OLD NORTH STATE TRUST, LLC

Get Professional Advice When Navigating Medicare's Tricky Waters

Health care has been on everyone's mind recently with all the excitement about whether Obamacare would be repealed, replaced, or improved. (Or, for now, left alone.) A large portion of our clients are in the age range that they have made, or soon will make, the shift from private insurance to Medicare, the closest thing we now have to universal health coverage.

For those people, how to maneuver through Medicare's complex interface of public and private coverage options is a serious issue. For example: even with publicly financed insurance through Medicare, you'll need a "Medigap" policy, bought on the private market, for the 20 percent or so of expenses that aren't covered.

We find ourselves answering a lot of questions about such things as when to start drawing benefits, how to choose the best combination of plans, etc. Health coverage is a major component of retirees' living expenses. Recent statistics show that retirees spend, on average, three times as much for health care than the overall working-age population. So, it's a very good idea to include health-care planning in your strategy for retirement, and get advice from your financial adviser.

A couple of our clients recently asked us to do some research about when they should start receiving their benefits. Both become eligible this year. Both will need some income to replace an annuity that will cease upon retirement. Both needed advice about how to factor health-care costs and benefits, along with Social Security payments, into their cash-flow projections.

We had another client ask about a letter she received, stating that her part D — prescription-drug coverage — premiums would no longer be deducted from her monthly Social Security benefits. This was one of those odd things that pop up from time to time, and can be baffling to try to make sense of for anyone to comprehend. Just for that example alone is why you should have someone you can consult.

The Social Security Administration, which administers Medicare, does have online tools for figuring out these kinds of issues. Unlike trying to get a clear answer from an SSA employee (hard to do, and not always reliable) these tools are helpful, but you should know what you're looking for on these sites. Another reason why it makes sense to get help from someone who has navigated these perilous waters more than once!

Obviously, we can't explain all the nuances in one brief article, but these are some essential elements that everybody should be aware of when approaching retirement.

Medicare has four components. The first, Part A, covers hospitalization. For most people, Part A is fully paid from the taxes that have been withheld from our paychecks. Enrollment is automatic when you sign up for Social Security.

It's not so simple with Part B, which covers doctors' visits and most routine health care. That requires a premium payment, like private insurance, but with a twist.

It's very important to sign up for Medicare as soon as you're eligible. Normally that means within three months of turning 65. Anyone who started drawing Social Security benefits before 65 will be automatically enrolled as of their 65th birthday, unless they opt out, but that doesn't apply to people who wait until age 65. The most important thing to remember is that a stiff penalty applies for late enrollments in Part B. Stiff, and permanent.

The penalty is a whopping 10 percent of the premium for every year past the eligibility date that a recipient fails to enroll. For example: If you think you don't need Medicare Part B at 65, but by the time you're 70 deteriorating health has changed your mind, you will pay 50 percent more on your premiums than if you had signed up right away. And that penalty is forever. You'll pay it until the day you die.

Similar penalties apply for parts C and D. Those are the optional "Medicare Advantage" managed-care plans and prescription drug coverage plans. The idea, of course, is to strongly encourage everyone to sign up as soon as possible rather than play the "wait and see" game.

One other wrinkle can complicate matters further. Say you're employed and have a good health insurance plan, and don't intend to retire at 65. That employee health coverage provides a loophole, allowing you to defer Medicare enrollment — but only if you're not getting Social Security. When to start collecting Social Security benefits, and when to enroll in Medicare, can be tricky decisions that are best discussed with an expert as part of your overall retirement planning.

Then there's the question of whether to go with traditional Medicare, which typically includes Part B, Part D, and a supplemental Medigap policy. The alternative is a "Medicare Advantage" plan. This can cost less than the traditional option, because it includes prescription coverage and plugs the coverage holes that Medigap policies are designed to fill. The downside is that, as managed care plans, Advantage policies limit you to a specific network of providers.

This may not be a problem for retirees in relatively good health. Still, it's important to be sure your doctors and other providers are part of the insurer's network before enrolling in an Advantage plan.

It's possible to switch back to traditional Medicare – parts B and D. An enrollment period from mid-October to early December each year allows recipients to change their coverage. Here's one more Catch 22, though. If you need a Medigap policy more than six months after turning 65, you may not be able to get it, or may be charged higher premiums, because of pre-existing conditions. That's not true during that initial six-month window, when insurers must cover you at the lowest possible rate regardless of health.

The same annual enrollment window also allows for changing Part D prescription plans. It's a very good idea to review your options, because insurers may change coverage from year to year. This can be complex, and is another area where an experienced financial planner can offer useful advice.

A couple of other considerations should be discussed with your adviser. One of those should be part of your tax planning strategy. Just as with certain taxes, Medicare premiums go up for people over a certain income level. That's $85,000 for individuals and $170,000 for couples.

Then there's the matter of health savings accounts or HSAs. While these have tax advantages for working people, they aren't compatible with Medicare. That means you must stop contributing to your HSA when you sign up for Medicare. However, for some people who are still working after 65, it can make sense to defer Medicare and continue to use an HSA. The details can be tricky, and making the wrong decision can be expensive. So, this is definitely an issue to discuss with your financial planner well before you turn 65.

The good news: For half a century now, Medicare has been a vital component of retirees' financial security. There's really no bad news, just the reality that Medicare is a machine with many moving parts, and it's wise to have an expert help ensure you're managing the controls correctly.