Special Report – June 2013
<u>**A Primer on Medicare**</u>

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Hello! My name is Steve Geist, I'm a Financial Strategist and I specialize in Safe Retirement Plan Solutions that are tailored with care. More specifically, I help my clients tackle complicated retirement issues and guide them towards easy-to-understand solutions designed to safely preserve and grow their retirement wealth. Now, more than ever, people over the age of 50 are clamoring for education and advice regarding their retirement.

One way I like to teach my clients and my seminar students about Retirement is to present it as a Puzzle. And, I like to present the puzzle as containing five primary pieces. And they are:

- ✓ Puzzle Piece #1: Safeguarding Your Accumulated Assets
- ✓ Puzzle Piece #2: Setting up a Lifetime of Guaranteed Income
- ✓ Puzzle Piece #3: Addressing Taxes in Retirement and Beyond
- ✓ Puzzle Piece #4: Having Proper Coverage for Health Care and Long Term Care
- ✓ Puzzle Piece #5: Leaving a Legacy for your Loved Ones

According to a new 2013 study by Merrill Lynch, poor health is the most widely cited reason for retiring early. In the same study, health care issues were also top concerns among those seeking advice from financial professionals.

Finding affordable medical insurance is a critical part of your retirement planning. Once you're eligible for Medicare at age 65, insurance becomes more affordable, But despite this benefit, managing your insurance can still be complicated, and you'll need to plan carefully to make every dollar count.

So in this Special Report let me present to you a <u>primer on Medicare</u> an important part of Retirement Puzzle Piece #4 – Having Proper Coverage for Health Care and Long-Term Care.

Officially known as Title 18 of the Social Security Act, Medicare is the federal government's health insurance program. It was implemented in 1965 to provide health insurance coverage for people age 65 and older. Many changes have been made to the Medicare program over the years, and coverage now extends to include the legally blind, people with end-stage kidney disease, and younger people who are disabled and who meet the criteria to collect Social Security disability benefits.

As our nation's largest health insurance program, Medicare is administered by the Centers for Medicare and Medicaid Services. It's important to understand that while the Medicare program helps with the cost of health care, it does not cover <u>all</u> medical expenses or the cost of long-term care as you will soon see.

Today's Medicare Program has four parts:

<u>**Part A – Hospital Insurance**</u>

Medicare Part A is free for most people age 65 and older who are citizens or permanent residents of the United States. Medicare Part A covers most inpatient hospital care, some inpatient skilled nursing care, some home health care, and hospice care.

A monthly premium for Part A <u>is not</u> required for people who have 40 or more quarters of Social Security credits. That works out to about ten years of full-time work.

People with 30 to 39 Social Security quarters can sign up for Part A but they will have to pay a small monthly premium which, in 2013, is $243 per month. People with fewer than 30 Social Security quarters can also sign up for Part A but they will have to pay a larger monthly premium, which in 2013, is $441 per month.

Part A benefits are paid once the participant has met a deductible. The Part A deductible applies to each benefit period. A benefit period starts when an individual enters the hospital and the period ends when there has been a break of at least 60 consecutive days since impatient hospital care was provided. And, please note that hospital stays longer than 60 days will require the participant to meet a daily co-payment as well.

Part B – Medical Insurance

Anyone who is eligible for the free Medicare Part A can also enroll in Part B - Medical Insurance by paying a monthly premium. Even those who are not eligible for the free Medicare Part A can still purchase Part B if they are age 65 or older and are U.S. citizens or lawfully admitted noncitizens who have lived in the U.S. for at least five years.

Part B covers a portion of the Medicare-approved costs for: doctor's services, outpatient hospital care, laboratory tests, outpatient physical and speech therapy, some home health care, ambulance services, and some medical equipment and supplies.

It's important to understand that Part B coverage is optional. That means that some people with other medical coverage may not want this part of Medicare until they are no longer covered under their other systems, such as their employer's health care plan.

Part B requires the payment a monthly premium, which is automatically deducted from a participant's Social Security check. Those who do not receive Social Security will be billed quarterly for their Part B premiums.

