

The baby boomer's guide to Medicare planning

By Elaine Floyd, CFP®

Director of Retirement and Life Planning, Horseshoat LLC



Health insurance after age 65

Whether you're retired or still working, Medicare will likely become part of your life after you turn 65. In the United States today, most health plans pay secondary to Medicare. So if you're currently covered by a retiree health plan, an individual policy, or a small employer group plan, you must enroll in Medicare when you turn 65.

If you don't, your insurance claims may not be paid. And if you don't enroll in Medicare on time, you'll be subject to late enrollment penalties. The only people who are exempt from enrolling in Medicare at 65 are workers and spouses who are covered by an employer group plan that covers 20 or more employees. Their time will come later.

What does this mean for you? Sometime before your 65th birthday, you need to find out two things:

1. Will you be able to maintain your current insurance coverage after you turn 65?
2. If so, how does that coverage work with Medicare?

If you're still working, or if you're retired and covered by a retiree plan, your employer or benefits administrator may be able to answer these questions.

Here are some possible situations:

- Your current coverage terminates when you become eligible for Medicare at 65. In this case, you enroll in Medicare and find supplemental coverage to fill the gaps that Medicare doesn't cover.
- Your current coverage continues, but you're advised to enroll in Medicare because many health plans work with Medicare. After Medicare pays the amount it's required to pay, the health plan picks up some or all of the costs Medicare doesn't cover.
- Your current coverage continues but at a high cost to you. In this case, you may decide to opt out of your current plan, enroll in Medicare, and find less expensive supplemental coverage to fill the gaps.
- Your (or your spouse's) current employer offers excellent group coverage to 20 or more employees. In this case, you may continue with the plan after you turn 65. However, once you or your spouse retires, you will need to enroll in Medicare.

What you need to know about Medicare

Medicare is a national health insurance program for people over 65 and for people under 65 who receive Social Security disability benefits. Participation is essentially mandatory if you want to have health insurance in this country. While you can – and probably should – have additional private insurance, you must enroll in Medicare for supplemental insurance to take effect.

When you turn 65, Medicare becomes the primary payer. Under Original Medicare, any private insurance you have is secondary and doesn't pay until Medicare has paid its share. The only insurance that remains primary to Medicare is employer group coverage for 20 or more employees. So, if you or your spouse is still working and is covered by an employer group plan that covers 20 or more employees, you don't need to sign up for Medicare when you turn 65. Otherwise, you do.

What Medicare covers

There are several parts to Medicare. Part A covers part of the cost of hospitalizations. Part B covers part of the cost of doctor visits and other healthcare services. Part D covers part of the cost of prescription drugs and is offered through private insurers.

Under Original Medicare, when you go to the hospital under Part A or incur a medical expense under Part B, the bill is first sent to Medicare. The government pays the portion, such as 80% of your doctor bill, for which it's responsible, and the remaining amount is billed to you. If you have supplemental insurance, your other insurance may pay all or part of the bill that remains after Medicare has paid its share.

Part D works a little differently because the insurance is offered through private companies that contract with Medicare. To have your prescription drugs covered by insurance, you need to find a Medicare drug plan that's offered in your area. You may be able to choose from several drug plans, each having its own drug list and offering slightly different coverage at differing prices. A key part of enrolling in Medicare is shopping for prescription drug plans and finding one that offers the coverage you need for the drugs you take at a price you can afford.

How much Medicare costs

Some people think Medicare is free. This isn't true. Part A may be free if you or your spouse has paid into Medicare for more than 10 years. But when we say "free," we're only referring to the monthly premiums. If you're hospitalized, you pay a deductible before Medicare pays its share. And if your hospitalization lasts more than 60 days, you're responsible for paying part or all of the daily rate.

Part B isn't free for anyone, except those who qualify for special assistance due to low income. Medicare charges a monthly premium that's deducted from your Social Security check if you receive one. If you haven't started Social Security yet, you get a bill from Medicare. High-income earners pay an extra amount on top of the base premium. On top of the monthly premium, you or your supplemental insurance must pay an annual deductible before Medicare pays its share. And because Medicare pays only part of the bill, you or your other insurance pays the remaining amount. There's no limit to the out-of-pocket expenses you may pay under Medicare alone, which is why most people have supplemental insurance.

Medicare subsidizes prescription drug coverage through payments to private insurers offering Part D prescription drug plans.

Still, you may have to pay a monthly premium to the insurer that offers your drug plan. In addition to the monthly premium, you may pay an annual deductible and a copayment or coinsurance each time you fill a prescription. Terms and premiums vary among drug plans, which is why you need to shop carefully for the right plan for your needs.

How to enroll in Medicare

Some people think Medicare is automatic. This is only true if you're receiving Social Security when you turn 65. If you're not, you need to proactively sign up for Medicare three months before your 65th birthday. You do this through the Social Security Administration, either by calling **800-772-1213** or by registering online at [SSA.gov](https://www.ssa.gov).

However, enrolling in Medicare through the Social Security Administration only takes care of Parts A and B. If you want Part D, you first need to choose a prescription drug plan. Then you can enroll in Part D through a private insurer or through Medicare.

