

MEDICARE: EVERYTHING YOU WANT TO KNOW BUT ARE AFRAID TO ASK

Medicare is an important piece of the American insurance landscape, not only for people age 65 and older, but for all Americans. That said, this benefit is not easy to navigate. Eligible individuals must be thoughtful about the coverage they need, the timing of enrollment, and coordination with other healthcare benefits, if they want to make the most of the Medicare program.

This piece covers the top questions we hear from clients on Medicare.

1

I know that Medicare is a federal health insurance program. But, what does it cover? Do I still need private insurance?

2

How much does Medicare cost?

3

I am thinking about early retirement. But, I am concerned about health insurance coverage because I know I am not eligible for Medicare until I turn 65. What are my options?

4

I am turning 65 next year and am still working. Should I transition from private insurance to Medicare and, if so, how do I make the transition?

Our hope is that you will feel empowered to take action and be well-positioned to find the coverage that is right for you. Of course, it is important to work with your advisors for customized solutions. Northern Trust's Health Benefits Advisory Services Group is available to you.

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QUESTION 1

I KNOW THAT MEDICARE IS A FEDERAL HEALTH INSURANCE PROGRAM. BUT, WHAT DOES IT COVER? DO I STILL NEED PRIVATE INSURANCE?

U.S. citizens and permanent residents who (1) are age 65 or older, (2) are disabled (regardless of age), or (3) have end-stage renal disease can get their health insurance through the Medicare program. Although many believe that Medicare is always free, premiums vary depending on eligibility, income and asset levels, and coverage, as discussed below.

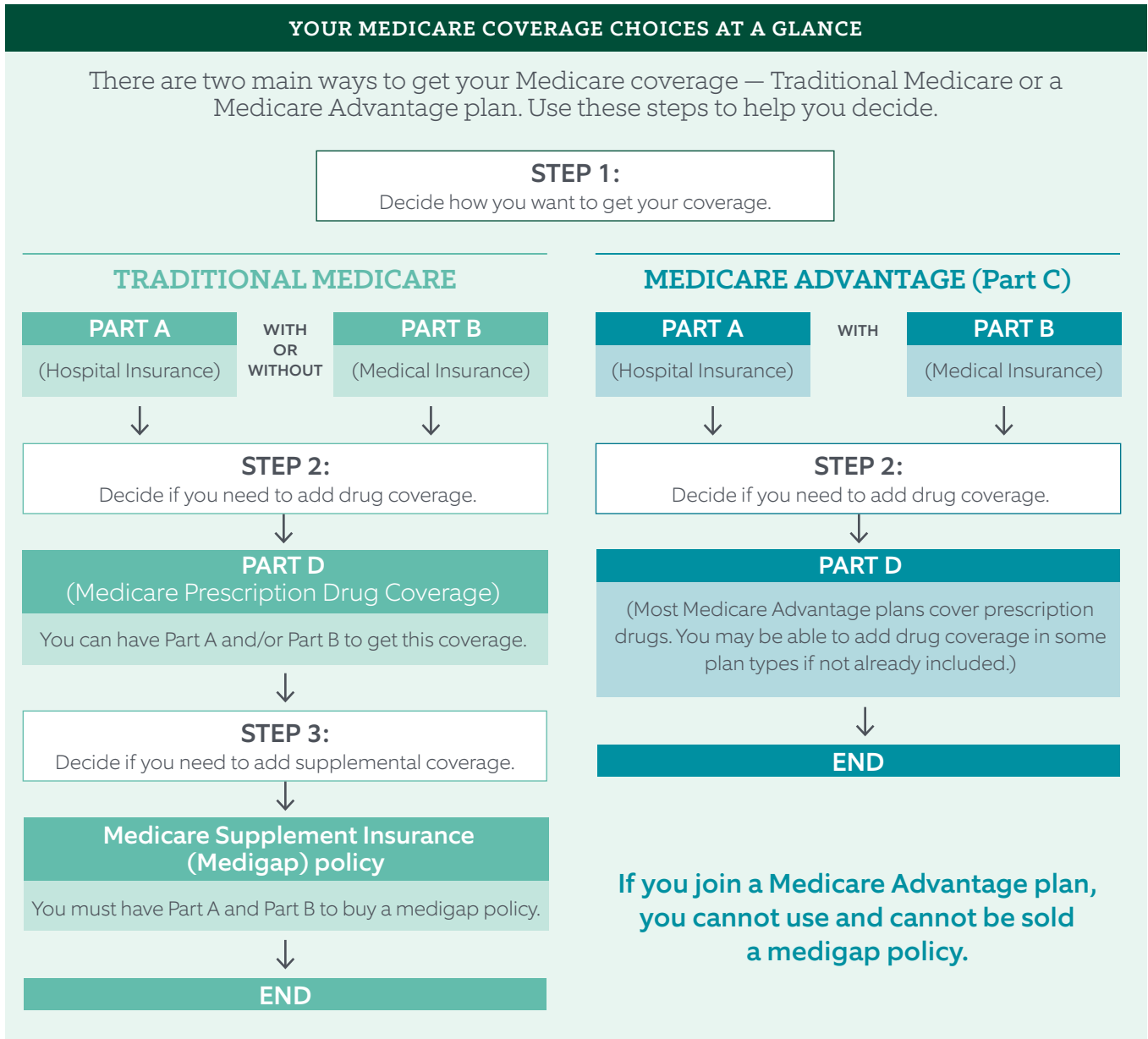
Medicare has four parts. Across the four parts, you can get coverage for inpatient hospital stays, outpatient treatment, and prescription drugs. There also are Medicare supplement insurance plans. You will hear these plans referred to as “supplement insurance plans,” “supps,” or “medigap plans.” This piece uses the term medigap or medigap plan, but all three terms are interchangeable.



