

Managing Health Care Expenses in Retirement

What Baby Boomers Need to Know About Medicare and Long-Term Care

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Three Key Points

Key Point #1

**If you do not enroll in Medicare on time,
you will pay a monthly **penalty**.**

Key Point #2

If you do not get the right private insurance to go with Medicare, you may **pay too much** in premiums or out-of-pocket costs.

Key Point #3

If you do not plan for higher health care costs in retirement, you could **run out of money** or not be able to get the care you need.

Agenda – Part 1

Medicare Enrollment

- **What is Medicare?**
- **Who needs to enroll in Medicare — and when?**
- **How do you enroll in Medicare?**

Agenda – Part 2

Medicare and Private Insurance

- **How much does Medicare cost?**
- **What does Medicare cover?**
- **What does Medicare NOT cover?**
- **How does private insurance work with Medicare?**

Agenda – Part 3

Planning for Higher Health Care Costs

- **Two reasons your health care expenses will be higher in the future**
 - **Inflation**
 - **Increased need for services as you age**
- **Medicare does not cover long-term care**

Part 1

Medicare Enrollment

Who Pays for Health Care in the U.S.?

- **Before age 65**

- Employer group health insurance
- Retiree health insurance
- COBRA
- Individual health insurance
- Other

- **After age 65**

- Medicare pays first
(except employer group plans that cover 20 or more employees if you or spouse is still working)
- Other insurance pays second

What This Means for You

Unless you are covered by an employer group plan that covers 20 or more employees,* you must enroll in Medicare when you turn 65

***Coverage must be based on current employment of self or spouse**

What if You Don't Enroll in Medicare on Time?

- You may pay late-enrollment **penalties**.
- Your health care expenses **may not be covered** by insurance.
- Your private insurance **options may be limited**.

What Is Medicare?

- National health insurance program for people 65+
- Administered by the Centers for Medicare and Medicaid Services (CMS)
- Enrollment through the Social Security Administration (SSA)

Who Is Eligible for Medicare?

- Everyone over 65
 - All U.S. citizens
 - Legal residents who have lived in the U.S. continuously for at least 5 years
- Some people under 65 who are eligible for Social Security disability benefits

Four Parts of Medicare



Part A

**Hospital
Insurance**

Part B

**Medical
Insurance**

Part C

**Medicare
Advantage**

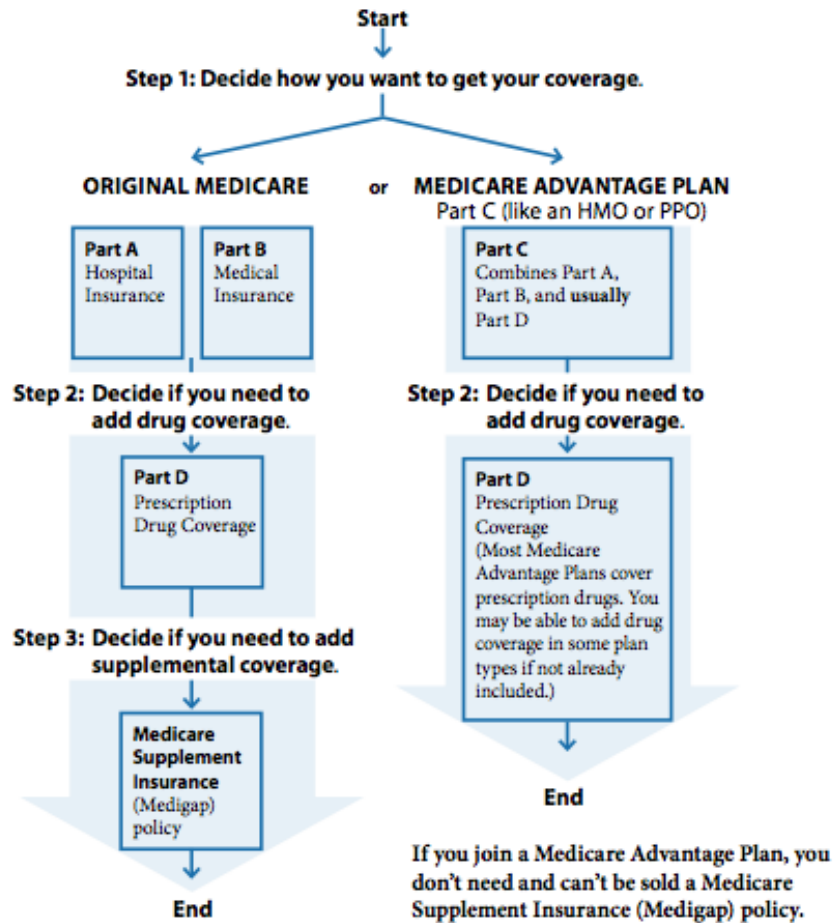
Part D

**Medicare
Prescription
Drug
Coverage**

Provided by Medicare

**Provided by private insurer that
contracts with Medicare**

Two Ways to Have Medicare



How Do You Enroll in Medicare?

