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Medicare Basics You Need to Know

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The concept of Medicare can be murky for soon-to-be retirees. If you learn basic enrollment guidelines and some of the nuances of various Medicare plans, you'll be empowered with the knowledge you need to make better decisions—and avoid costly penalties. Here, we explore key points and address common questions about this federal health insurance program.

When to enroll

Generally, you are eligible to enroll in Medicare at age 65. The open-enrollment period is the seven-month span surrounding your 65th birthday—specifically, the three months before you turn 65, the month you turn 65, and the three months after you turn 65. If you already collect social security benefits, you will be enrolled automatically in Medicare Part A when you turn 65. In addition, you will receive a letter outlining your options to enroll in other Medicare plans.

Many people don't realize that if you fail to enroll when the law requires, you may incur penalties, which may result in a lifetime of more expensive premiums. A 10-percent penalty may be assessed for each 12-month period you fail to enroll for Medicare Part B; a 1-percent per-month penalty may be assessed if you fail to enroll for Medicare Part D. Finally, a failure to enroll could create coverage delays and potential gaps in medical coverage.

There are exceptions. You may delay enrollment, and **avoid penalties**, if:

- You are still employed and covered under your employer's health plan.
- Your spouse is employed, and you are covered under your spouse's health plan.

If, on the other hand, you are covered by either of the following, you typically would **incur penalties** by delaying enrollment:

- COBRA coverage from a previous employer (COBRA plans may allow ex-employees to continue health coverage under a group plan for a specific period.)
- Retiree health insurance (Some coverage may allay the cost of a penalty on Part D, but not Part B.)

If you are an employee—or the spouse of an employee—covered under a group health plan and you're approaching 65, find out whether your group insurance provider is the primary payer for medical costs. Employers with fewer than 20 employees may consider Medicare the primary payer for medical expenses and group coverage as a secondary payer. In these cases, you may be responsible for a larger percentage of out-of-pocket medical costs.



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Understanding Medicare options

There are three parts to Original Medicare: Part A covers in-patient hospital expenses; Part B covers doctors and out-patient testing; and Part D covers prescription costs. There generally is no out-of-pocket premium cost for Part A (you paid for this through your payroll taxes).

In lieu of selecting Original Medicare, you could select Part C, also known as a Medicare Advantage Plan, which is offered through private insurers. Medicare Advantage Plans cover Part A, Part B, and—in some cases—Part D. Like a private, managed care plan, the costs, copays, and out-of-pocket expenses differ among insurers, and doctor-referral requirements also vary. Carefully make your choice based on your budget and circumstances.

Understanding Medicare Supplement Insurance (Medigap) policies

If you select Original Medicare coverage, you may want to consider purchasing Medicare Supplement Insurance—also known as a Medigap plan—through a private insurer. A Medigap plan may offer coverage that Original Medicare does not, such as coverage when traveling internationally or dental and eye care coverage. Generally, there are 10 standardized plans; the most popular are Plan F and G. Shop carefully and evaluate these plans based upon cost and personal needs. If you select a Part C Medicare Advantage Plan instead of Original Medicare, you would not be eligible to purchase a Medigap plan.

Means-tested Medicare premium costs

The premium cost for Medicare (other than Part A) is means tested. When you first enroll, your modified adjusted gross income (MAGI) from two years prior to enrollment determines your premium cost. For example, a 2018 enrollment references your 2016 MAGI. There is a standard premium cost and, where applicable, an income-related monthly adjustment amount (IRMAA). Your cost is evaluated annually, so your annual cost may vary depending upon your MAGI for the referenced year. For more guidance on the standard Part B premium amount and the IRMAA at various MAGI levels, visit <http://www.medicare.gov/your-medicare-costs/part-b-costs/part-b-costs.html>.

A word about health savings accounts and Medicare

If you currently contribute to a health savings account (HSA), be advised that once enrolled in Medicare, you are no longer eligible to contribute to an HSA. Depending upon when you enroll in Medicare, your enrollment may be retroactive up to six months. To avoid a contribution penalty, stop contributions to an HSA at least six months prior to your enrollment in Medicare, and be specific about when you want Medicare coverage to begin.

When you understand these basics about Medicare, you can avoid costly errors in your enrollment and coverage choices. We are happy to assist you in planning for these important decisions.



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