



Medicare is comprised of two primary components, Part A (hospital insurance) and Part B (medical insurance), which together are known as Original Medicare.

In addition to Original Medicare, there are **three key elections**, which can play an important role in providing the coverage you will likely need in retirement: Part C (Medicare Advantage Plans), Part D (Prescription Drug Plans) and Medigap Plans.

Medicare is a program that most adults have been paying into their entire careers. From every paycheck you've earned, 1.45% has been set aside, plus a matching 1.45% from your employer, as part of the Federal Income Contributions Act. Those who are self-employed have paid the full 2.9% themselves. This money is collected for the purpose of funding Medicare, a single-payer health insurance program for U.S. citizens aged 65 and over, and younger citizens with [certain](#) disabilities. Since 1966, when Medicare was first rolled out, U.S. seniors have had access to health insurance provided by the United States government. And very likely, since 1966, most U.S. seniors have been overwhelmed by the sheer number of coverage options they must understand to make a proper election.

To simplify the Medicare election process, here are some basics about the program and some noteworthy program details.

Medicare Part A

Part A covers services like hospital stays, skilled nursing care, hospice, and home health-care services. There is no cap to the coverage for hospital expenses, so long as the services and treatments provided are medically necessary and that the length of a hospital stay does not go beyond that allowed per benefit [period](#). There is a \$1,340 deductible for each benefit period, and if a stay goes beyond 60 days, the patient would have to pay co-insurance. For a hospital stay longer than 90 days, co-insurance costs would increase and the patient would have to dip into their "lifetime reserve days", which are finite. Part A is premium-free if you have worked for 10 years (40 quarters) and paid into Medicare during that time period. Individuals who do not meet these requirements who wished to enroll would be required to make monthly premium payments.

Medicare Part B

Part B is designed to cover medical expenses and therapy services, and does have a monthly premium, which starts at \$134/month and goes up depending on your income, as determined by [IRMAA](#) (Income Related Monthly Adjustment Amount). It also has a yearly deductible, which is currently \$185. Part B covers medical services, such as bloodwork, X-rays, physical therapy, preventive screenings, and durable medical equipment, like wheelchairs and oxygen tanks. There is no cap on benefits, but after the deductible is met, patients typically pay 20% co-insurance for additional qualifying services.

Some common needs are not covered by Original Medicare, such as eye exams, preventive dental care and hearing aids. The following supplemental Medicare elections can provide seniors with more comprehensive coverage solutions.



Please note: all Medicare pricing information listed reflects costs as of December 31, 2018, and is subject to change.

Medicare Part C

Part C, also known as Advantage Plans, are offered by private insurance companies, and are available in a number of structures - some familiar, like a Health Maintenance Organization (HMO) or a Preferred Provider Organization (PPO), and some which are more arcane, like a Medical Savings Account (MSA) or Private Fee-For-Service (PFFS). Most Advantage Plans provide dental, eye care and prescription drug coverage and all require that you are enrolled in Original Medicare to sign up. Advantage Plans are paid for with monthly premiums, which are in addition to the premium you would pay for Part B. Patients also pay co-pays and co-insurance for some services, depending on the plan. Since Advantage Plans are offered by private insurance companies, the additional coverage typically means higher premiums as well as discretionary restrictions such as requiring a referral for medical testing or that medical treatments be in network to be covered. Additionally, premiums, benefits, co-pays and co-insurance may change from year to year.

Medicare Part D

If you are on Original Medicare and wish to add prescription drug coverage, but do not want to sign up for an Advantage Plan, you can enroll in Medicare Part D. Part D, like Parts B and C, is provided by private insurers, and requires both monthly premiums and co-payments from the insured. Co-pays are determined by the insurer, and generally increase by tier, with the lowest co-pays for generic drugs and the highest for specialty tier drugs.

Medigap

For patients who travel frequently, or simply own homes in different regions of the country, a Medigap Plan might make sense. Medigap Plans, like Advantage Plans, are offered by private insurers and provide supplemental coverage to address the gaps in Original Medicare. Unlike Advantage Plans, which are typically restricted to regional coverage, Medigap insurance provides nationwide coverage from any doctor or facility that accepts Medicare. Medigap Plans typically have higher premiums than Advantage Plans, but they pay for all deductibles, co-insurance and co-pays, so the out-of-pocket expense can end up being lower. Beneficiaries who wish to add Medigap coverage will pay an additional premium to the premiums they are already paying for Part B and Part D, which are both requirements for enrolling in a Medigap Plan.

So now that you are familiar with the basics, where do you go from here?

To efficiently (and painlessly) take advantage of your Medicare options, you should determine your anticipated coverage needs and discuss them with your financial advisor at least *five months prior* to turning 65. No matter what election you make, there will be related expenses that you will need to incorporate within your overall financial plan. It's worth noting that processing the paperwork can take another 4-5 weeks. Keep in mind that if you are 65 and not enrolled in Medicare nor covered by an employer, you will have to pay a penalty if you enroll later on. And the late enrollment penalty is not a one-time fee, it is an increase to your premiums which will last for as long as you have applicable coverage.

If you would like to learn how integrating Medicare into your long-term financial strategy can simplify your life, please contact me.



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Sunny specializes in providing advisory services for high net worth and ultra-high net worth individuals and families. She collaborates with the planning and investment teams to develop customized and comprehensive strategies for her clients, with a focus on trust and estate planning, income tax planning, and the education of multi-generational families.

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