

summaries



the official newsletter of sigma investment counselors

August 2016

Understanding the ABCs of Medicare

Almost everyone who is 65 years of age or older (U.S. citizens and permanent residents) are eligible for Medicare coverage. If you receive or are qualified to receive Social Security benefits, you qualify for Medicare. Applying for Medicare is not a simple process. There are a myriad of decisions to be made and plenty of choices, all labeled with letters of the alphabet just to add to the confusion. I could have easily written twenty pages on this subject, but I have done my best to summarize a difficult topic.

You should apply for Medicare coverage in the three months prior to your 65th birthday. If you do not enroll in the three months prior to your birthday your coverage start date is delayed. Those who are already receiving Social Security retirement or disability benefits are automatically enrolled and will receive their card in the mail 3 months before their 65th birthday.

If you have coverage through your spouse's employer or you continue to work beyond the age of 65 and are covered by your employer's plan, ask the benefits administrator if they require you to sign up for Medicare. If the employer does not require you to enroll in Medicare you are allowed to enroll later without a late enrollment penalty. You have 8 months after your employer coverage ends to enroll in Medicare. COBRA and retiree health plans are not considered employer based coverage; you must enroll in Medicare to avoid future penalties.

In almost all cases, if you do not sign up for Medicare when you are first eligible you will have to pay a late enrollment fee and it is a costly mistake. There are some exceptions as noted above. For every 12 month period that you were eligible and did not enroll your future premiums will increase by 10%. If you are five years tardy, your premium will be 50% more, permanently. Do not delay signing up for Medicare when you are required and eligible!

Now I am rolling up my sleeves, because the truly confusing part of Medicare is the next topic to tackle. In the big picture there are three options you will first consider: Original Medicare, Medicare Advantage, or Medicare Medigap Plans. Original Medicare is administered completely by the U.S. government and has two different parts that provide coverage for different services.

MEDICARE PART A

Medicare Part A is free to all who qualify for enrollment and covers hospital stays, skilled nursing, hospice care, and some home health care (as long as it is for skilled care and not custodial care). However, Medicare Part A does not cover all expenses and there is a deductible of \$1,288 per year in 2016. For hospital stays the first 60 days (after the deductible is met) is covered 100%, from 61-90 days you will pay \$322 per day, and day 91 and beyond you will pay \$644 per day. This is where it becomes confusing. If you are in the hospital more than 90 days in a single year you are granted lifetime

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reserve days, but you only have 60 days of these benefits over your lifetime. After you have used your lifetime reserve you have no coverage beyond 90 days if you require hospitalization.

MEDICARE PART B

Medicare Part B premiums for 2016 range from \$121.80 to \$389.80 per month, depending on your income in 2014 as reported on your federal tax return. Part B covers medically necessary services like doctor appointments, lab tests, medical equipment and supplies. The Part B deductible for 2016 is \$166, and after you have met that deductible you will typically pay 20% of the Medicare-approved amount for covered services.

For those who can afford greater coverage we recommend supplementing Medicare A and B with a Medicare Advantage Plan (Part C) or a Medigap Plan to help cover the deductibles, but most importantly to cover a catastrophic illness with increased hospitalization coverage and to defray the 20% copay required for doctor visits, lab tests, and medical equipment.

MEDICARE ADVANTAGE PLANS

Medicare Advantage Plans are often referred to as Medicare Part C, and are offered and administered by private companies that are approved by Medicare. These companies will then provide you with the same coverage from Medicare Parts A and B (most people must continue paying their Medicare Part B premium) but supplement and defray the uncovered costs for which you will also pay a premium to the insurance company.

There are essentially four types of Medicare Advantage Plans: Health Maintenance Organization (HMO), Preferred Provider Organization (PPO), Private Fee-for-Service (PFFS), and Special Needs (SNPs) Plans. HMO and SNP plans almost exclusively require you get your care from their network of doctors and hospitals, obtain a referral to see a specialist, and are particularly not good for people who travel or winter in another area because of the “in-network” requirement.

PPOs and PFFSs both allow you to choose your own doctor, health care provider or hospital. PPOs have a network of providers that will charge you less than out-of-network. PFFSs also offer the flexibility to choose your providers, but they have negotiated the specific amount they will pay for each service and you are encouraged to you check for each service and appointment you have to insure the provider will accept the plan’s payment terms.

MEDIGAP PLANS

Medigap plans help cover out-of-pocket costs that original Medicare does not cover. They are often confused with “original Medicare” because these plans are all designated by initials. The simplest and most common confusion is the stress trying to compare every company’s Plan A, B, C, D, F, G, K, L, M, or N. Every Medigap policy by law, must offer the same standard benefits; insurance companies may and do charge different premiums for identical coverage. To review the basic coverages provided by the various Medigap plans visit the Medicare website page <https://www.medicare.gov/supplement-other-insurance/compare-medigap/compare-medigap.html>.

The period when you are first enrolling for Medicare is the most cost effective time to opt for a Medigap plan. As a brand new enrollee, you are guaranteed issue and the company is not allowed to use your medical history or pre-existing conditions as a basis for charging you higher rates or denying you coverage. If you have an existing medical condition, disability or any other basis for charging you more or disqualifying coverage this is the time to take advantage of your option for the most flexible and comprehensive coverage.

Once you have selected which Medigap plan you prefer, you are merely price shopping with the various companies. First, be sure you are comparison shopping for apples, and not apples and oranges. Blue Cross Blue Shield's Medigap Plan C will offer the exact same benefits as AARP's Medigap Plan C. Some companies offer discounts to women, non-smokers, married people; others require medical underwriting; some prices are Community-rated (your age is immaterial, it is about the community in which you live), Issue Age-Rated is based on your age at issue, and Attained Age-Rated is based on what age you are today.

PRESCRIPTION COVERAGE: MEDICARE PART D

Medicare Part D is coverage for prescription drugs; it adds prescription drug coverage to "original Medicare" and Medigap Plans (generally the Medicare

Advantage Plans include Part D). Medicare D plans are administered by private companies, and these plans vary widely. The most efficient way to shop for Part D prescription coverage is the Medicare website which allows you to input your prescription medicines and your Medicare policy coverage (Original, Medicare Advantage, or Medigap) and the website will shop and advise you on the most cost effective Medicare D plan.

SUMMARY

At Sigma we have been advising and assisting clients for many years to find the best Medicare solution for their situation. Often I assist my colleagues in counseling our clients on these matters. I have found that typically, if a client has the financial resources, we recommend a Medigap Plan, generally Plan C. Medigap C provides for the gaps in original Medicare, coverage when traveling in the U.S. and abroad, and allows the flexibility of choice for health care providers.

As advisors we help guide clients through the basics and we strongly recommend you visit your local Social Security office (call to make an appointment), phone at 1-800-772-1213, or online at <https://www.ssa.gov/medicare/>.

All questions and comments are welcome.

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