

KANAWHA CURRENTS

Navigating the Medicare Maze

This Quarter's Highlights

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Those who are approaching the Medicare eligibility age of 65 have a multitude of health insurance options to choose from, beyond basic Medicare. Individuals searching for additional coverage often find it difficult to select among the many different Medicare Advantage plans and Medicare Supplement Insurance (“Medigap”) plans available. Original Medicare, the principal insurance for retirees, by itself provides limited coverage and can leave one’s financial savings vulnerable.

Choosing a Medicare Advantage plan or basic Medicare plus a Medigap plan can add an additional layer of protection to limit out of pocket costs such as coinsurance, copayments, and deductibles. There is certainly no shortage of choices. A resident of Richmond, Virginia, for example, currently can choose from more than 20 Advantage plans. There are also 11 federally mandated Medigap options, with multiple carriers providing coverage for each of these plan types.

Original Medicare insurance includes Part A (Hospital Insurance) and Part B (Medical Insurance). Part A generally requires no monthly premium if you are age 65 or older and you or your spouse have paid Medicare taxes for at least 10 years. An annual deductible of \$1,316 per benefit period and co-payments for stays beyond 60 days will apply. Part A helps to cover inpatient care in hospitals and skilled nursing facilities as well as hospice care services. It does not cover custodial or long-term care. Part B requires monthly premiums, which are determined based on your modified adjusted gross income (MAGI; see Table 1), an annual deductible of \$183, and 20% coinsurance for most services. Part B covers doctor’s visits and services, outpatient care and lab tests, among other benefits.

Table 1: 2017 Medicare B Premiums

MAGI Single	MAGI Joint	Part B Monthly Premium
\$85,000 or less	\$170,000 or less	\$134.00
\$85,001 to \$107,000	\$170,001 to \$214,000	\$187.50
\$107,001 to \$160,000	\$214,001 to \$320,000	\$267.90
\$160,001 to \$214,000	\$320,001 to \$428,000	\$348.30
\$214,001 +	\$428,001 +	\$428.60

*Many individuals already enrolled in Medicare B may only pay \$109/month through a ‘hold harmless’ provision which protects Social Security recipients from seeing declines in their Social Security benefits due to increases in Medicare B premiums.

If you haven’t started receiving Social Security retirement benefits, you will need to sign up for Medicare A and B. You may do this during a seven-month initial enrollment period that begins three months before the month you turn 65. You may wish to enroll in Part A and defer Part B to a later date if you have access to group medical insurance through current employment. Upon retirement or termination in coverage, you will have an eight-month window to enroll in Part B (the same would apply to Part A if you didn’t originally enroll in this). Missing your initial or deferred enrollment can leave you exposed to penalties and lack of coverage until the next year’s open enrollment and subsequent July 1 effective date.

Prescription drug coverage, or Part D, became part of Medicare in 2006 with the passage of the Medicare Modernization Act. It can be purchased as a stand-alone prescription drug plan or as part of a Medicare Advantage plan. Stand-alone plans come with various monthly premiums, annual deductibles, and coinsurance depending on the policy. Many plans have a gap in coverage where participants are responsible for a larger percentage of their drug costs. For 2017, this “donut hole” exists when total covered drug costs fall between \$3,700 and \$4,950. Some plans provide “gap coverage,” but these plans often come with higher premium costs. It is important that you consider Part D coverage during your initial enrollment period, even if you do not have prescription needs at the time. There is a cumulative penalty that increases each month you defer between the time you are first eligible and the time you ultimately sign up for Part D. Consequently, it may make financial sense to go ahead and sign up for one of the less expensive plans, as you can always change your prescription drug coverage during a later open enrollment period.

After becoming familiar with the different parts of Medicare, individuals can determine whether (1) Medicare only, (2) Medicare Advantage, or (3) Medicare and Medigap is most appropriate for their needs. For those retirees with employer sponsored health plans, it is important that you discuss with your benefits personnel how your plan interacts with Medicare and what your net exposure might be.

Many people have spent years diligently saving for retirement, and they often maintain an overarching objective of preserving and growing their savings. For most retirees, their investment portfolios serve as their primary funding vehicles to meet ordinary living expenses in retirement. In this context, the concept of financial exposure involves the risk of having to tap into this capital to pay for healthcare costs not covered under one’s health insurance. Unexpected and significant expenses may threaten to undermine a retirement portfolio’s sustainability, especially if forced withdrawals coincide with financial market downswings. Therefore, it seems logical that retirees should consider extra coverage options beyond basic Medicare. Certain Medicare Advantage plans and Medigap policies can generally provide additional coverage to meet one’s needs.

