

## Medicare Premiums and Copayments

More than one-half of working Americans know little or nothing about Medicare costs.<sup>1</sup> Not knowing can be expensive.

On average, people who haven't yet retired estimate they'll spend approximately \$50,000 on health care after retirement, according to a 2014 survey.<sup>1</sup> In reality, studies suggest it will cost almost five times that amount – even when retirees have Medicare coverage.<sup>1,2</sup>

### What you need to know about Medicare

For retirees, health insurance coverage under Medicare typically starts at age 65. When you become eligible, you have a seven-month window to sign up. The period begins three months before the month you reach age 65 and ends three months after the month you turn 65.<sup>3</sup>

When you sign up, you have to make a decision about whether to enroll in Original Medicare or opt for a Medicare Advantage Plan. In general, Medicare offers these options:

**Part A: Hospital Insurance.** Part A is a component of Original Medicare. It generally covers hospital care, skilled nursing facility care, hospice, and home health services.<sup>4</sup> Most people don't pay a premium for Part A because they paid Medicare taxes while working.<sup>5</sup>

People who are *not* eligible for premium-free Part A, and don't enroll when they're first eligible, may see their monthly premiums increase by 10 percent. They'll pay the higher premium for twice the number of years they would have had to pay if they had signed up when they were first eligible. For example, if you were eligible for Part A for two years but didn't sign up when you were first eligible, you will have to pay the higher premium for four years.<sup>6</sup>

**Part B: Medical Insurance.** Part B is also a component of Original Medicare. It pays for preventative and medically necessary services not covered by Part A. For example, Part B helps pay for the cost of doctor visits, outpatient care, lab tests, physical therapy, medical equipment, and some home health care services.<sup>7</sup>

The standard Part B monthly premium amount for 2017 is \$134. However, many people who receive Social Security (and pay Part B premiums through their Social Security benefit) pay a premium of \$109. The premium can also be higher than standard, depending on the recipient's income.<sup>8</sup>

The Part B deductible is \$183 a year for 2017. Once it has been paid, participants typically owe 20 percent of the Medicare-approved amount for most doctor services, outpatient therapy, and durable medical equipment.<sup>9</sup>

If you miss the Part B enrollment period, you may have to wait until the next general enrollment period (January through March) to get coverage. There is an exception, though.

If you're working at age 65 and have health insurance through an employer or a spouse's employer, you can delay Part B enrollment.<sup>3</sup>

If you missed the enrollment period and don't qualify for the exception, you may owe a late enrollment penalty, and your monthly premium may increase by 10 percent for each 12-month period you didn't enroll.<sup>10</sup>

**Part C: Medicare Advantage Plans.** These plans are offered by private insurers that contract with Medicare to provide Part A and Part B benefits (and sometimes Part D benefits) to people with Medicare. Most plans require you to use plan doctors, hospitals, and other approved providers.<sup>11</sup>

Usually, Medicare Advantage Plans charge monthly premiums. You may also owe copayments or coinsurance for covered services. Total out-of-pocket costs depend on the plan you choose and plan costs can change each year.<sup>12</sup>

**Part D: Prescription Drug Coverage.** Part D provides Original Medicare participants with prescription drug coverage. The cost of premiums and the cost of drugs will vary by plan and income.<sup>9</sup>

Part D coverage has a gap, known as the "doughnut hole." *Kiplinger's* explained it like this:<sup>13</sup>

"In 2017, after you pay a deductible of up to \$400, you'll be responsible only for co-payments until your total drug costs reach \$3,700 (including your share and the insurer's share of the costs). At that point, the doughnut hole kicks in, and you'll have to pay 40 percent of the cost of brand-name drugs (50 percent is a discount paid for by the drug company and 10 percent is covered by the plan), and 51 percent of the cost of generic drugs. Once your out-of-pocket costs reach \$4,950 (including the brand-name manufacturer's 50 percent discount), you're out of the doughnut hole and you'll pay no more than 5 percent of the cost of each drug."

There are late enrollment penalties for prescription drug coverage, too.<sup>9</sup>

### **The role of supplemental insurance**

Americans who enroll in Original Medicare (Parts A and B) may purchase supplemental insurance, known as a Medigap policy, to help cover costs not paid by Original Medicare, such as copayments, coinsurance, and deductibles. These policies may also cover health care costs when traveling outside the United States.<sup>14</sup>

### **It's important to plan ahead**

Even with Medicare coverage, health care costs in retirement may be significant. *HealthView Services: 2016 Retirement Health Care Costs Data Report* leveraged data from 50 million health care cases and found:<sup>15</sup>

“Total projected health care premiums (Parts B, D, and supplemental insurance) for a healthy 65-year-old couple retiring this year are expected to be \$288,400 in today’s dollars...If out-of-pockets such as deductibles, copays, hearing, vision, and dental are included in the calculation, expenses in today’s dollars are expected to be \$377,412...”

Medicare is an important benefit for retirees and it may not cover all health care costs in retirement. Talk with your financial professional about Medicare and the additional health care costs you may incur during retirement.

Sources:

<sup>1</sup> [https://institutional.fidelity.com/app/item/RD\\_13569\\_42402/retirement-planning-health-care-costs.html](https://institutional.fidelity.com/app/item/RD_13569_42402/retirement-planning-health-care-costs.html)

<sup>2</sup> [http://www.hvsfinancial.com/PublicFiles/2016\\_RHCC\\_Data\\_Report.pdf](http://www.hvsfinancial.com/PublicFiles/2016_RHCC_Data_Report.pdf)

<sup>3</sup> <https://www.medicare.gov/sign-up-change-plans/get-parts-a-and-b/when-sign-up-parts-a-and-b/when-sign-up-parts-a-and-b.html>

<sup>4</sup> <https://www.medicare.gov/what-medicare-covers/part-a/what-part-a-covers.html>

<sup>5</sup> <https://www.medicare.gov/your-medicare-costs/part-a-costs/part-a-costs.html>

<sup>6</sup> <https://www.medicare.gov/your-medicare-costs/part-a-costs/penalty/part-a-late-enrollment-penalty.html>

<sup>7</sup> <https://www.medicare.gov/what-medicare-covers/part-b/what-medicare-part-b-covers.html>

<sup>8</sup> <https://www.medicare.gov/your-medicare-costs/part-b-costs/part-b-costs.html>

<sup>9</sup> <https://www.medicare.gov/your-medicare-costs/costs-at-a-glance/costs-at-a-glance.html#collapse-4810>

<sup>10</sup> <https://www.medicare.gov/your-medicare-costs/part-b-costs/penalty/part-b-late-enrollment-penalty.html>

<sup>11</sup> <https://www.medicare.gov/sign-up-change-plans/medicare-health-plans/medicare-advantage-plans/how-medicare-advantage-plans-work.html>

<sup>12</sup> <https://www.medicare.gov/your-medicare-costs/medicare-health-plan-costs/costs-for-medicare-advantage-plans.html>

<sup>13</sup> <http://www.kiplinger.com/article/retirement/T027-C001-S003-how-medicare-part-d-coverage-gap-will-affect-you.html>

<sup>14</sup> <https://www.medicare.gov/supplement-other-insurance/medigap/whats-medigap.html>

<sup>15</sup> [http://www.hvsfinancial.com/PublicFiles/2016\\_RHCC\\_Data\\_Report.pdf](http://www.hvsfinancial.com/PublicFiles/2016_RHCC_Data_Report.pdf)

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