- **If you **are** receiving Social Security when you turn 65:**
 - Medicare Parts A and B are automatic (can decline if don't want Part B)
 - Coverage starts 1st of month turn 65
 - Parts C and D are not automatic; must choose private insurer and proactively enroll

How Do You Enroll in Medicare?

- If you **are not** receiving Social Security when you turn 65:
 - Must sign up through Social Security Administration during a Medicare enrollment period
 - Initial enrollment period: If you are not covered by a group plan at 65
 - Special enrollment period: If you are covered by a group plan at 65
 - General enrollment period: If you missed your initial or special enrollment period

If Not Automatically Enrolled Your 7-Month Initial Enrollment Period

No Delay

Delayed Start

**If you
enroll in
Part B**

**3
months
before
the
month
you
turn 65**

**2
months
before
the
month
you
turn 65**

**1
month
before
the
month
you
turn 65**

***The
month
you
turn 65***

**1
month
after
you
turn 65**

**2
months
after
you
turn 65**

**3
months
after
you
turn 65**

Sign up early to avoid a delay in getting coverage for Part B services. To get Part B coverage the month you turn 65, you must sign up during the first three months before the month you turn 65.

If you wait until the last four months of your Initial Enrollment Period to sign up for Part B, your start date for coverage will be delayed.

Who Signs up for Part A During the Initial Enrollment Period?

- (Almost) everyone who turns 65.
 - Check with benefits administrator if still working and covered by a large (≥ 20 employees), group health plan.
 - You may be advised to enroll in Medicare Part A to enhance hospitalization coverage offered by employer plan.
 - However . . . Do not sign up for Part A if employer plan (≥ 20 employees) is a high deductible health plan paired with a health savings account and you want to keep contributing to the HSA. (HSA contributions must stop upon enrollment in Medicare.)

Who Signs up for **Part B** During the Initial Enrollment Period?

- People who are not covered by a comprehensive employer-sponsored group health plan that covers 20 or more employees when they turn 65 — i.e., people who are:
 - Not working
 - Self-employed
 - Employed by a company with <20 employees
 - On COBRA
 - Receiving retiree health benefits
 - Employed by a company whose health plan is less comprehensive than Medicare

Who Signs up for **Part D** During the Initial Enrollment Period?

- People who have signed up for Parts A and B and want prescription drug coverage, either now or in the future.
 - Must sign up when first eligible or face late enrollment penalty (unless covered by a plan with drug coverage at least as comprehensive as Medicare — called “creditable” coverage).
 - Two options for Part D
 - Standalone prescription drug plan
 - Medicare Advantage plan that includes drug coverage

Special Enrollment Period

- For people who did not sign up for Parts B and D during their initial enrollment period because they were covered as a worker or spouse of a current worker by a large (≥ 20 employees) group plan.
- Special enrollment period for Part B:
 - Anytime before coverage ends
 - The 8-month period starting the month group coverage ends
- Special enrollment period for Part D:
 - Anytime before coverage ends
 - Within 63 days after coverage ends

Best Time To Enroll in Medicare

To avoid late-enrollment penalties:

Sign up during initial or special enrollment period

To avoid gaps in coverage:

Sign up before current coverage ends

General Enrollment Period

- If you missed the initial enrollment period, can sign up during the **general enrollment period**, Jan.1 – March 31.
- Coverage starts July 1.

If you sign up during these months:	Your coverage will begin on:
January	July 1
February	
March	

Review of Enrollment Periods

- **Initial enrollment period – for everyone age 65 who is not covered by an employer-sponsored group plan that covers 20 or more employees**
 - Best time to sign up: 3 months before 65th birthday
 - Coverage starts 1st of month turn 65
- **Special enrollment period – for everyone over 65 who is covered as a current worker or a spouse of a current worker under a large (≥ 20 employees) group plan**
 - Best time to sign up: Before coverage ends
 - Coverage starts first of month of enrollment (if enroll no later than month after coverage ends) or first of month following enrollment if later
- **General enrollment period – for everyone over 65 who missed the initial enrollment period**
 - Runs Jan. 1 – March 31
 - Coverage starts July 1

How to Sign Up for Medicare Parts A & B

- Go to www.ssa.gov.

