

Your Retirement Advisor Medicare Guide

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Understanding the Cost of Healthcare & How to Navigate the Medicare Maze

Turning 65 means you're now eligible to receive Medicare benefits. But sorting through the Medicare maze can be challenging. 7 out of 10 consumers can't correctly estimate how much healthcare costs are going to be in retirement. How do you get started planning for healthcare and Medicare? What do you need to know before you enroll? How do you estimate what it's all going to cost? And where do you get help if you need it?

Understanding Healthcare Costs

American workers are split about 50/50 when asked if they are confident they will have enough money to pay for medical expenses in retirement.

In a 2016 survey, 45% of all workers reported they were "not too" or "not at all" confident they would have enough money to pay for their medical expenses in retirement. Fifty-four percent said they were "very" or "somewhat" confident they could pay the cost.¹

Regardless of whether you're confident or not, it's important to have an idea about how much healthcare may cost in retirement. By putting the costs in better perspective, you might be able to better understand what you can pay for and what you can't.

Health-Care Breakdown

A retired household faces three types of health-care expenses.

1. A household may have the expense of premiums for Medicare Part B (which covers physician and outpatient services) and Part D (which covers drug-related expenses). Typically, Part B and Part D are taken out of a person's Social Security check before it is mailed, so the premium cost is often overlooked by retirement-minded individuals.
2. The household should expect to pay for co-payments related to Medicare-covered services that are not paid by Medigap or other health insurance.
3. The retired household should expect to pay for dental care, eyeglasses, and hearing aids, which are typically not covered by Medicare or other insurance programs.

*See below for details on Medicare and Medigap

Fast Fact: Nursing Home Costs.
In 2016, the national average rate for a private room in a nursing home was \$92,376 a year. The national average rate for a semi-private room in a nursing home was \$82,128.

Source: Genworth 2017 Cost of Care Survey

It All Adds Up

According to a HealthView Services study using more than 50 million actual cases, a healthy married couple, age 65, can expect healthcare premiums to add up to \$288,400 over their lifetime. If you include dental, vision, co-pays, and out-of-pocket costs, the total rises to \$377,412.² For a healthy 55-year-old couple who plans to retire in a decade, the number jumps to \$466,000.³

Out-of-Pocket Healthcare Cost

The cost of healthcare for a 65-year-old couple is projected to increase with age.

	<u>Age 65</u>	<u>Age 85</u>
Annual Cost	\$7,7725	\$28,644
Monthly Cost	\$664	\$2,387

Source: HealthView Services: 2016 Retirement Health Care Costs Data Report (Costs shown are in future dollars.)

Navigating the Medicare Maze

What is Medicare?

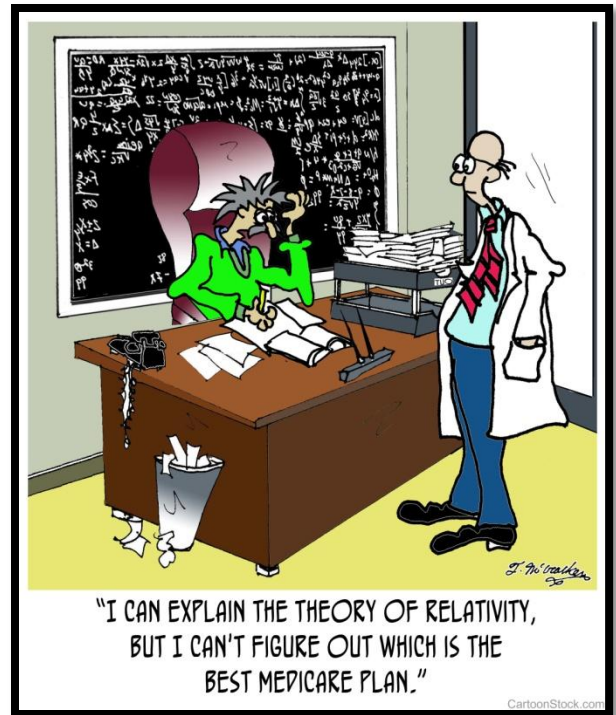
Medicare is a government health insurance program that is typically available to people 65 and older, or those with certain disabilities or diseases.

Understanding the Parts of Medicare

Part A hospital insurance covers inpatient hospital care, skilled nursing facility, hospice, lab tests, surgery, and home health care.