Several factors should be considered when analyzing different Medicare insurance plans. Giving consideration to some of the following questions may help individuals approaching Medicare age decide which plan is most appropriate for them.

- How important is it for you to keep your current physician(s) and have the ability to select your own physician(s)?
- How might a PPO or HMO network affect your choice of physicians in your geographic area? Are you comfortable with a referral requirement to see specialists for care?
- What level of catastrophic coverage are you comfortable with? Based on your level of financial assets, you may be fine with being exposed up to a certain threshold, but not beyond it.
- Would you prefer to pay higher premiums to have less uncertainty about unexpected medical costs?
- What prescription drugs do you take and how do you prefer paying for them?
- Are there other benefits that are important to you that are not covered under Medicare, such as routine vision or dental care?
- Are you able to maintain proper coverage if you spend part of the year in one location and part of the year in another? Do you want to have coverage for urgent care while travelling internationally?

Evaluating Medicare Advantage plans is no easy task. They come in many different shapes and sizes and are offered by private companies that have been approved by Medicare. Technically, they are not supplemental policies, as they provide an all-in-one option that bundles Part A and B benefits and may include additional dental, vision, and wellness coverage. Many Advantage plans also offer prescription drug (Part D) coverage. These plans are required by law to limit in-network out-of-pocket costs due to Part A and B services to \$6,700 in 2017.

Medigap plans are actual separate policies that provide coverage to supplement the benefits received under Parts A and B. They are also offered by private insurers and are designed to cover Medicare deductibles, co-payments and coinsurance. They come in 11 standardized designs. Each of these designs must provide the same benefits, no matter which insurance company is writing the policy.

Table 2: Medigap vs. Medicare Advantage

	Medigap	Medicare Advantage
Eligibility	Entitled to Part A and B if paid Medicare taxes for 10 years.	Entitled to Part A and B if paid Medicare taxes for 10 years.
	Must pay Part B premiums.	Must pay Part B premiums.
	No medical underwriting during Medigap open enrollment period and Guaranteed Issue Period. Otherwise, underwriting will typically apply.	Available to all applicants except those with End Stage Renal Disease.
	No residence restrictions.	Must reside in service area.
Flexibility/Provider Choice	Any provider who accepts Medicare.	Generally HMO and PPO networks. HMO's cover in-network only. PPO's may cover out-of-network, but costs may be higher.
	No referrals required.	No referrals required for PPO's in-network service. Referrals may be required for HMO's.
Catastrophic Coverage	Only applicable to Plans K and L. Annual out-of-pocket costs for Plan K limited to \$5,120. Limited to \$2,560 for Plan L.	Varies by plan, but limited to \$6,700 for in-network benefits. This may not include out-of-pocket prescription drug coverage.
Prescription Drug Coverage	None. Have to purchase a stand-alone prescription drug policy.	Most plans come with prescription drug coverage.
General Benefits	Benefits vary based on each of the 11 standardized plans, but generally pay for all or a portion of costs not covered under Medicare A and B.	Includes all benefits and services covered under Parts A and B. Benefits vary widely with plans but generally offer competitive deductibles and copays for medical services.
Extra Coverage	No routine vision, dental, or wellness.	Some plans may include vision, dental, or wellness.
Cost	Premiums vary with gender and age. Insurance companies structure premiums in three different ways (community, issue age, and attained age).	All plan members pay same premium. Some plans have no premiums as network savings and Medicare subsidies reduce cost.
	Premiums generally higher as they cover more out of pocket expenses.	Premiums typically lower but cost sharing may be higher with care. Total cost may be difficult to estimate, especially if needs or frequency of care increases.

The above comparison matrix only addresses some of the many issues that should be factored into the healthcare insurance decision for Medicare enrollees. The information provided is of a general nature and specific plans and personal circumstances may yield different outcomes.