In addition to the monthly premium, Part B coverage requires the payment of an annual deductible. After the deductible is met, Medicare pays for 80% of covered and approved charges and the participant is responsible for the balance. Also please note that if the medical charge is greater than the amount allowed by Medicare, then the participant will be responsible for paying the overage.

Part C – Medicare Advantage (also known as MA plans)

MA plans are offered by private health insurance companies and private health-care provider organizations.

MA Plans provide all of Medicare's Part A and Part B insurance coverage. Some MA plans may also provide the Part D Prescription Drug coverage. And some MA Plans may also offer extra coverage, such as vision, hearing, dental, and/or health and wellness programs.

To join an MA plan, participants must have both Medicare Part A and Part B and live in the plan's service area. In addition, the MA plan may have special rules, such as requiring participants to see doctors who belong to the plan or requiring participants to go to certain hospitals to receive services.

While Medicare pays a set amount of money each month to these MA plans for the participant's care, the participant may have to pay a monthly premium from their own pockets for the extra benefits offered by the MA plan that's not covered by Medicare.

In most states, those who enroll in the MA plan in the month they reach age 65 or within a six-month window after their 65th birthday will qualify for coverage without having to answer medical questions. But be aware that after that time, you will have to submit to a medical questionnaire and could be rejected for health reasons.

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In case you belong to a group, club, church, association or any type of organization that invites outside speakers to give interesting talks – please know that as a community service, I would be delighted to speak at your next group meeting. And I would speak on a topic that would be both informative and relevant to Retirement. Just call my office and let me know how I might be of service.

Part D – Medicare Prescription Drug Coverage

Anyone who has Medicare Part A, Part B or a Medicare Advantage plan is eligible for prescription drug coverage under Part D. Joining a Medicare Prescription Drug Plan is voluntary and an additional monthly premium is required for the coverage.

Everyone covered by Medicare must make choices with respect to Part D. Participants can choose to 1) Remain in the traditional Medicare program without participating in the drug benefit or 2) Remain in the traditional Medicare program and enroll in a stand-alone Part D drug plan; or 3) Enroll in a private Medicare Advantage plan (MA Plan) that offers both Medicare health services and prescription drug coverage.

Medicare covers 75% of prescription drug costs after a deductible has been met, but only up to a stated maximum. From that point to another threshold, Medicare payments are suspended and the participant must pay 100% of their drug costs. This gap is known as the donut hole

After the donut hole, Medicare resumes coverage and covers 95% of the cost of prescription drugs. On top of the deductible, participants must also pay a small co-pay.

Since Obama care started back in 2011, people in the donut hole are seeing increasing discounts on brand-name and generic drugs. By 2020, nobody will pay more than 25% of the cost of any drugs while in the donut hole.

A Medicare beneficiary lands in the doughnut hole this year (2013) when his total annual cost of medications (paid by the Medicare Part D plan and the individual) reaches $2,940. The beneficiary is then responsible for footing the bill for the cost of all medications until they exceed $4,750. By the way, under Obama Care this prescription drug doughnut hole is scheduled to close the year 2020.

Medigap (Medicare Supplement Insurance) Policies

As you now see, original Medicare pays for many, but not all, health care services and supplies. A Medigap policy, sold by private insurance companies, can help pay some of the health care costs (“gaps”) that Original Medicare doesn’t cover. Gaps like copayments, coinsurance, and deductibles. Some Medigap policies also offer coverage for services that Original Medicare doesn’t cover, like medical care when you travel 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. Please note that Medicare does not pay any of the premiums for a Medigap policy. That’s your responsibility.

Medigap insurance companies can sell you only a “standardized” Medigap policy identified in most states by letters of the alphabet. Every Medigap policy must follow Federal and state laws designed to protect you and it must be clearly identified as “Medicare Supplement Insurance.” All plans offer the same basic benefits but some offer additional benefits. So you will need to choose which plan type best meets your needs.

Insurance companies may charge different premiums for exactly the same Medigap coverage. So, as you shop for a Medigap policy, be sure you’re comparing the same Medigap policy (for example, compare Plan A from one company with Plan A from another company).