Part B medical insurance covers doctor and other health care providers' services, outpatient care, durable medical equipment, home health care, and some preventive services.

Part C, a Medicare Advantage Plan, is a Medicare health plan offered by a private company that contracts with Medicare to provide you with all your Part A and Part B benefits. Most plans offer extra coverage, like vision, hearing, dental, and/or health and wellness programs, as well as prescription drug coverage (Part D). In addition to your Part B premium, you usually pay a monthly premium for the Medicare Advantage Plan.



Part D is prescription drug coverage, which can also be obtained through a Medicare Advantage Plan offering Medicare prescription drug coverage.

Medigap, or Medicare Supplement Insurance, helps pay some of the health care costs that Medicare Parts A and B don't cover.

What Are the Costs of Medicare?

Part A is free if you or your spouse has worked and paid taxes to Medicare for at least 40 quarters (10 years). If you do not have enough working quarters, you will have to pay a premium for Part A. Part B always has monthly premium. If you have a Medigap or Part D plan you may have pay a monthly premium for these as well. Keep in mind that Medicare Advantage (MA) plans have different costs than Original Medicare. If you have a low income, you may qualify for programs that can help pay your Medicare premiums and other costs.

Part B is optional for those eligible for Part A, but those buying (i.e. not eligible for) Part A must also buy Part B. The standard Part B premium amount in 2018 will be \$134 (or higher depending on your income). However, some people who get Social Security benefits pay less than this amount (\$130 on average). You'll pay the standard premium amount (or higher) if:

- You enroll in Part B for the first time in 2018.
- You don't get Social Security benefits.
- You're directly billed for your Part B premiums (meaning they aren't taken out of your Social Security benefits).
- You have Medicare and Medicaid, and Medicaid pays your premiums. (Your state will pay the standard premium amount of \$134.)
- Your modified adjusted gross income as reported on your IRS tax return from 2 years ago is above a certain amount. If so, you'll pay the standard premium amount and an Income Related Monthly Adjustment Amount (IRMAA). IRMAA is an extra charge added to your premium.

Tip: Medicare beneficiaries spent an average of \$4,734 out of pocket on health care in 2010, the most recent year for which figures are available. Forty-two percent of that went to premiums, 20% to long-term care facilities.

Source: MedicareResources.org, November 23, 2016

If you're in 1 of these 5 groups, here's what you'll pay:

If your yearly income in 2016 (for what you pay in 2018) was			You pay each month (in 2018)
File individual tax return	File joint tax return	File married & separate tax return	
\$85,000 or less	\$170,000 or less	\$85,000 or less	\$134
above \$85,000 up to \$107,000	above \$170,000 up to \$214,000	Not applicable	\$187.50
above \$107,000 up to \$133,500	above \$214,000 up to \$267,000	Not applicable	\$267.90
above \$133,500 up to \$160,000	above \$267,000 up to \$320,000	Not applicable	\$348.30
above \$160,000	above \$320,000	above \$85,000	\$428.60

[Get more information about your Part B premium from Social Security](#)

Do I need both Parts A and B? Whether you need Medicare Part A and Part B depends on whether Medicare will be your primary or secondary insurer. Part A is hospital insurance and Part B is medical insurance. If your current employer insurance is primary, you do not need either Part A or Part B. However, most people choose to take Part A because it is free for them. If your Medicare is primary because, for example, you have retiree insurance or COBRA coverage you need both Part A B.

Part C is offered by private health insurance companies that contract with the government. Because of this, the cost of Part C plans varies from state-to-state and insurer-to-insurer. To enroll, you need to be enrolled in Parts A and B, which means you will need to pay your monthly premiums with Part B, as well as any premiums charged by the private insurer for your Medicare Advantage Plan.

Costs for Part D will vary. If you have Part C, chances are that prescription drug coverage is already a part of your plan. If you have Parts A and B, you can sign up for a Medicare approved drug plan offered by an insurer in your area. Premiums and medications covered will vary by plan.

Part B deductible & coinsurance

You pay \$183 per year for your Part B deductible. After your deductible is met, you typically pay 20% of the Medicare-approved amount for these services:

- Most doctor services (including most doctor services while you're a hospital inpatient)
- Outpatient therapy
- Durable medical equipment

What is Medigap and How Much Does it Cost?