Apply For Medicare Benefits

- Call Social Security at 800-772-1213.
- For general information about eligibility, go to: www.medicare.gov/MedicareEligibility

How to Sign up for Medicare Part D

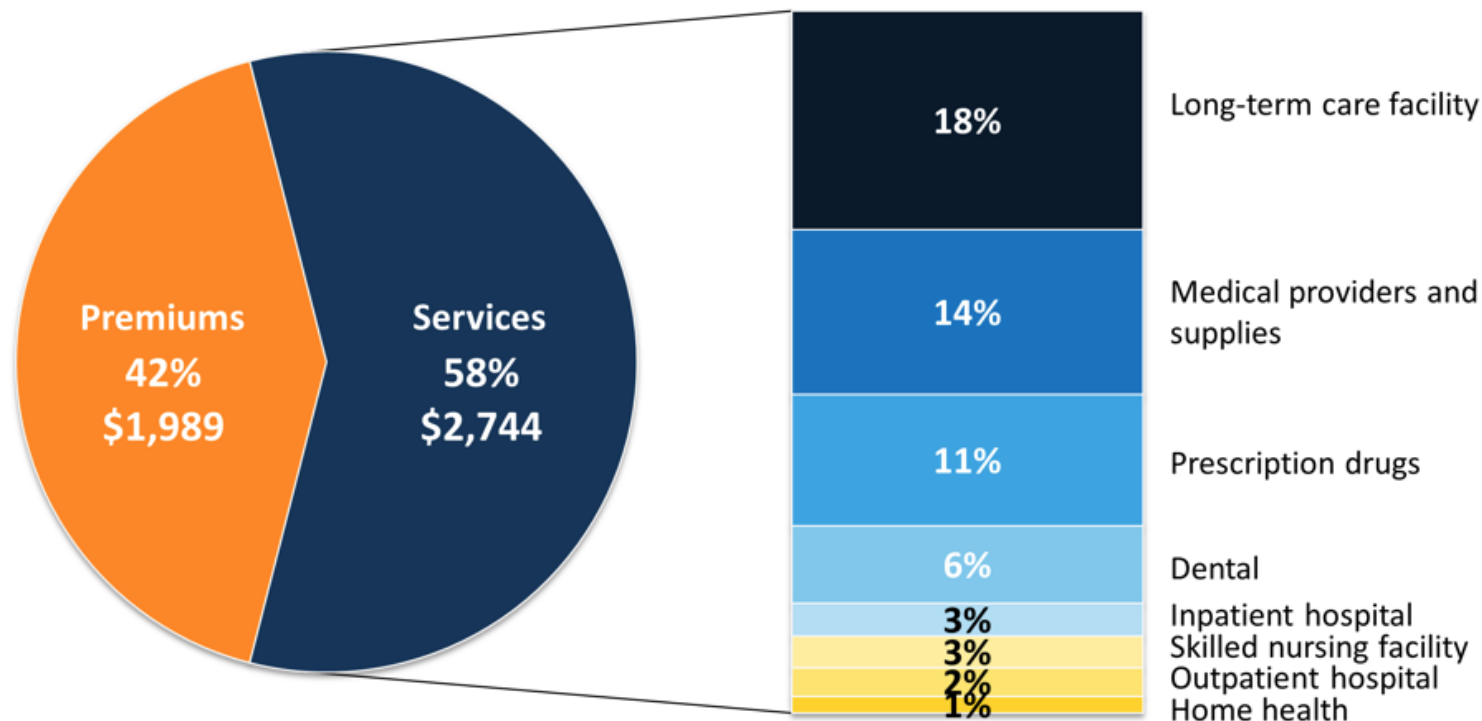
- Decide if want **original Medicare** (Parts A & B + D) **OR** a **Medicare Advantage** plan (Part C) that includes drug coverage.
 - If original Medicare, **shop for standalone prescription drug plan** (PDP) offered through a private insurer.
 - If enrolling in **Medicare Advantage plan with drug coverage** (MAPD), shop for plan.
- Apply for Part D through the private insurer or through Medicare at www.medicare.gov or 1-800-MEDICARE (633-4227).

Part 2

Medicare and Private Insurance

Premiums are a large share of average total out-of-pocket health care spending by Medicare beneficiaries; long-term care facility costs are the largest component of spending on services

Distribution of Average Total Out-of-Pocket Spending on Services and Premiums by Medicare Beneficiaries, 2010



Average Total Out-of-Pocket Spending on Services and Premiums, 2010: \$4,734

NOTE: Analysis excludes beneficiaries enrolled in Medicare Advantage plans. Premiums includes Medicare Parts A and B and other types of health insurance beneficiaries may have (Medigap, employer-sponsored insurance, and other public and private sources).

SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2010 Cost & Use file.

