan.

Pay attention to the calendar. The annual coordinated election period occurs from October 15 through December 7 of each year. During this time, the drug plans and Medicare Advantage plans may be giving seminars in your area. This is your chance to learn about other plans and do some careful comparison shopping. To switch plans, contact the new plan before December 7. Your new coverage will take effect on January 1.

What about Long-term Care?

The most important thing to know about long-term care is that Medicare doesn't cover it. If you or your parents should ever need help with activities of daily living such as bathing and dressing, or if someone in your family needs supervision for cognitive decline, Medicare will not pay for it.

The vast majority of long-term care in this country is delivered by family members. This is primarily because families cannot afford to pay for professional care, either at home or in a facility. However, care giving can take its toll on family members, both psychologically and financially if an adult child is forced to stop working to care for an aging family member. And if you should need care in a facility, the costs can be quite high, forcing you to drain family assets to pay for it.

At the same time you are planning your health care expenses in retirement, contact us about how to integrate planning for long-term care into your overall financial plan.

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