As you can see, Medicare doesn't cover everything. To fill some of those gaps, there is Medigap. Like Part C, Medigap is provided by private insurers. There are twelve kinds of Medigap plans that cover a variety of different services. This could include coinsurance, additional hospital days, deductibles, preventative care, skilled nursing, and hospice care. If you have Medicare Advantage or qualify for Medicaid, you probably won't need a Medigap plan. Not every state offers all twelve plans, so call 1-800-MEDICARE or check <http://www.medicare.gov/> to find out what is available in your area.



Medicare Supplement Insurance (Medigap) policies are sold by private companies and can help pay some of the health care costs that Medicare Parts A and B don't cover, like copayments, coinsurance, and deductibles. If you have Medicare and you buy a Medigap policy, Medicare will pay its share of the Medicare-approved amount for covered health care costs first, then your Medigap policy will pay its share of the remaining costs. Some Medigap policies also offer coverage for services that Medicare Parts A and B don't cover, like medical care when you travel outside the U.S.

Below are a few things to know before you purchase a Medigap policy:

1. You must be enrolled in Medicare Part A and Part B.
2. If you have a Medicare Advantage Plan (Part C), you can apply for a Medigap policy, but make sure you can leave the Medicare Advantage Plan before your Medigap policy begins.
3. You'll pay a private insurance company a monthly premium for your Medigap policy in addition to the monthly Part B premium that you pay to Medicare.
4. A Medigap policy only covers one person. If you and your spouse both want Medigap coverage, you'll each have to buy separate policies.
5. You can buy a Medigap policy from any insurance company that's licensed in your state to sell one.
6. Like other Medicare options, Medigap does not cover long-term care costs such as extended in-home or nursing home care.

Most people who are eligible to receive Medicare benefits pay no premium for Medicare Part A. However, upon enrolling in Medicare, you will need to factor premium costs into your budget for benefits available under Parts B, C, D and Medigap, based on your needs and preferences.

Medicare Parts B and D premiums are determined by your modified adjusted gross income (MAGI), which is adjusted gross income plus tax-exempt municipal bond interest, calculated for two years prior. If your MAGI is even one dollar over a premium threshold, you'll be subject to the higher premium.

What is Medicaid?

Medicaid is a joint federal and state program that helps with medical costs for some people with limited income and resources. Medicaid also offers benefits not normally covered by Medicare, like nursing home care and personal care services.

Each state has different rules about eligibility and applying for Medicaid. [Call your state Medicaid program](#) to see if you qualify and learn how to apply.

Even if your income exceeds Medicaid income levels in your state, you may be eligible under Medicaid spend down rules. Under the "spend down" process, some states allow you to become eligible for Medicaid as "medically needy," even if you have too much income to qualify. This process allows you to "spend down," or subtract, your medical expenses from your income to become eligible for Medicaid.

To be eligible as "medically needy," your measurable resources also have to be under the resource amount allowed in your state. [Call your state Medicaid program](#) to see if you qualify and learn how to apply.

How Do I Apply for Medicare?

If you are already collecting some form of Social Security (either retirement benefits or disability benefits) when you become eligible for Medicare, you will be automatically enrolled in both Part A and Part B. You become eligible for Medicare when you turn 65 or have been collecting Social Security Disability for 24 months.

If you are not collecting Social Security when you become eligible for Medicare, you must enroll through Social Security. You can do this online, over the phone or in person at your local Social Security office. Call 800-772-1213 to sign up for Parts A and B of Medicare or to find the location of your local Social Security office. If you want Medicare Part D prescription drug coverage, you must actively enroll in it yourself. This is true whether you are automatically enrolled in Medicare or you have enrolled yourself. Keep in mind that people with Lou Gehrig's disease (ALS) or End-Stage Renal Disease (ESRD) do not have to collect Social Security Disability benefits for 24 months to qualify for Medicare.

We suggest you enroll early. You can do this up to three months prior to the month you turn 65, but not later than three months after the month you turn sixty-five. If you miss this initial window, you will likely have to wait until the next general enrollment period, which runs from January 1 through March 31 of each year (beware that penalties apply to those who sign up after their initial enrollment window.). You can make certain changes to prior elections during the open enrollment period each year from October 15 through December 7.

You can enroll online at <http://www.ssa.gov/>. You can also enroll by phone or in person at any local Social Security office. If you don't know the number to your local office, call the Social Security Administration directly at (800) 772-1213 or use the office locator at <http://www.ssa.gov/>.