Out-of-Pocket Costs Paid by Medicare Beneficiaries

- Premiums
 - Part B premiums paid to Medicare
 - Private insurance premiums for
 - Part D drug plan plus Medigap policy or
 - Medicare Advantage plan
- Other out-of-pocket costs
 - Deductibles
 - Portion of doctor bills not paid by Medicare
 - Services not covered by Medicare

Monthly Premiums

- **Part A** – paid to Medicare
 - **\$0** if self or spouse paid into Social Security ≥ 40 quarters (10 years)
 - \$224/mo. if 30-39 quarters SS
 - \$407/mo. if < 30 quarters SS
- **Part B** – paid to Medicare
 - **\$104.90/month** in 2015
 - Plus income-related adjustment if applicable
- **Part D** – paid to private insurer
 - Varies with plan
 - Plus income related adjustment paid to Medicare if applicable

Monthly premiums for Parts B & D Including Income Related Adjustment Amounts

MAGI Single	MAGI Joint	MAGI Married filing separately	Part B monthly premium paid to Medicare	Part B income-related adjustment amount paid to Medicare	Part D monthly premium (average) paid to insurer	Part D income-related adjustment amount paid to Medicare	Total Parts B & D premium
≤ \$85,000	≤ \$170,000	≤ \$85,000	\$104.90	\$0.00	\$40.00	\$0.00	\$144.90
\$85,001 - \$107,000	\$170,001 - \$214,000		\$104.90	\$42.00	\$40.00	\$12.30	\$199.20
\$107,001 - \$160,000	\$214,001 - \$320,000		\$104.90	\$104.90	\$40.00	\$31.80	\$281.60
\$160,001 - \$214,000	\$320,001 - \$428,000	\$85,001 - \$128,000	\$104.90	\$167.80	\$40.00	\$51.30	\$364.00
> \$214,000	> \$428,000	> \$128,000	\$104.90	\$230.80	\$40.00	\$70.80	\$446.50

These do not include premiums for Medicare Advantage or Medicare supplement plans

Deductibles

Amount You Pay

- **Part A - \$1,260** per spell of illness
- **Part B - \$147/year**
 - Waived for some preventive services such as flu shots, some mammograms and Pap smears, bone mass tests, prostate screening, diabetes tests, some others
- **Part D – \$310/year**

Coinsurance

Amount You Pay

- **Part A**
 - Hospital
 - **\$315/day** for days 61-90
 - **\$630/day** for days 91-150
 - Skilled nursing: **\$157.50/day** for days 21-100
- **Part B**
 - Assigned claims: **20% of Medicare approved rate**
 - Unassigned claims: **20% of approved rate + balance of actual charge** up to an additional 15% of the approved charge

Part D coinsurance

Medicare's standard benefit design; individual plans vary and may pay more

Coverage	Part D plan pays	You pay
Annual deductible (\$310)	\$0	\$320
Initial coverage period (\$2,640)	75% of \$2,640 (\$1,980)	25% of \$2,640 (\$660)
Coverage gap (donut hole) Starts when total costs exceed \$2,960 (\$320 + \$2,640)	\$0	45% of covered brand name drugs plus dispensing fee; 65% of covered generic drugs; 100% of rest.
Catastrophic coverage Starts when total out-of-pocket cost reaches \$4,700 (\$310 deductible + \$660 initial coverage + \$3,730 donut hole)	95% or the drug cost minus the copay	Greater of 5% of the drug costs or \$2.65 copay for a generic drug or \$6.60 for a brand name drug

Maximum out-of-pocket cost for prescription drugs in 2015: \$4,700

What Medicare Covers

- Hospital: 100% of first 60 days
- Medical services (doctor visits, outpatient services): 80% of Medicare-approved amount
- Some preventive services (flu shots, certain screenings)

See “Medicare & You 2015” for complete list of covered services. Call 800-633-4227 or go to www.medicare.gov.

What Medicare Does Not Cover

- Long-term care
- Care delivered outside the U.S.
- Dental care
- Vision care
- Hearing aids
- Cosmetic surgery
- Acupuncture and other alternative care
- Amounts over Medicare-approved amount
- Amounts not covered by deductibles and coinsurance (20%)

What Private Insurance May Cover in Full or Part

- Deductibles and coinsurance amounts, such as:
 - The \$1,260 deductible for Part A
 - Hospital costs after 60 days
 - The 20% of doctor bills that Medicare doesn't pay
 - Amounts the doctor charges over the Medicare-approved amount
- Prescription drugs
 - The \$320 deductible (maybe)
 - Most of the cost of certain drugs during initial benefit period and catastrophic coverage period (but not donut hole)

Medigap Policies (Medicare Supplement Insurance)

- Private health insurance for individuals
- Sold by private insurance companies
- Supplement Original Medicare coverage Parts A and B
- Follow federal/state laws that protect you

Medigap

- Medigap insurance companies can only sell a “standardized” Medigap policy
 - Identified in most states by letters
 - MA, MN, and WI standardize their plans differently
- Does not work with Medicare Advantage
- You pay a monthly premium
- Costs vary by plan, company, and location

Medigap Plans

Medigap 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 up	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%
Medicare Part A deductible		100%	100%	100%	100%	100%	50%	75%		100%
Medicare Part B deductible			100%		100%					
Medicare Part B excess charges					100%	100%				
Foreign travel emergency (up to plan limits)			100%	100%	100%	100%			100%	100%

Plan F has a high-deductible option

For Plans K and L, after you meet your out-of-pocket yearly limit and Part B deductible, the Medigap plan pays 100% of covered services for the rest of the calendar year. Out-of-pocket limits: Plan K \$4,800; Plan L \$2,400

Plan N pays 100% of the Part B coinsurance, except for some copayments.