Understanding the different healthcare insurance options for Medicare enrollees and trying to determine which strategy best meets your needs can be a daunting task. The importance of this decision on retirees' assets is magnified by the trend of high healthcare inflation and the increased demand for medical services with age. Like many products and services available to the consumer, the decision often comes down to individual needs and preferences. A comprehensive Medigap policy paired with a solid prescription drug plan generally offers superior coverage for individuals willing to pay the increased cost. For those who are comfortable with network plans, desire a bundled approach, and are looking for more affordable premiums, Medicare Advantage plans may be a suitable fit. Regardless of your decision, it pays to review your plan(s) on an annual basis, especially stand-alone prescription drug plans and Advantage plans with prescription drug coverage. Importantly, while this discussion has focused on Medicare-covered expenses, individuals should be just as thorough in researching the various products that may help reduce financial exposure due to long-term care related costs.

Case Study

Bob and Sue Jones are each approaching their 65th birthday and are soon to be retired. They are researching various Medicare related health insurance options to determine which will provide them with the best coverage beyond basic Medicare. They reside in Central Virginia, are in relatively good health, and only take a few prescription drugs. They each take a generic cholesterol medication and Bob also takes a generic drug for high blood pressure. They plan to travel more in retirement and expect to go overseas at least once every few years. They have saved diligently over the years and have a portfolio of assets of approximately \$2 million. They expect Medicare Part B premiums, which will be deducted from their future Social Security checks, to be \$187.50 per month per person. These premiums may be higher than some of their friends pay as they are subject to income related adjustments. After many hours of due diligence on the topic of Medicare and supplemental health coverage, Bob and Sue have narrowed the choices down to a popular Medicare Advantage plan and one of the standardized Medigap “F” options, both offered by reputable insurance companies with high financial ratings.

Underwriting: *Since they are in their initial open enrollment period, there will be no underwriting issues for the Medigap policy. They understand, however, that if they choose the Advantage plan today but want to switch to a more comprehensive Medigap policy in the future, they may have to go through underwriting which would come with obvious risk.*

Flexibility: *The Advantage plan is offered through an HMO network and they have already determined that their Primary Care Physicians operate within the network. However, they don't like that referrals to specialists will be required and they are concerned about not being able to choose their physicians for needs that might arise in the future. They also find it unsettling that they may have emergency needs while traveling and any care rendered could be treated as out-of-network which may lead to higher costs. They like that the Medigap option offers more flexibility to choose their doctors and also provides solid coverage for both domestic and foreign travel emergencies.*

Catastrophic Coverage: *While the Medigap option is clearly superior in terms of minimizing unexpected out-of-pocket expenses, they are fairly comfortable with the \$3,400 maximum out-of-pocket limit on in-network medical costs that the Medicare Advantage plan offers (note this limit does not include prescription drug costs).*

Prescription Drugs: *The Advantage plan has bundled prescription drug benefits which provide solid coverage for their drugs at competitive pricing. The stand-alone Part D plan which they would pair with the Medigap policy provides comparable coverage, but it comes with a higher premium cost.*

Extra Coverage: *The Advantage plan comes with the option to purchase dental, vision, and wellness benefits for a reasonable cost each month. The Medigap policy they are considering does not come with these extra benefits. Bob and Sue like the idea of having access to bundled dental and vision coverage, but they can afford to self-insure against these costs if they choose the Medigap policy.*

Cost: *If Bob and Sue choose the Medigap policy, their annual costs would include approximately \$2,250 in Part B premiums and \$2,000 in Medigap “F” premiums per person. Additionally, they would have to purchase a Part D policy which they expect to cost another \$500 per year per person in premiums. This adds up to an estimated total annual cost of almost \$10,000. The total cost for the Advantage plan is more difficult to determine. The Advantage plan does not come with any additional premiums beyond their Part B monthly premium of \$187.50. However, they expect out-of-pocket costs to be approximately \$100 per month per person. They certainly find the lower premium costs of the Advantage plan appealing, but they worry about their exposure to significantly higher out-of-pocket costs should they become ill.*

Summary: *Each of the two options, the Medicare Advantage plan and original Medicare paired with a Medigap “F” policy, appears to provide adequate coverage to meet their needs. The Jones like certain qualities about both options. The Advantage Plan comes with lower premium costs (largely due to network savings) and bundled benefits. The Medigap policy, on the other hand, is an unbundled approach, but provides comprehensive coverage which they expect will remove nearly all of their exposure to unexpected out-of-pocket costs.*

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