

Medicare Basics

Overview: Navigating through Medicare enrollment can be a daunting task. The following provides a basic overview of Medicare and the choices those who are eligible have to make.

When Kathleen Casey-Kirschling filed for Social Security benefits on October 15, 2007, she became the first of the estimated 80 million Baby Boomers to become eligible for Social Security and Medicare. The Medicare program can be an especially complicated system — particularly Medicare Part D and supplemental Medicare plans. A basic understanding of how Medicare works is necessary when planning financial futures.

To be eligible for Medicare, you must be at least age 65 and either an American citizen or a permanent resident for five continuous years. You are also eligible if you are deemed disabled by the Social Security Administration, even if you are not age 65. Costs for Medicare are generally paid through payroll taxes, and enrollment automatically occurs if you are enrolled for Social Security benefits (though you will have to enroll on your own for Medicare if you have not signed up for Social Security).

Medicare is composed of three parts: Part A, Part B and Part D:

- σ Part A, known as hospital insurance, is generally provided at no cost as coverage is paid by the Medicare taxes collected during the working lives of you (and your spouse). Those who have never paid or not paid enough in Medicare taxes can purchase Part A coverage.
- σ Part B is medical insurance and covers doctor's visits. You pay monthly premiums for this coverage, which is usually deducted from your monthly Social Security benefit.
- σ Part D covers prescription drugs and is also purchased through monthly premiums.

An alternative to traditional Medicare is a Medicare Advantage plan, also known as Medicare Part C. The following is basic information about each part.

Medicare Part A

Although Medicare Part A covers in-patient hospital care, home health services and skilled nursing facilities (and hospice care in some cases), it does not cover 100 percent of costs, nor does it cover long-term care. Benefits begin after you enroll with Social Security and start on the first day of the month you turn age 65. Under certain situations, Part A benefits are granted automatically. For example, retirees already receiving Social Security benefits prior to age 65 or receiving Social Security disability benefits for 24 months will automatically be enrolled in Part A.

Medicare Part B

In addition to covering doctor's visits, Medicare Part B also covers services such as tests, preventative treatments, outpatient care and some physical therapies. Like Part A, Part B does not cover 100 percent of costs, as you are responsible for deductibles, co-pays and noncovered benefits.

Although the program is optional, you will be automatically enrolled and must opt out if you do not want coverage. However, if you do not enroll during the eligibility period and are not eligible for group health benefits through your employer (or your spouse's employer), a penalty of 10 percent per each 12-month delay will be assessed to your premium if you opt for benefits later.

Medicare Part C

Medicare Part C is health care provided through HMO or PPO plans and may also provide prescription drug coverage. These plans are offered by private insurers that have been approved by Medicare and are subsidized by the federal government.

You must be enrolled in Medicare Parts A and B to be eligible for a Medicare Advantage plan. You are still required to pay your Part B premium, and an additional premium is paid to the provider for Part C. A Medigap plan (see Additional Medicare Coverage section below) is not required if you are enrolled in a Medicare Advantage plan. Since most Medicare Advantage plans provide prescription drug coverage, enrollment in Part D is usually not required either.

It is important to note that the recently passed health care bill contained provisions to cut subsidies paid by the federal government to the private insurance carriers who provide these plans. With this in mind, it is possible that carriers may opt to eliminate certain features or their Medicare Advantage plans altogether.

Medicare Part D

Prescription drug coverage is provided in Part D of Medicare. Part D plans do not cover 100 percent of prescription drug costs. Unlike Part B, you must enroll in a plan to receive benefits. Enrollment periods for Part D begin when you become eligible for Medicare and continue through an annual enrollment period from November 15 through December 31. If you do not enroll in Part D when eligible, a penalty of 1 percent per each month of delay will be permanently assessed to your premium. Unlike Medicare Parts A and B, Part D is administered through private insurers. Plan availability, premiums and formulary coverage vary by location and company.

Additional Medicare Coverage

Another major component of Medicare coverage is the Medicare Supplemental Insurance plan, often referred to as a "Medigap" plan. Medigap plans basically pay for services not covered by Medicare Parts A and B. They are administered through private insurers and offered in 14 plans, A through N. Each plan level offers the same basic benefits regardless of provider, then offers specific additional benefits depending on the plan. To acquire a Medigap policy, you must be enrolled in Medicare Parts A and B and pay premiums to the provider.

Summary

Choosing the optimum Medicare coverage can be a challenging task, given the various enrollment requirements and service options available. Seeking professional advice for guidance in selecting the appropriate type of coverage can help smooth the process and reduce the stress and frustration from dealing with the process.

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