To recap the costs of Medicare

So to recap your costs beyond what Medicare will cover:

Part A – Hospital Insurance: You may have to pay a monthly premium if you don't qualify for free Part A coverage because of inadequate Social Security Quarters. In any event you must satisfy a deductible for Part A coverage before it will cover you. And you may have to pay daily copays beyond 60-day hospital stays.

Part B – Medical Insurance: You must pay a monthly premium then satisfy a deductible then pay for 20% of the costs after the deductible and pay 100% of any cost above the Medicare Allowance.

Part C – Medicare Advantage: You will pay a monthly premium for benefits over and above what Medicare will pay for.

Part D – Prescription Drug Program: You will pay a monthly premium then satisfy a deductible for coverage, then pay 25% coinsurance to a set limit then pay 100% in the donut hole and then pay 5% of drug cost after the donut hole. And, you will have co-pays before and after the donut hole.

Medigap Insurance: You will have a monthly premium based on which Medigap plan you select.

So with all these added costs, it's imperative that they be properly factored into the budget and cash flow that you prepare for your retirement.

When to enroll in Medicare?

The answer to this question can be different for each of Medicare's four parts.

For instance, if you start your Social Security income benefits before age 65, you will be automatically enrolled in Medicare Parts A and B. You will receive your Medicare card three months before your 65th birthday. Keep in mind that you'll have the option to refuse Part B, since premiums are required. But that's usually a bad idea, unless you're getting coverage from another source.

If you haven't started your Social Security benefits by age 65, you will want to enroll in Medicare Parts A and B sometime during the three months <u>prior to your 65th birthday</u>, even if you continue to delay the start of your Social Security benefits. If you don't sign up for coverage before your 65th birthday, coverage can be delayed and late penalties may apply. You'll also want to enroll in Medicare Part D before your 65th birthday, unless you're getting coverage from another source.

If you decide you'd rather be covered by a Medicare Advantage plan rather than be covered separately by Medicare Parts A and B, then you'll want to select and enroll in your MA plan <u>before</u> your 65th birthday. That's so there's no delay in coverage and you don't incur any penalties.

If you continue working beyond age 65 and you're covered by your employer's medical plan as an <u>active</u> employee, make sure you understand how that plan coordinates with Medicare. Many employer-sponsored plans will require you to enroll in Medicare Part A but not Part B.

You'll also want to determine whether your employer's plan covers prescription drugs. If so, you won't need to sign up for Medicare Part D while you're covered by your employer's plan.

If you don't enroll in Medicare Parts B and D because you're covered by your employer's plan, the late enrollment penalties I referred to earlier, <u>will not apply</u>. But to avoid the late penalty completely, you'll need to enroll in Medicare Part B no more than eight months after you eventually retire. Also be sure to buy a Medicare Part D plan within 63 days of your retirement date.

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I'd like to point out that in addition to hosting the Retirement Guy radio show, which I have done now for well over three years, I also conduct free (open to the public) educational events. I hold these workshops throughout the Denver area throughout the year. Over the past several years, I have made these presentations to thousands of people both in and near retirement. If you would like to meet me in person and learn about retirement, in a public setting, then please call or email me with a request for the date, time and location of my next event.

Common Medicare Mistakes

It's easy to get confused by all the Medicare rules. So let's look at some mistakes that can cost you thousands of dollars. Here are four mistakes to avoid when enrolling in Medicare:

Mistake #1: Judging Medicare Advantage plans only by the cost of their premiums**.**
Zero-premium or low-premium plans look attractive. After all, you get health care benefits and pay little or nothing up front. But zero-premium does not mean zero expenses. When comparing Medicare Advantage plans, you'll want to dig into the details to learn about all of the out-of-pocket costs you could incur, including the deductible and the coinsurance and copayments for the services you'll use. Otherwise, you might be in for nasty surprises.

