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JULY
2011

8 Essential Steps for Enrolling in Medicare

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Finding affordable medical insurance is a critical part of your retirement planning. Once you're eligible for Medicare at age 65, insurance is more affordable and you can't be denied coverage for pre-existing conditions. But it's still complicated, and you'll need to plan carefully to make every dollar count. You'll also want to factor your premium costs into your budget for living expenses to see when you can afford to retire. First, you'll want to understand the four parts of Medicare:

- Part A: hospital insurance
- Part B: physician and outpatient coverage
- Part C: Medicare Advantage (MA) plans
- Part D: coverage for prescription drugs

Medicare Advantage plans (MA), or Part C, are like an HMO or PPO, and they combine Part A and Part B in order to provide you with hospital, physician and outpatient coverage. They also usually cover Part D benefits, and they often add extra benefits like vision, dental, hearing aids, and/or wellness services.

Now it's time to begin your homework.

Step 1: Check Your Eligibility

Your first step is to make sure you or your spouse has paid FICA taxes for at least 40 calendar quarters — this qualifies you for free Medicare Part A

coverage. If you haven't worked that much and don't qualify, you [can purchase Medicare Part A](#), but it will be costly. The premium in 2011 is \$248 per month if you paid FICA taxes for 30 to 39 calendar quarters, and \$450 per month if you paid FICA taxes for fewer than 30 quarters. If you're close to these thresholds, you might consider continuing to work and pay FICA taxes to either reduce or eliminate your Medicare Part A premiums.

Step 2: Determine When You Should Enroll

Answers can be different for each of Medicare's parts. For instance, if you start your Social Security income benefits before age 65, you'll be automatically enrolled in Medicare Parts A and B and should receive your Medicare card three months before your 65th birthday. 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 (see below).

If you haven't started your Social Security benefits by age 65, you'll want to enroll in Medicare Parts A and B within the three months prior to your 65th birthday, even if you continue to delay the start of your Social Security income 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 (see below).

Warning: If you delay signing up for [Medicare Part B](#) or [Part D after you're first eligible](#), there might be a penalty applied to your premiums. If you decide you'd rather be covered by a MA plan than be covered separately by Parts A and B, you'll want to select and enroll in your MA plan before your 65th birthday, again, so there's no delay in coverage and so you don't incur any penalties.

If you continue working beyond age 65 and are covered by your employer's medical plan as an active employee, make sure you understand how your employer's plan coordinates with Medicare. The best way to do this is to consult with your HR department or benefits administrator. Most employer-sponsored plans require you to enroll in Medicare Part A but not Part B. Also, you'll 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 mentioned above won't apply. However, to avoid a late penalty completely, you'll generally need to [enroll in Medicare Part B](#) no more than eight months after you eventually retire and buy a [Medicare Part D plan](#) within 63 days of your retirement date.

In most cases, you won't want to elect a MA plan while you're covered by your employer's medical plan as an active employee, since you'll be duplicating coverage and wasting the premiums you'd pay for the MA plan.

Step 3: Figure Out Whether You Should Buy a Medicare Advantage (MA) Plan as Opposed to Just Enrolling in Medicare Parts A and B

[Medicare Advantage plans](#) combine Medicare Parts A and B, often cover Part D (prescription drugs), and may also cover some of the amounts you might normally pay for Medicare's deductibles and copayments.

The advantages of MA plans are:

- You have the convenience of getting all your coverage from one source.
- MA plans have the potential for lower premiums when you add up all the premiums you pay for Parts B, D, and Medigap plans (see the next page).
- Some MA plans provide benefits not covered by Medicare, such as dental, vision, and wellness.

The disadvantages of MA plans are:

- You might be restricted to the doctors and hospitals in the plan's network.
- If you choose to go to a doctor outside your network, you might have to pay 100 percent of the cost.
- You may need to pay a co-payment each time you receive medical treatment.

[As part of your homework](#), you'll want to compare features and premiums of the MA plans in your area to enrolling in Medicare Parts A and B separately. You'll also want to make sure you live in the geographic area

covered by the MA plan you're considering. If you have favorite doctors or specialists, you'll also want to check to see if they're in the network.

There are [rules regarding when you can enroll in a MA plan](#) and when you can switch to regular Medicare Parts A and B. You can't switch back and forth any time you feel like it, so be sure to read up on the regulations before you make any decisions.

It will be a time-consuming task to decide [whether to take traditional Medicare Parts A and B separately](#), or enroll in a MA plan that offers coverage for both. There are many software tools available that can help you shop and compare plans. Be aware that these tools all have various sponsors with different points of view. You may want to start with the [tools offered by Medicare](#) and other nonprofit organizations that advocate for seniors. It's well worth your time to use a few different tools and investigate their individual recommendations. You'll learn a lot in the process.

Since you must pay premiums for Parts B and D, this coverage is optional, at least in theory. Are these coverages a good deal? Read below for considerations.

Step 4: Figure Out Whether You Should Buy Parts B and D

If you want Medicare coverage under Parts B and D, you'll need to pay monthly premiums for these benefits. Are they good deals? Is it worth paying the premiums?

Yes is the short answer, but there are a few exceptions and details.

Part B coverage is a good deal; the basic premium only covers about one-fourth of the cost. The federal government pays for the rest of the cost through general revenues.

For new retirees, [the monthly premium for Part B benefits](#) (physician and outpatient coverage) is \$115.40 if your total taxable income, plus tax-exempt interest, is below certain thresholds (\$85,000 if you're single; \$170,000 for a married couple). If your income is above these thresholds, [your Medicare Part B premiums can range](#) from \$161.50 to \$369.10, depending on your income. For this purpose, your income is your taxable income plus tax-exempt interest.