Medicare Parts A and B work together, while Medicare Part C covers both inpatient and outpatient care and, in some cases, prescription drugs. As a Medicare participant, you choose between traditional Medicare and a Medicare Advantage plan. (See flow chart on the next page.) Many people who are accustomed to private, employer-based health insurance choose Medicare Advantage because it is private insurance with a network of providers, and it resembles a familiar PPO or HMO plan.

Notably, if you choose Medicare Advantage, you still must enroll in Medicare Parts A and B.

Although Medicare Part A (Hospital) can cover up to 100 percent of services, Medicare Part B (Medical) only covers 80 percent of Medicare-approved charges. Participants in Medicare Part B generally buy medigap policies even if they traditionally have self-insured against health and financial risks. This is because medigap policies cover hospital stays that last more than 60 days. Some medigap policies also cover 80 percent of the cost of a foreign medical emergency, which is important for people who travel abroad. Finally, some medigap policies cover part or all of the cost of up to 100 days of nursing home care or home health care following a hospital stay. But, neither Medicare nor



medigap are substitutes for long-term care insurance, which covers ongoing nursing home care and home health care not connected to a hospital stay. Traditional Medicare and medigap also do not cover vision care, dental care, or hearing aids, although some Medicare Advantage plans do cover these services.

Medigap policies are easy to shop for because they are standardized. For example, if two companies each offer a medigap “Plan G,” both plans will provide identical coverage; only the premium cost of the plan and the financial soundness of the insurer will differ.

In sum, Medicare covers a broad range of inpatient and outpatient treatment. You must decide whether traditional Medicare or Medicare Advantage is right for you.

QUESTION 2

HOW MUCH DOES MEDICARE COST?

For 2019, Medicare costs are as follows:¹

	MONTHLY PREMIUM	DEDUCTIBLE	COINSURANCE
Part A	\$0, \$240, or \$437. Medicare Part A is free if you are age 65 or older, you or your spouse worked and paid Medicare taxes for at least 10 years and you are eligible to receive benefits from Social Security or the Railroad Retirement Board. If you do not meet the eligibility requirements, you still can have Medicare Part A coverage, but there is a monthly insurance premium.	\$1,364	\$0 per day for days 1-60 of a hospital stay; \$341 per day for days 61-90 of a hospital stay; \$682 per day for lifetime reserve hospital days.* \$0 per day for days 1-20 of skilled nursing care; \$170.50 per day for days 21-100 of skilled nursing care.
Part B	Between \$135.50 and \$460.50, depending on household income. Individuals with annual income of \$500,000 or more, and married couples with annual income of \$750,000 or more, pay the highest premium of \$460.50.	\$185 per year	20 percent of the cost of most doctors' services, outpatient therapy, and durable medical equipment.
Part C	Medicare Advantage plans are issued by private insurance companies and terms vary. Premiums can range between \$12 and \$300 per month, depending on coverage and state of residence. If the Medicare Advantage plan does not cover the participant's Part A and B premiums, the participant will have to pay those premiums as well. Some Medicare Advantage plans also cover vision care, dental care, hearing aids and prescription drugs.		
Part D	Part D plans are issued by private insurance companies and terms vary. Premiums generally range between \$12 and \$170 per month. You may be eligible for \$0 Part D premiums, depending on your income. The Part D coverage gap or "donut hole" begins once you and your insurer have spent \$3,820 on covered drugs. Your costs in the donut hole will be 25 percent of the cost of a brand name drug and 37 percent of the cost of a generic drug. Once you reach \$5,100 of out-of-pocket costs during the plan year, you will enter the "catastrophic" phase of coverage and your drug coinsurance will be lowered for the remainder of the year. Apart from Part D premiums paid to private insurance companies, Medicare beneficiaries may have to pay a Part D income-related monthly adjustment amount ("IRMAA") directly to the government. The Part D IRMAA ranges from \$0 to \$77.40 per month, depending on household income. Individuals with annual income of \$500,000 or more, and married couples with annual income of \$750,000 or more, pay the highest Part D IRMAA.		