Mistake #2: Overlooking the quality ratings of Medicare Advantage plans.
The Center for Medicare and Medicaid Services collects data about Medicare Advantage plans then gives each one a rating on a scale of one star (poor) to five stars (excellent). The stars measure how well a Medicare Advantage plan ranks based on such things as its members' experiences and complaints and its customer service. When you're choosing among Medicare Advantage plans, look for the ones with the most stars. You can learn more about the ratings online at the Center for Medicare and Medicaid Services.

Mistake #3: Not enrolling in Medicare because you have existing health coverage**.**
Too many people approaching age 65 think they can skip signing up for Medicare if they already have private insurance. Big mistake. The only insurance that can possibly let you delay Medicare enrollment is a group health plan sponsored by an employer with 20 or more employees. Other types of coverage, including COBRA, are not acceptable substitutes for Medicare. If you're supposed to enroll in Medicare but fail to do so when you're first eligible, you can get socked with steep late-enrollment penalties.

Mistake #4: Not understanding the added Medicare costs for retirees with higher incomes.
Higher-income participants pay higher premiums for Medicare Part B and prescription drug coverage. That means you will pay more for Part B if your annual income is above $170,000 for joint filers, and above $85,000 for single filers. Likewise, higher-income beneficiaries can expect to pay more each month in prescription drug premiums as well.

To determine if someone must pay a higher premium, Social Security uses the taxpayer's modified adjusted gross income (MAGI) from the most recent federal tax return provided by the IRS. Typically, the most recent tax return is two years back. For example, for those turning age 65 in 2013, Social Security looks at the 2010 or 2011 tax return. As someone nears 65, their income can change dramatically. If you do not understand how Medicare premiums are set you could end up paying much more than you should in monthly premiums.

Medicare does not cover all health care costs

So as you can see, Medicare is not a complete system of health care. Even though it pays for some preventive services and covers most medically necessary services, Medicare pays for less than half of what seniors typically spend for their total health-care expenses.

Medicare does not pay for hearing aids, eyeglasses or dental care. More significantly, many people mistakenly believe that Medicare pays for long-term care. The truth is that Medicare does not pay for long-term care.

Medicare covers medical expenses for acute conditions. Medicare does not pay for long term care at home or in a nursing home when this care is primarily personal care services or custodial care.For example, if a person suffers a stroke, Medicare will pay for hospitalization and treatment. But as soon as the patient no longer requires a bed in an acute care facility, Medicare benefits cease and the patient is on his or her own.

Even for Medicare to pay for medically necessary care for short periods, participants must meet certain criteria. To qualify for Medicare short term care the following is required: 1) the patient must have had a prior hospital stay of at least 3 full days. 2) the patient must be admitted to a skilled care facility within 30 days of discharge from the hospital. 3) a doctor must certify that skilled care is required and 4) the care must be delivered by a Medicare-certified facility.

Medicare will not pay for personal care services or custodial care outside a nursing facility. And, Medicare does not pay for personal care services or custodial care except as part of an otherwise covered stay in a skilled nursing facility.

Americans don't fully appreciate the impact of health care costs in retirement

I want to me mention a recent survey by Sun Life Financial. This survey found that 92% of workers said they don't know, or they vastly underestimate, how much their health care will cost in retirement. And few people realize that Medicare coverage is not as robust as many employer-sponsored health plans

In fact, according to a Fidelity Investments study released in March of this year, a 65-year-old couple retiring in 2013 will need $220,000, on average, to cover medical expenses in retirement,. And that doesn't even include dental services, eyewear or long-term care expenses.. This $220,000 Fidelity estimate breaks down as follows:

- 33% for monthly expenses to pay Medicare Part B and Part D premiums. Note: this does not include the higher premiums for high-income people.
- 44% for Medicare cost-sharing provisions, including co-payments, coinsurance and deductibles (for doctor's office visits and outpatient services) and excluded benefits (eyeglasses, hearing aids).
- 23% for prescription drug out-of-pocket expenses.

A recent report by the Congressional Research Service revealed that the upward trend in Medicare premiums means that seniors and the disabled are left with fewer resources for other expenses. Seniors spend an average of 9% of their Social Security benefits on Part B premiums and an additional 3% on Part D Premiums. If Medicare inflation continues at the current rate, by the year 2078, seniors will be spending nearly one-third of their social security benefits on just these two premiums alone.