Part D benefits provide essential coverage, since most retirees take prescription drugs. The monthly premiums can range from \$20 to \$50, but it's possible you might pay higher amounts, depending on the features of the plan you select and your geographic location.

As I mentioned previously, if you're working beyond age 65 and receive medical coverage from your employer as an active employee, you may not want to enroll and pay premiums for Parts B and D until you retire. At that point, signing up for both of these benefits is probably a good idea.

Step 5: Shop for Part D Coverage

[Medicare Part D, covering prescription drugs](#), is insurance that you typically buy from an insurance company, or it's included as part of a Medicare Advantage plan. You can select among many companies that offer Part D benefits. The premiums, benefits, and features can vary significantly by plan, so you'll need to do some research to find the right plan for you. One of the most important features to consider is the plan's formulary — the list of drugs that the plan covers. If you take a significant number of prescription drugs, you'll want to carefully compare the drugs you take to a plan's formulary to make sure that the medicine you take is covered by the plan.

The standard Part D prescription drug plan has significant gaps in coverage, including the hated [donut hole](#), which means you have the [potential to pay thousands of dollars out-of-pocket](#), even if you have Part D coverage. For example, if your total drug costs exceed \$2,840 in 2011, you might be paying 100 percent of the costs until your total out-of-pocket costs for drugs reach \$4,550; at that point, you'll be eligible for catastrophic coverage, and you'll only pay a small part of your remaining costs. You'll want to make sure you completely understand the features of the plans, including how the donut hole affects your coverage, before choosing any of them.

There are online shopping tools that can match you with the plans that might offer the best coverage based on the medications you're currently taking. Again, it's well worth your time to shop among various plans, particularly if you take a significant number of prescription drugs and they're critical to your health. Just as with shopping for MA plans, be aware of the sponsor of the various tools you may use; you may want to start

with [tools sponsored by Medicare](#) or other [nonprofit organizations that advocate for seniors](#).

Step 6: Determine Whether You Will Need Medigap Insurance

For most people who enroll in Parts A and B rather than an MA plan, buying Medigap insurance is a good choice. Medicare has [substantial deductibles and copayments](#), and you can easily spend thousands of dollars each year for out-of-pocket medical expenses. Medigap insurance provides coverage for these “gaps” in your Medicare coverage and can save you money.

If you plan to enroll in a Medicare Advantage plan, however, you won't need Medigap insurance because that would duplicate your coverage and be a waste of money. You'll want to learn [the pros and cons](#) for buying Medigap insurance to supplement Parts A and B vs. buying a MA plan to cover both parts.

Monthly costs for Medigap plans generally range from \$50 to several hundred dollars, depending on the type of Medigap plan you choose and where you live.

While I hate to repeat myself, it's important to point out that you should do your homework when shopping for a Medigap plan because premiums and plan features can vary substantially. Medigap plans come in [10 standardized policies](#), lettered A, B, C, all the way up to N. Each Plan A has the same features, each Plan B has the same features, and so on. Once you select the type of plan you need, you can easily compare the premium costs among different insurance companies.

Depending on your circumstances, you may need certain features that not all the plans offer. For example, some Medigap plans offer coverage while you're overseas, while other plans don't pay for these services at all. Be sure to choose the plan that provides exactly what you need.

As when shopping for MA and Part D plans, there [are online tools](#) that can help you shop and compare, such as [eHealthinsurance.com](#). Once again, I recommend that you use a few different tools; you'll learn a lot in the process.

You might be eligible to buy retiree medical insurance through your employer. In this case, [investigate the premium costs](#), and the treatment of prescription drugs. You might find it more advantageous to enroll in your employer's retiree medical plan for both Medigap and prescription drug coverage. Another consideration is that your employer can help you if there are claim disputes; if you buy a Medigap policy and have a claim dispute, it's you against the big insurance company.

One final note: Medigap plans no longer cover prescription drugs, so if you buy a Medigap plan, you'll also want to buy Part D coverage.

Step 7: Figure Out How to Deal with Expenses Not Covered by Medicare

Medicare Parts A and B and most Medigap plans don't typically pay for long-term care, vision, dental, hearing aids, or eyeglasses. Some Medicare Advantage Plans pay for hearing aids, vision, and/or dental (you'll want to check the specific features of your plan to see if these things are covered).

The most overlooked source of retirement health-care expenses is for long-term care. Medicare, Medicare Advantage and Medigap plans do not cover most expenses for custodial long-term care. The only situation where these plans cover some long-term care expenses is when you use a skilled nursing facility immediately following a stay in a hospital.

Step 8: Develop Your Budget

After all this homework, you're finally ready to prepare your monthly budget for medical insurance. Be sure to include all the premiums you might pay for Parts B, C, and/or D, as well as for MA, Medigap and dental insurance. Include a budget for out-of-pocket expenses, since all plans have deductibles and copayments. And don't forget to include the cost for eyeglasses and hearing aids, if applicable. When you count up all these costs, don't be surprised to see that you have a monthly budget of \$500 or more per person for medical costs. Then factor these costs into your monthly budget. This will help you decide when you can afford to retire.

This is definitely one of many areas of retirement planning that will take a lot of time in order to do your homework right, but it's well worth the effort. The research you do can save you a lot of money and heartache when you eventually need medical services. Don't give up in frustration!

After all, you're planning for the most important part of your life — the rest of your life! You have the potential to save hundreds, if not thousands, of dollars through careful planning, and to give yourself the health to enjoy your life.