6 Things You Need to Know About Medicare

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6 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 March of 2024. 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.

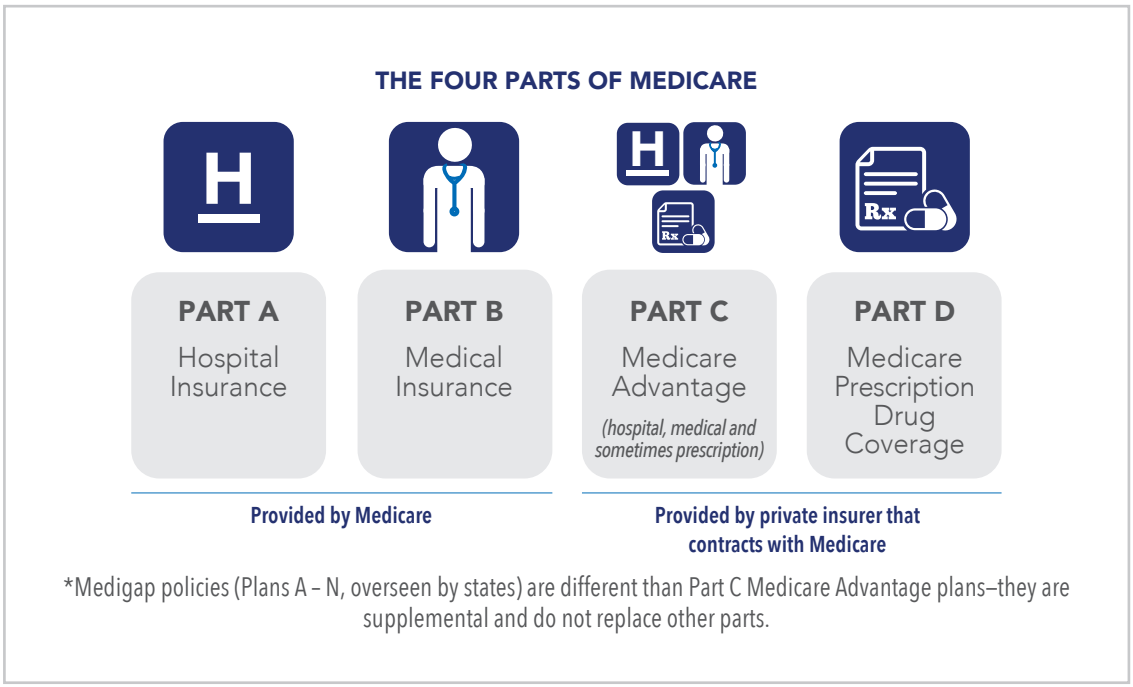
An average retired couple aged 65 may need approximately $315,000 saved (after tax) to cover health care expenses like premium costs, co-pays and deductibles, according to Fidelity Investments research from 2023. Fidelity's estimate does not include other health-related expenses, such as over-the-counter medications, most dental services, hearing or long-term care, which isn't covered after 100 days.

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 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 anticipated costs. Keep in mind that a higher income bracket means more costly Part B and Part D premiums, and when you file, Medicare looks back at your tax returns for the last two years when determining your income level.

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, 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 deductible for each "benefit period," or health-care incident requiring hospitalization, which is $1,632 in 2024. You may owe this deductible multiple times. 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 higher coinsurance charges with no annual or lifetime maximums.

Here are the coinsurance charges it is projected that you will pay for longer hospital stays in 2024: Days 1-60: $0 coinsurance for each benefit period.

Days 61-90: $408 coinsurance per day of each benefit period.

Days 91 and beyond: $816 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.

For 2024, the standard premium is $174.70 per month. People in higher income brackets pay more.

The yearly deductible for Part B in 2024 is $240.

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)

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 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)

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 do not 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 and 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.

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.