Medicare Advantage Plans

- Health plan options approved by Medicare
- Also called Medicare Part C
- Run by private companies
- Medicare pays amount for each member's care
- May have to use network doctors or hospitals
- Plan may include prescription drug coverage
- May include extra benefits like vision or dental
- Benefits and cost-sharing may be different

Shop Carefully for Private Insurance

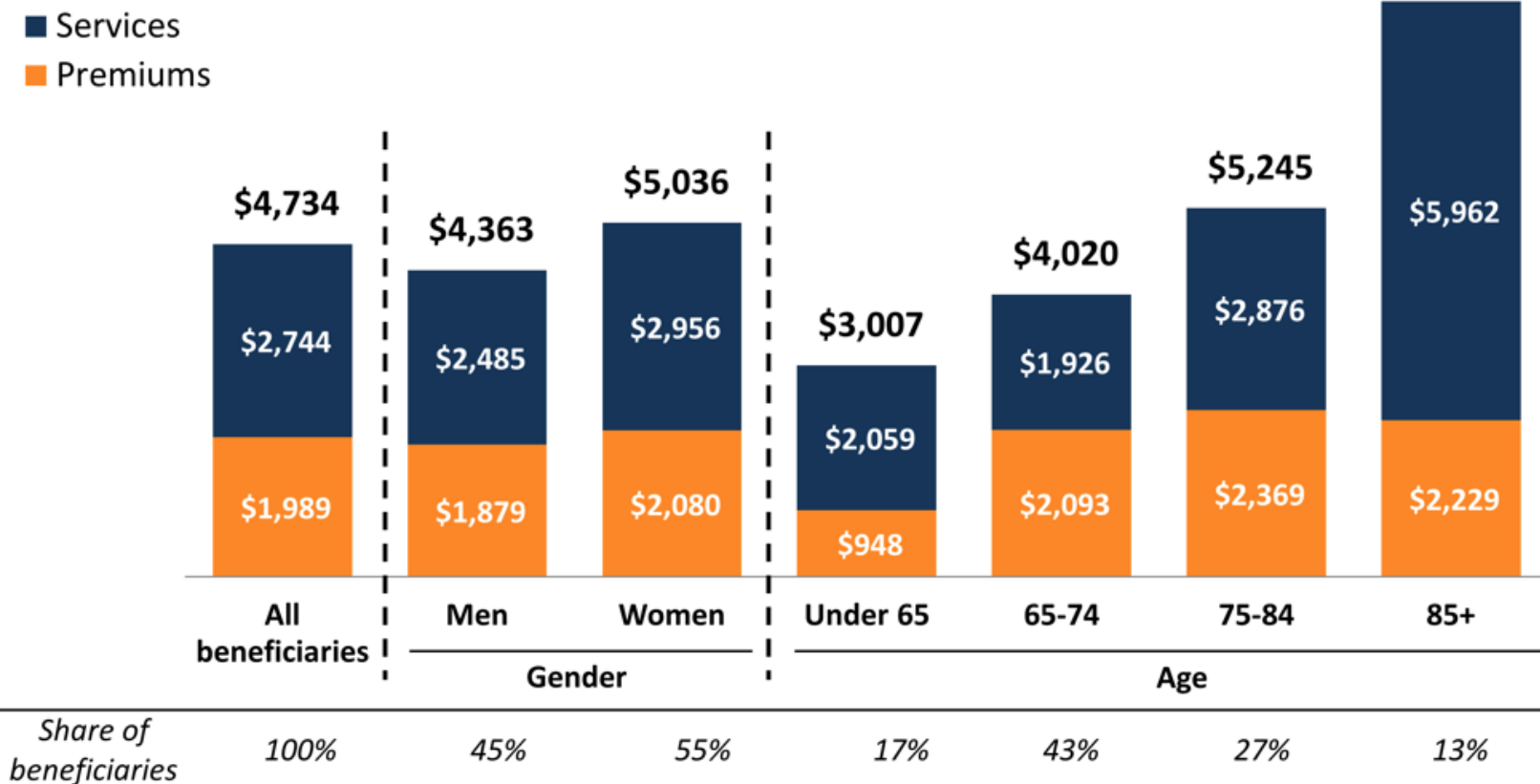
- Medigap policies are standardized but premiums vary considerably
 - ➔ Choose the policy that offers the coverage you need (A-N)
 - ➔ Choose a reputable company offering that policy at the lowest price
 - ➔ Make sure your health care provider processes the billing for the company you choose
- Drug plan benefits vary considerably
 - ➔ Choose the plan offering the coverage you need for the medicines you take
- Medicare Advantage plans vary considerably
 - ➔ Choose the plan offering the coverage you need at a fair price