If you don't enroll in Medicare during the appropriate enrollment period, you may have to pay a late enrollment penalty when you do enroll. There are two main enrollment periods for Parts A and B:

- **Initial enrollment period.** The initial enrollment period is for everyone who signs up for Medicare at 65 — that is, everyone past age 65 who doesn't keep employer group coverage of 20 or more employees. The initial enrollment period starts three months before you turn 65. Although it extends for a full seven months, you should enroll during the first three months so Medicare coverage starts on the first day of the month you turn 65.
- **Special enrollment period.** If you're covered by an employer group plan that covers 20 or more employees when you turn 65, you have a special enrollment period that entitles you to sign up later. To avoid coverage gaps, enroll in Medicare before your group coverage ends. Late enrollment penalties can be avoided if you enroll by the end of the seventh month after your group coverage ends.

If you miss your initial or special enrollment period, you may enroll in Medicare only during the **general enrollment period**, which runs **from January 1 to March 31** each year. If you sign up during this period, your Medicare coverage becomes effective on July 1. Late enrollment penalties may be added.

IMPORTANT NOTE

If you have a health savings account (HSA) paired with a high-deductible health plan (HDHP), enrolling in Medicare causes HSA contributions to stop. By law, contributions to an HSA may be made after age 65 **only if you aren't enrolled in Medicare.** If your plan covers fewer than 20 employees, you need to enroll in Medicare at 65 and stop contributing to the HSA. If your plan covers 20 or more employees, you may defer your Medicare enrollment and keep making contributions to the HSA. If you wish to continue making contributions to the HSA, delay your enrollment in Medicare Part A or B.

You have several options for Part D, depending on your other insurance. If a retiree plan serves as your supplemental insurance, and if that plan includes creditable prescription drug coverage, you probably won't sign up for Part D during your initial or special enrollment period. However, if that coverage ever ends, you must sign up for Part D within 63 days or pay a late enrollment penalty. Be sure to save the annual statement from your insurance company to verify the creditability of your drug coverage. Medicare will ask for it, and if you can't provide it, you may be charged a late enrollment penalty.

How to get supplemental insurance

Because there are so many out-of-pocket costs associated with Medicare, part of your Medicare enrollment process is shopping for private plans. You should do this well before your Medicare effective date so your supplemental insurance starts at the same time.

- **Supplemental insurance (Medigap).** Medicare supplemental insurance is also known as Medigap. It's designed to cover the gaps Medicare doesn't cover, such as some deductibles, copayments, and coinsurance amounts for Medicare-approved services. A range of choices is available to you, and, if you sign up during your initial or special enrollment period, you cannot be denied coverage regardless of your health status.

Policies are standardized so that all policies identified by the letters A through N offer the same benefits. For example, Plan G, which is the most popular and comprehensive, provides the same benefits no matter which insurance company provides it. For this reason, price and service become key issues when shopping

for supplemental insurance. If your employer offers retiree coverage, you may not need to buy supplemental insurance. Your retiree plan may offer better coverage at a lower price. However, you still may need to enroll in Medicare Parts A and B.

- **Medicare Advantage plans.** These plans, offered by private insurers and often called Part C, provide another way to get Medicare. Insurers offering Medicare Advantage plans contract with Medicare and receive a per capita amount from Medicare. They are then responsible for delivering all care under Parts A and B. Most also offer Part D prescription drug coverage. If you enroll in a Medicare Advantage plan, you may get extra services, such as vision care or wellness programs, in addition to Medicare gap coverage. You must enroll in Parts A and B and pay Part B premiums, along with any premiums charged by the Medicare Advantage plan. Medicare Advantage plans are distinct from Medigap policies. If you have a Medicare Advantage plan, you may not apply for a Medigap policy.

What if you're already on Medicare?

Savvy Medicare planning doesn't stop when you enroll in Medicare. In fact, if you — or even your parents — are already on Medicare, you should periodically review your other plans to make sure you have the coverage you need and aren't paying too much in premiums.

Premiums charged by private insurers offering Part D prescription drug plans, Medigap policies, and Medicare Advantage plans vary widely. Furthermore, prescription drug plans and Medicare Advantage plans are free to change their coverage terms and premium pricing annually. Medigap plans are more stable in terms of their benefits because the plans are standardized, but insurance companies can and do raise their premiums from time to time. And the marketplace may have changed since you bought your policy; you may be able to get the same policy for a lower price now. Or maybe you'd like to change to a different plan.

If you have a Part D drug plan or a Medicare Advantage plan, be sure to watch your mail each fall. That's when the drug plans and Medicare Advantage plans announce their benefits and prices for the coming year. You should carefully read information about new rates and benefits so you can decide if you want to keep your current plan and pay the new premium (if it has changed) or shop for a new plan.

Pay attention to the calendar. The coordinated election period occurs annually from October 15 through December 7.

During this time, drug plan and Medicare Advantage plan providers may present seminars in your area. This is your chance to learn about other plans and do some careful comparison shopping. To switch plans, contact the new plan before December 7. Your new coverage will take effect on January 1.

What about long-term care?

The most important thing to know about long-term care is that Medicare doesn't cover it. If you or your parents should ever need help with activities of daily living, such as bathing and dressing, or if someone in your family needs supervision for cognitive decline, Medicare doesn't pay for it. The vast majority of long-term care in this country is delivered by family members. This is primarily because families cannot afford to pay for professional care, either at home or in a long-term care facility. However, caregiving can take its toll, both psychologically and financially, on adult children or others who are forced to stop working to care for an aging family member. And, if you should need care in a facility, the costs can be quite high, forcing you to drain family assets to pay for it. When you're planning your healthcare expenses in retirement, talk to your financial professional about how to integrate planning for long-term care into your overall financial plan.

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