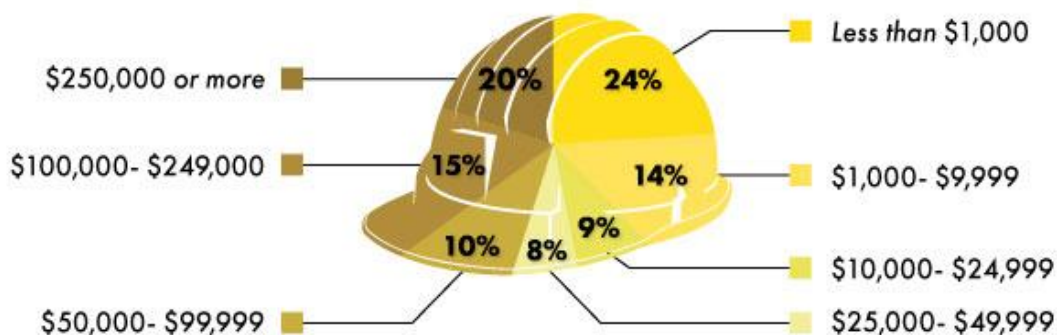
That's where a little planning can help. Many people can avoid entering a higher premium bracket just by managing their income. One way is to take a higher percentage of income in retirement from sources not subject to the MAGI calculation, such as qualified retirement plans, reverse mortgages, or the cash value from certain life insurance contracts. And once you reach age 70 ½, qualified charitable distributions (QCDs) offer another alternative for reducing MAGI.

Managing Expectations and Getting Help with Your Medicare Decisions

Seeing the results of the study below may help you make some critical decisions when creating a strategy for retirement and healthcare costs.

Only 35% of the people in this Employee Benefit Research Confidence Survey have more than \$100,000 saved outside of their defined benefit plans and their residence. Regardless of where you fall on this chart, it's critical to create a plan as soon as possible to decrease your debt and expenses, increase your automatic retirement savings and work with a retirement professional to understand your total costs in retirement and how much money you'll need to last a lifetime.

Workers were asked how much they have saved and invested for retirement — excluding their residence and defined benefit plans.



Source: Employee Benefit Research Institute, 2016 Retirement Confidence Survey.

Next Steps: Don't Go it Alone...Help is Only an Email or Phone Call Away

Without a solid and educated approach to planning properly, health-care expenses can add up quickly in retirement affecting the survivability of your portfolio. Your Retirement Advisor offers a personalized and extremely affordable Medicare Partner Service & Assessment to help you navigate the Medicare Maze (and saves you hours of pouring over your options). With our partner, we help people just like you make important decisions about their Medicare health plans. We also help make the insurance shopping experience less confusing and less stressful for you. Our partner agents answer your Medicare questions and compare Medicare Supplement, Medicare Advantage and Medicare Part D Prescription Drug plans. They'll assess your needs and help you find a plan that fits your unique situation and your budget. Whether you're enrolling in Medicare for the first time or reviewing your plan annually, our insurance experts can help you navigate the Medicare maze.

Our Medicare Assessment is only \$100 and includes:

- Review of Medicare options
- Medicare Supplement, Medicare Advantage and Medicare Part D Prescription Drug plans
- Needs assessment
- Cost of plans comparison

[Click here to request the Medicare Assessment](#)

If you'd like to go the do it yourself route, then make sure you visit the government's Medicare site at www.medicare.gov, which provides a step-by-step guide for choosing the options and coverage you need. [You can also use TransAmerica's Medicare Planning Workbook by clicking here.](#)

And remember, if you haven't started Social Security when you turn 65, enroll in Medicare early. As you approach your 65th birthday, it's important to enroll in Medicare as soon as possible to avoid a gap in coverage or potential penalties for late enrollment. To begin receiving benefits the month you turn 65, you'll want to make important decisions about your Medicare options three months prior to your 65th birthday.

If you'd like to learn more about managing Medicare premiums or other expenses in retirement, including long-term care costs not covered under Medicare, please don't hesitate to contact Your Retirement Advisor at anytime with any questions you have.

Additional Medicare Resources:

Social Security website: <http://www.ssa.gov/>

Medicare website: <http://www.medicare.gov/>

Centers for Medicare and Medicaid Services: <http://www.cms.gov/>

NOTES



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