*For hospital stays longer than 90 days, you have 60 lifetime reserve hospital days that can be used at any point over the course of your life.

¹ Assuming no late enrollment penalties. Part A and Part B costs can be fully or partially covered by a medigap plan, as detailed in the chart on the next page.

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If you are enrolled in Medicare Parts A and B and you purchase a medigap plan, the chart below summarizes the supplemental coverage you can expect. Where a percentage appears, the medigap plan covers that percentage of the benefit, and you must pay the rest. Note that Medigap policies are standardized in a different way in Massachusetts, Minnesota, and Wisconsin.

MEDICARE SUPPLEMENT INSURANCE (MEDIGAP) PLANS										
BENEFITS	A	B	C	D	F	G	K	L	M	N
Medicare Part A coinsurance and hospital costs (up to an additional 365 days after Medicare benefits are used)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Medicare Part B coinsurance or copayment	100%	100%	100%	100%	100%	100%	50%	75%	100%	100%
Blood (first 3 pints)	100%	100%	100%	100%	100%	100%	50%	75%	100%	100%
Part A hospice care coinsurance or copayment	100%	100%	100%	100%	100%	100%	50%	75%	100%	100%
Skilled nursing facility care coinsurance			100%	100%	100%	100%	50%	75%	100%	100%
Part A deductible		100%	100%	100%	100%	100%	50%	75%	50%	100%
Part B deductible			100%		100%					
Part B excess charges					100%	100%				
Foreign travel emergency (up to plan limits)			80%	80%	80%	80%			80%	80%
							Out-of-pocket limit in 2019			
							\$5,560	\$2,780		

Note: Medigap plans that cover the Medicare Part B deductible (Plans C and F in most states) will no longer be available if you turn 65 or become Medicare eligible after January 1, 2020, due to the Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”). If you buy a medigap plan C or F before January 1, 2020, you can keep your plan and your benefits will not change. But, monitor your plan premiums closely. Premiums could increase as the number of enrollees in those plans drops over time.

QUESTION 3

I AM THINKING ABOUT EARLY RETIREMENT. BUT, I AM CONCERNED ABOUT HEALTH INSURANCE COVERAGE BECAUSE I KNOW I AM NOT ELIGIBLE FOR MEDICARE UNTIL I TURN 65. WHAT ARE MY OPTIONS?

This is a common concern. People who retire before age 65 generally have five health insurance options:¹

1

EMPLOYER SPONSORED PLAN.

Some employers offer medical plans for their retirees. Check with your employer to see whether this is an option.

Benefit: Easy and potentially cost-effective

Drawback: Many employers do not offer these retiree health benefits

2

A SPOUSE'S PLAN. If your spouse is working and has health insurance, you might be eligible for coverage through his or her employer plan.

Benefit: Easy and potentially cost-effective

Drawback: Potential loss of coverage. In the event of job loss, retirement, death, or divorce, you may have to find another solution

3

COBRA. COBRA stands for the “Consolidated Omnibus Budget Reconciliation Act.” It is a 1985 law that allows individuals and families to stay on a company’s group health insurance plan, even after voluntary or involuntary job loss. Companies with 20 or more employees must allow employees to continue coverage under COBRA, but only for a period of 18 to 36 months.

Benefit: Continued eligibility for high-quality group health insurance, typically with lower deductibles, coinsurance, and annual maximum out-of-pocket costs than private plans

Drawback: An individual who gets health insurance under COBRA generally pays 100 percent of the insurance premium, plus an additional two percent charge. This is in sharp contrast to life as an employee, where the employer typically pays a large share of the monthly premium

4

PRIVATE INSURANCE THROUGH A FEDERAL OR STATE MARKETPLACE.

The Affordable Care Act (“ACA”) created insurance marketplaces.

Benefit: All marketplace insurance plans must cover inpatient, outpatient, and preventative care

Drawback: Enrollment runs from November 1 to December 15 unless you enroll within 63 days of a qualifying life event. Also, premiums, deductibles, coinsurance, and annual maximum out-of-pocket costs can be high

5

PRIVATE INSURANCE THROUGH A PRIVATE MARKETPLACE. Many insurance companies sell health insurance directly to consumers. An insurance broker also can help you find the right coverage.

Benefit: An additional way to access coverage

Drawback: Premiums, deductibles, coinsurance, and annual maximum out-of-pocket costs can be high

¹ These five options also may be relevant for a younger spouse. Many couples find that when one spouse begins to receive Medicare coverage, the other spouse must find an interim solution until he or she turns 65.