Part 3

Planning for Higher Health Care Costs in Retirement

Average out-of-pocket spending on services is higher for women than men on Medicare and increases with beneficiaries' age

Medicare Beneficiaries' Average Total Out-of-Pocket Spending on Services and Premiums, by Gender and Age, 2010



NOTE: Analysis excludes beneficiaries enrolled in Medicare Advantage plans. Premiums includes Medicare Parts A and B and other types of health insurance beneficiaries may have (Medigap, employer-sponsored insurance, and other public and private sources).

SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2010 Cost & Use file.

Typical Medicare Budget Today

Insurance premiums

Expenditure	Monthly amount
Part B premium	\$104.90
Medigap Plan F premium	\$200.00
Part D drug plan premium	\$40.00
Total	\$344.90

Typical Annual Health Care Budget Today

Insurance Premiums and Out-of-Pocket Costs

Expenditure	Annual amount
Insurance premiums: \$344.90 x 12	\$4,138.80
Prescription drugs: out-of-pocket costs	\$800.00
Dental out-of-pocket	\$300.00
Vision out-of-pocket	\$300.00
Alternative care out-of-pocket	\$200.00
Total	\$5,738.8

What Can Cause Your Health Care Budget to Change in the Future?

- Rising health care costs lead to:
 - Higher insurance premiums
 - Higher out-of-pocket costs for services not covered by Medicare or Medigap
- A change in health status may require:
 - Expensive prescription drugs (donut hole)
 - More services not covered by insurance
 - Dental
 - Vision
 - Hearing
 - Alternative care
 - Long-term care

Planning for Future Health Care Costs

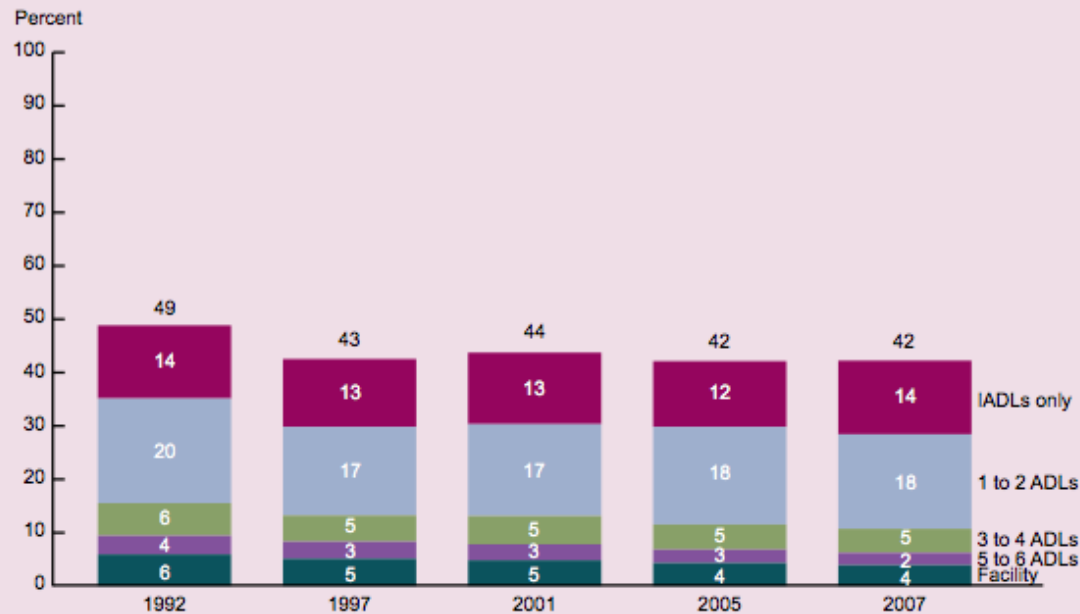
According to this source . . .	You will need to have this much at the start of retirement to pay for future medical expenses, not including long-term care
Fidelity	\$220,000 for couples
Employee Benefit Research Institute	\$124,000 for men \$152,000 for women \$271,000 for couples
Your own customized analysis	???