Three Suggestions for how to address the expense shortfalls of Medicare

Tip #1: Open a health savings account and max it out. If you're still working (even if you're "retired") and have a high-deductible health insurance plan, you might have access to a health savings account. The money you contribute via salary deferrals reduces your taxable salary, meaning thousands in tax savings for high-income folks. When you take the money out for medical expenses–now, or in retirement– it comes out tax-free. You can leave it accumulating and take it out whenever you want. For 2013 you can sock away $3,250 for individual coverage and $6,450 for family coverage, going up to $3,300 and $6,550 for 2014 (and there's a $1,000 a year catch-up provision if you're 55 or older).

Tip #2: Save via a Roth IRA or Roth 401(k). People with big unexpected healthcare expenses often get in a bind and need to take a large amount of money out of a traditional IRA. Imagine what kind of tax bite that would create. A Roth gives you a tax-free account to tap down the road. You can contribute to a Roth IRA no matter how old you are as long as you (or your spouse) have earned income and your income is under $127,000 for a single or $188,000 for a married couple.

Tip #3: Earmark certain assets – or an income stream – that will cover health care expenses. Consider an annuity or other retirement income product that will give you a steady stream of income. The appeal of an annuity is that it lasts as long as you live. Longevity risk is real!

<u>The current state of the Medicare Program</u>

Medicare is financed in part by workers and their employers. For every $100 an employee earns, the employer and employee each pay $1.45 in payroll (FICA) taxes to fund the Medicare program. And, this rate is scheduled to increase under the recently approved health care reform bill. The Medicare program is also financed by monthly premiums deducted from the Social Security checks of Medicare enrollees.

As with Social Security, Medicare's financial problems have been looming for years as the nation's 78 million baby boomers have neared retirement age. The oldest boomers have already arrived.

And, as this huge group of baby boomers collects benefits — and stops paying payroll taxes — Medicare's trust funds have begun to shrink, and eventually the funds will run out of money

So, while politicians and the media focus on Social Security's financial health, it is Medicare's future liabilities that are far more serious.

As of June 1st of this year the combined unfunded liability of Social Security, Medicare and the Prescription Drug Program has reached nearly $124 trillion dollars! And by "unfunded liability" I mean the difference between the benefits that have been promised to current and future retirees and what will be collected in dedicated taxes and Medicare premiums.

Medicare's part of this unfunded liability, at $86 trillion, is more than five times larger than that of Social Security. Medicare's unfunded liability is also about five times the size of the U.S. economy and five times the size of the current national debt. If no other reform is enacted, this funding gap can only be closed in future years by <u>substantial</u> tax increases, <u>large</u> benefit cuts <u>or both</u>.

With all of this bad news, it is no wonder that Americans are beginning to feel very concerned about the solvency of the Medicare system and whether or not it will even be there for them in the future. It is my opinion, however, that Medicare will and has to be there for all of us.

Imagine the economic turmoil that would result from the complete elimination of Medicare.
If left to pay for it themselves, most Americans would not be able to afford the high cost of private health insurance premiums let alone the catastrophic costs of health care itself.

And remember we have the largest generation in history, the baby boomers, just now becoming eligible for Medicare benefits. And Boomers know they put into this system so they certainly expect to get it back. This is not a generation of people who will pass quietly into the night. When they decide they want something they go get it.

So, without killing it, how do we fix the Medicare system? Well, it remains to be seen just how and when Congress will address an overhaul of the program. In the meantime it's imperative that you budget adequately in retirement for at least the costs that Medicare currently does not cover; the costs that I have reviewed with you in this report.

So, a couple reasons why you might want to contact me for assistance after reading this report:

1. You would like some assistance in learning how to enroll in Medicare and how to best design your coverage.
2. You would like some help in preparing a budget and cash flow that adequately accounts for health care costs in retirement over and above what Medicare will cover.

I wish you a long, happy and financially secure retirement. And if I can be of any assistance, please do not hesitate to contact me.

Sincerely;
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