A common pitfall for early retirees is late enrollment in Medicare. Even if you have public or private health insurance, it is imperative that you sign up for Medicare at the earliest possible date to avoid a penalty. Signing up for Medicare means that you enroll in Parts A and B, and this is true even if you want to choose a Medicare Advantage plan now or in the future. You also should enroll in Part D or have other prescription drug coverage to avoid a penalty, and should purchase your medigap policy to avoid medical underwriting. If you delay your medigap purchase, you may find yourself answering uncomfortable questions about your health history.

If you are not yet receiving Social Security payments, your Medicare initial enrollment period starts three months before the month you turn 65 and lasts for a total of seven months. For example, if you turn 65 on June 12, 2019, your initial enrollment period starts March 1, 2019 and ends September 30, 2019. That said, if you do not sign up in the three months before you turn 65 (March, April, or May, in our example), then your Medicare start date could be delayed.



If you miss the seven month initial enrollment period altogether, then you generally can sign up for Part A at any time. But, you will pay a Part B late enrollment penalty unless an exception applies. (A common exception applies to individuals who did not initially sign up for Part B because they were covered by their working spouse’s company plan.) The Part B late enrollment penalty is not a one-time payment. Instead, the penalty applies every month that you have Medicare Part B, and your monthly Part B premium could go up as much as 10 percent for each 12 month period that you could have had Part B but did not.

You will owe a Part D late enrollment penalty if, after your initial Medicare enrollment period, you go without prescription drug coverage for 63 continuous days or more. Drug coverage can be a Medicare Part D plan, a Medicare Advantage plan or private coverage that meets Medicare’s minimum coverage requirements (called “creditable prescription drug coverage”). If you exceed 62 days without coverage, your monthly Medicare Part D premium will increase. The penalty formula for 2019 is as follows:

$$\begin{array}{ccccccc}
 .01 & \times & \$33.19 & \times & (xx) & = & \text{Penalty} \\
 \text{One} & & \text{National Base} & & \text{Number of full months} & & \\
 \text{percent} & & \text{Beneficiary Premium} & & \text{you were uncovered} & &
 \end{array}$$

The national base beneficiary premium can increase each year, which means your penalty amount can increase each year as well.

Medicare will not contact you to remind you of your initial enrollment period. It is imperative that you call the Social Security office, which administers Medicare enrollment, at least three months before you turn 65 to avoid late enrollment penalties. However, if you already receive Social Security payments, you will be automatically enrolled in Medicare Parts A and B and your coverage will start the first day of the month that you turn 65. Part D penalties still may apply. Make sure that the Social Security Administration has your current address on file because your Medicare identification card will come in the mail.

TRUE OR FALSE?

If you are eligible to take Social Security, you are eligible for Medicare as well.

False. You can start your Social Security benefits as early as age 62 or as late as age 70. But, Medicare eligibility typically happens when you turn 65. Just because you are receiving Social Security does not mean that you are eligible to receive Medicare.

QUESTION 4

I AM TURNING 65 NEXT YEAR AND AM STILL WORKING. SHOULD I TRANSITION FROM PRIVATE INSURANCE TO MEDICARE AND, IF SO, HOW DO I MAKE THE TRANSITION?

If you fail to enroll in Medicare during your initial enrollment period, you may face Part B penalties, Part D penalties and medigap underwriting, as described in Question 3. The logical conclusion is that you should enroll in Medicare as soon as you are eligible, regardless of whether you are still working and are covered by your company health insurance plan. But, this is not necessarily true.

If your company has less than 20 employees, you should enroll in Medicare during the initial enrollment period that starts three months before the month you turn 65. If your company has 20 or more employees, you should be able to delay Medicare enrollment penalty-free. You will have a special Medicare enrollment period that begins one month after you stop working or, if earlier, the month after your company health insurance ends. This special enrollment period lasts eight months. Many people eligible for the special enrollment period continue company coverage until they stop working. If you decide this option is right for you, be aware that you may want to start the Medicare application process before your special enrollment period officially opens, so that your Medicare coverage can start the day that your company health insurance does end.

TRUE OR FALSE?

If you have retired but continue on company health insurance (either through COBRA or retiree coverage), you can delay Medicare enrollment penalty-free.

False. The Medicare special enrollment period applies to individuals who are employed past their Medicare initial enrollment period, not to retirees who continue to use company health insurance.

CONCLUSION

Nearly 60 million Americans benefit from Medicare, and it is a vital part of the health insurance landscape. That does not mean that it is easy to navigate. Every individual has a unique health, financial and family profile that will impact the decisions they make about Medicare. We encourage you to talk with your advisors about the health care coverage that is right for you.

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