Planning for Long-term Care

- Long-term care is not covered by Medicare or Medigap
- Skilled nursing care: No coverage after 100 days (average is 28 days)
- Help with activities of daily living: No coverage at all

42% of Medicare Enrollees Have Activity Limitations

Percentage of Medicare enrollees age 65 and over who have limitations in activities of daily living (ADLs) or instrumental activities of daily living (IADLs), or who are in a facility, selected years 1992–2007

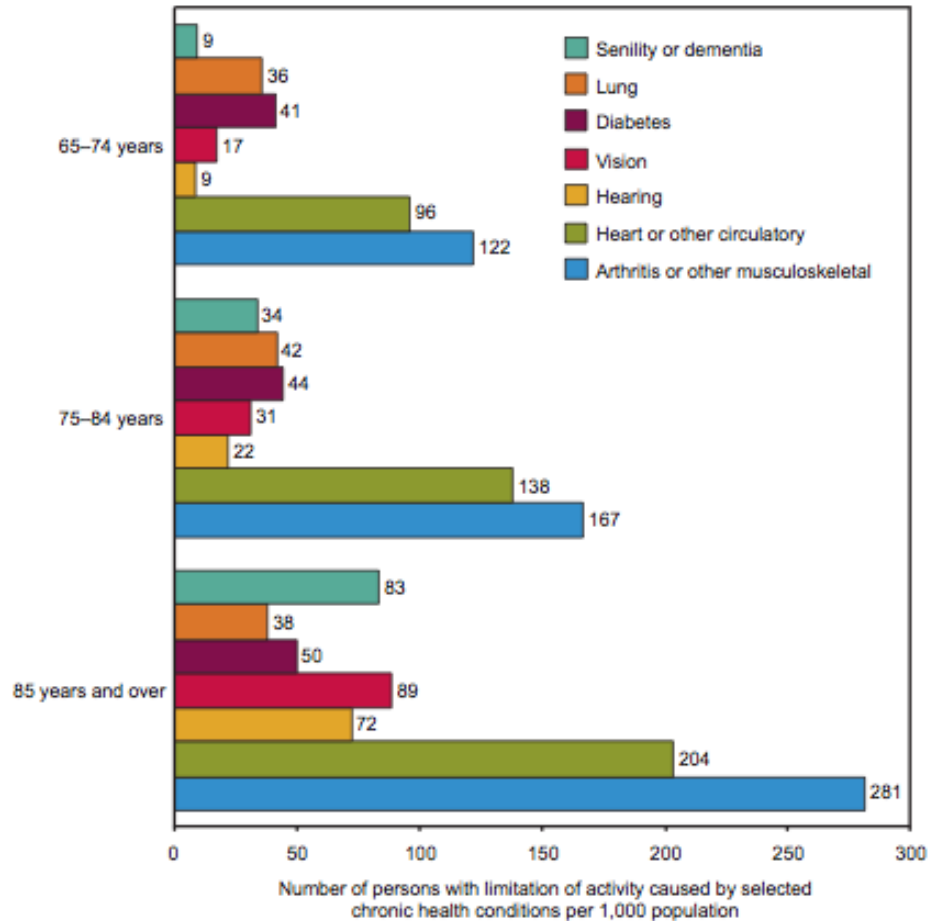


NOTE: A residence is considered a long-term care facility if it is certified by Medicare or Medicaid; has 3 or more beds and is licensed as a nursing home or other long-term care facility and provides at least one personal care service; or provides 24-hour, 7-day-a-week supervision by a caregiver. ADL limitations refer to difficulty performing (or inability to perform for a health reason) one or more of the following tasks: bathing, dressing, eating, getting in/out of chairs, walking, or using the toilet. IADL limitations refer to difficulty performing (or inability to perform for a health reason) one or more of the following tasks: using the telephone, light housework, heavy housework, meal preparation, shopping, or managing money. Rates are age adjusted using the 2000 standard population. Data for 1992, 2001, and 2007 do not sum to the totals because of rounding.

Reference population: These data refer to Medicare enrollees.