Medicare.gov side-by-side comparison chart of Medigap plans A through N:

Medicare Supplement Benefits	A	B	C*	D	F[1]*	G[1]	K[2]	L[3]	M	N[4]
Part A coinsurance and hospital coverage	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Part B coinsurance or copayment	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓
Part A hospice care coinsurance or copayment	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓
First 3 pints of blood	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓
Skilled nursing facility coinsurance			✓	✓	✓	✓	50%	75%	✓	✓
Part A deductible		✓	✓	✓	✓	✓	50%	75%	50%	✓
Part B deductible			✓		✓					
Part B excess charges					✓	✓				
Foreign travel emergency			80%	80%	80%	80%			80%	80%

** Plan F and Plan C are not available to Medicare beneficiaries who became eligible for Medicare on or after January 1, 2020. If you became eligible for Medicare before 2020, you may still be able to enroll in Plan F or Plan C as long as they are available in your area.*

[1] Plans F and G offer high-deductible plans that each have an annual deductible of $2,800 in 2024. Once the annual deductible is met, the plan pays 100% of covered services for the rest of the year. The high-deductible Plan F is not available to new beneficiaries who became eligible for Medicare on or after January 1, 2020.

[2] Plan K has an out-of-pocket yearly limit of $7,060 in 2024. After you pay the out-of-pocket yearly limit and yearly Part B deductible, it pays 100% of covered services for the rest of the calendar year.

[3] Plan L has an out-of-pocket yearly limit of $3,530 in 2024. After you pay the out-of-pocket yearly limit and yearly Part B deductible, it pays 100% of covered services for the rest of the calendar year.

[4] Plan N pays 100% of the Part B coinsurance, except for a copayment of up to $20 for some office visits and up to $50 copayment for emergency room visits that don't result in an inpatient admission.

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 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 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. 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 no more than $545 in 2024, but deductibles vary, and some Part D plans don't have a deductible.

You may have heard of the "donut hole" or "coverage gap" when it comes to Part D—this refers to yearly drug costs that exceed $5,030 but are under $8,000 (when catastrophic coverage kicks in for 2024).

In 2024, costs in the catastrophic phase will change: the 5% coinsurance requirement for Part D enrollees will be eliminated and Part D plans will pay 20% of total drug costs in this phase instead of 15%.

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

MEDICARE DOESN'T COVER LONG TERM CARE

Although Medicare provides coverage for up to 100 days in a long-term care facility if the patient was admitted (not just for observation) in a hospital for three consecutive days prior within a 30-day window, the rules are strict and coverage can be denied. After 100 days, Medicare does not cover stays in a long-term care facility at all.

Medicaid, designed to help people with limited income and resources, can cover long-term care costs if you become incapacitated and need nursing care. Unfortunately, to qualify for Medicaid you have to spend down most of your assets, leaving your heirs with virtually nothing, and your spouse with very little.

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 $7,908 per month for a semi-private room as of 2021.

5 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.

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.			

6 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 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. 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.

HIGHER INCOME BENEFICIARIES PAY MORE

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).

Income-Related* Monthly Adjusted Amounts for Part B and Part D for 2024 are listed below:

Beneficiaries Who File			
Individual Tax Return With Income	**Joint Tax Return With Income**	**Total Monthly Premium Amount**	**Part D Prescription Drug Premiums**
$103,000 or less	$206,000 or less	$174.40	your plan premium
$103,000 up to $129,000	$206,000 up to $258,000	Standard premium plus $69.90	$12.90 + your plan premium
$129,000 to $161,000	$258,000 to $322,000	Standard premium plus $174.40	$33.30 + your plan premium
$161,000 to $193,000	$322,000 to $386,000	Standard premium plus $279.50	$53.80 + your plan premium
$193,000 to $500,000	$386,000 to $750,000	Standard premium plus $384.30	$74.20 + your plan premium
$500,000 or above	$750,000 or above	Standard premium plus $419.30	$81.00 + your plan premium

**Based on tax return filed in 2023 for tax year 2022.*

This document is for informational purposes only, and is not written or intended as specific tax or legal advice. You are encouraged to seek advice from a qualified tax professional or legal counsel.

SOURCES:

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It's clear that planning for health expenses, Medicare coverage and long-term care expenses has a significant impact on the success of your retirement. Call us to discuss how we can help you create a customized retirement plan.

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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