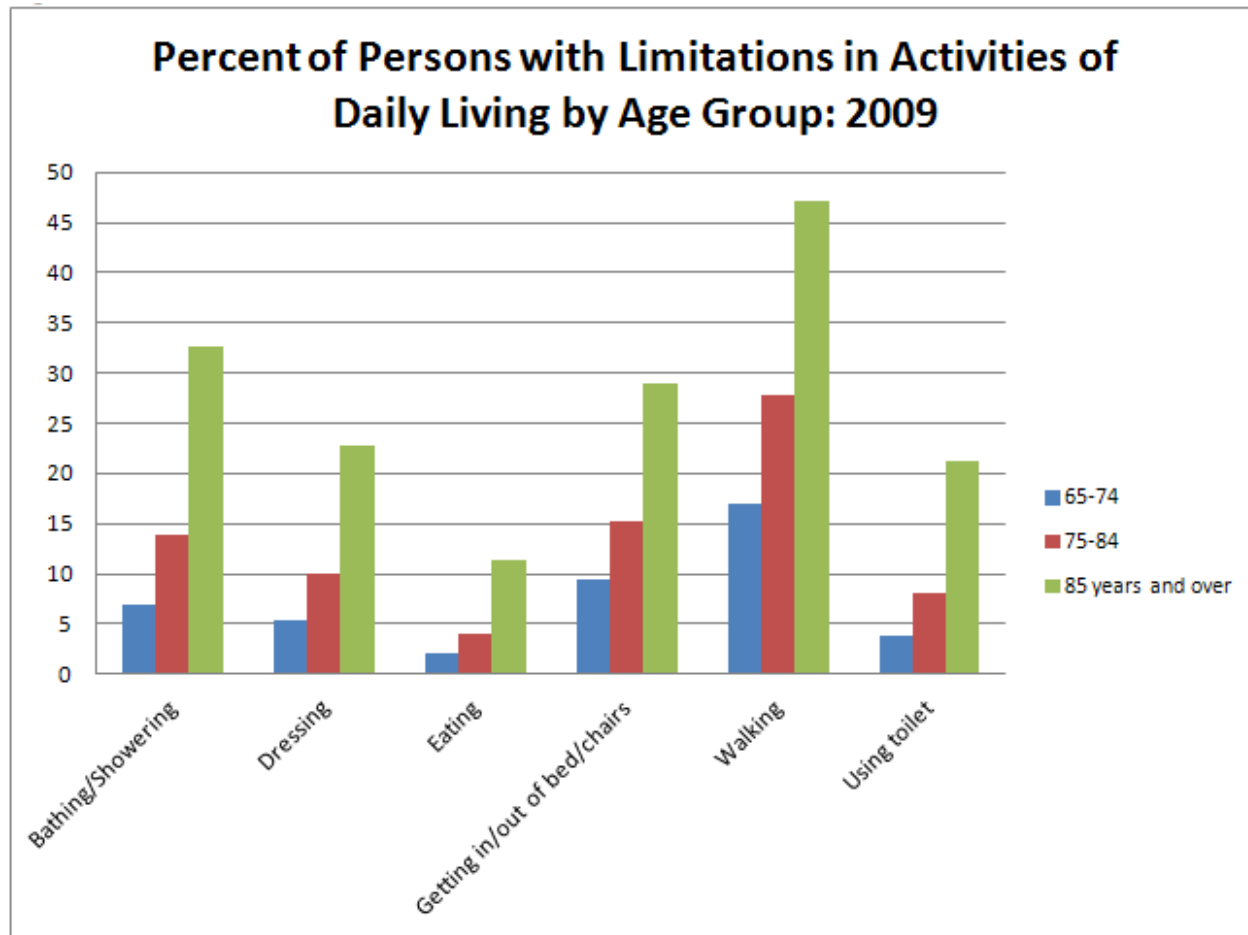
SOURCE: Centers for Medicare and Medicaid Services, Medicare Current Beneficiary Survey.

Causes of Activity Limitations



Source: Health, United States, 2009 Centers for Disease Control and Prevention

Don't Need Help Now? Just Wait



Source: Administration on Aging, A Profile of Older Americans, 2011

Levels of Care

Level 1: in-home assistance

- Needs help with instrumental activities of daily living (IADLs)
 - Shopping
 - Preparing food
 - Housework and chores
 - Managing money
 - Traveling locally and afar
 - Using the telephone
 - Responding to emergency alerts

Levels of Care

Level 2: Custodial Care

- Needs help with activities of daily living (ADLs)
 - Eating
 - Bathing
 - Dressing
 - Toileting
 - Transferring
 - Maintaining continence

Levels of Care

Level 3: Skilled Nursing Care

- Care provided by licensed nurse
 - 24-hour supervision
 - Ordered by a physician
 - Disease management
 - Rehabilitation

What Are the Costs of Long-Term Care Today?

Type of Care	Cost (U.S. median)
Homemaker services	\$19 per hour
Home health aide services	\$20 per hour
Adult day health care	\$65 per day
Assisted living facility	\$3,500 per month
Semi-private room in nursing home	\$212 per day
Private room in nursing home	\$240 per day

Source: Genworth Cost of Care Survey, 2014

Why Plan for Long-Term Care?

- Spare family members the burden of caring for you
- Avoid having to spend down assets to go onto Medicaid
- Be able to direct your own care and obtain the kind and quality of care that you want

Three Reminders

Reminder #1

Enroll in Medicare on time.

Reminder #2

**Shop carefully for private insurance
to go with Medicare.**

Reminder #3

Plan for higher health care costs in retirement.

Thank you!