HAAS Fydroski Financial Services, Inc.

IPE Insights

Investments - Planning - Education

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Retiree Healthcare

On my drive into work last week, I heard the announcer say that Congress would, once again, attempt to repeal the Affordable Care Act. Before the Act became law, one of the biggest challenges for early retirees was finding affordable health insurance until Medicare coverage started at age 65. While this could become an issue again, at this point in time the Act is still in place and repeal is not likely in its current form.

For those age 65 and older, Medicare is our primary health insurance provider unless there is an alternative coverage that meets specific criteria. Like many Federal Government programs, Medicare is complicated and has its own set of rules and regulations. The more we know about Medicare, the easier it will be to make the correct decisions when it applies to us or to our loved ones. I came across this five question quiz originally published in the *Journal of Accountancy* and thought it might provide a brief introduction to those unfamiliar with the parameters of Medicare. There is much more to know about Medicare and Medicare supplement policies but to quote an ancient Chinese proverb, "*A thousand mile journey begins with the first step.*" See how well you do on the quiz. The answers follow Question 5.

Question 1. When can an eligible person start receiving Medicare benefits?
a. Whenever he or she starts receiving Social Security benefits.
b. At the person's Social Security full retirement age.
c. At age 65.

Question 2. Which category of health expense is generally not covered by Medicare?
a. Hospital expenses.
b. Doctor's services.
c. Custodial care.
d. Hospice services.

Question 3. Which enrollment period potentially carries a premium penalty for Medicare Part B?
a. Initial enrollment period.
b. Special enrollment period.
c. General enrollment period.
d. None of the above; Part B does not have a penalty.

Question 4. Which program under traditional Medicare does NOT have the monthly cost increased by an income-related monthly adjustment amount for individuals whose income exceeds certain thresholds?
a. Medicare Part A – Hospital insurance.
b. Medicare Part B – Medical insurance.
c. Medicare Part D – Prescription Drug insurance.

Question 5. Which of the following is NOT a component of all Medicare Part D prescription plans?
a. Annual deductible.
b. Coinsurance.
c. Coverage gap.
d. Catastrophic coverage.

Question 1- Answer c. *Medicare coverage begins on the first day of the month the applicant turns age 65. Unlike the Social Security program, which offers a reduced early benefit at age 62, there is no early Medicare benefit unless the applicant is disabled. Addressing the health insurance needs for clients retiring early before Medicare coverage starts is a crucial risk management decision.*

Question 2- Answer c. *Medicare does not cover custodial or long-term care, hearing aids, routine dental and vision care, and some other services. Medicare Part A covers inpatient care in a hospital, skilled nursing facility (with a related three-day inpatient hospital stay), hospice, and home health care; Part B covers doctor services and outpatient care, some preventive services, and medical equipment.*

Question 3-Answer c*. If the individual has delayed enrollment in Medicare Part B without having other coverage and therefore must use the general enrollment period, a penalty will be added to his or her monthly premium. The cost of the Medicare Part B premium will go up 10% for each full 12-month period the individual could have enrolled but chose not to enroll during the initial enrollment period. The penalty lasts as long as the individual continues coverage under Medicare Part B.*

Question 4-Answer a. *Part A has no income-related adjustment. In fact, there is no premium at all for Part A for those with at least 40 quarters of coverage (the same qualification to receive Social Security benefits) or who are covered by a spouse's work history. Both Part B and Part D coverage are subject to a graduated scale of adjustments based on adjusted gross income (AGI) plus tax-exempt interest and exclusions for Series EE bond interest and foreign earned income and housing.*

Question 5-Answer a. *Not all plans have an annual deductible. If there is an annual deductible, the participant pays this amount first. Once the deductible has been reached, coinsurance or copayment begins. The participant pays 25% of the cost of his or her medications; the plan pays 75% until the participant and the plan together have paid a total amount set by Medicare. At this point, the individual enters the "doughnut hole," or coverage gap, until the individual's total out-of-pocket cost has exceeded another threshold set by Medicare each year. At this point, catastrophic coverage kicks in, and the individual is only responsible for coinsurance of the greater of 5% of the cost of each drug or a small copayment amount. There is no maximum.*

How did you do on the quiz? Don't feel bad if you did not score well. As I mentioned in the beginning, Medicare is a complex program and the options need to be studied and reviewed carefully. Healthcare is a major concern throughout our lives and especially in retirement as we grow older. The cost of healthcare continues to rise almost unabated; it needs to be addressed in our retirement plans. Please read the second article in this newsletter that discusses what our health care costs might be in retirement.

Also, please remember the hurricane and earth quake victims. Help if you can. Take good care!!!

Retiree health-care costs up 6%, study finds – Bloomberg News

IN A PERFECT WORLD, the largest expenses in retirement would be for fun things like travel and entertainment. In the real world, retiree health-care costs can take an unconscionably big bite out of savings.

A 65-year-old couple retiring this year will need $275,000 to cover health-care costs throughout retirement, Fidelity Investments said in its annual cost estimate, released Aug. 22. That stunning number is about 6% higher than it was last year. Costs would be about half that amount for a single person, though women would pay a bit more than men since they live longer.

You might think that number looks high. At 65, you're eligible for Medicare, after all. But monthly Medicare premiums for Part B (which covers doctor's visits, surgeries, and more) and Part D (drug coverage) make up 35% of Fidelity's estimate. The other 65% is the cost-sharing, in and out of Medicare, in co-payments and deductibles, as well as out-of-pocket payments for prescription drugs.

And that doesn't include dental care - or nursing-home and long-term care costs.

MEDIGAP INSURANCE

Retirees can buy supplemental, or Medigap, insurance to cover some of the things Medicare doesn't, but those premiums would lead back to the same basic estimate, said Adam Stavisky, senior vice president at Fidelity Benefits Consulting. The 6% jump in Fidelity's estimate mirrors the average annual 5.5% inflation rate for medical care that HealthView Services, which makes health-care cost projection software, estimates for the next decade. A recent report from the company drilled into which health-care costs will grow the fastest.

It estimates a long-term inflation rate of 7.2% for Medigap premiums and 8% for Medicare Part D. For out-of-pocket costs, the company estimates inflation rates of 3.7% for prescription drugs, 5% in dental, hearing and vision services, 3% for hospitals and 3.4% for doctor's visits and tests.

Cost-of-living adjustments on Social Security payments, meanwhile, are expected to grow by 2.6%, according to the HealthView Services report.

What's really sobering is the impact of inflation on Fidelity's retiree healthcare cost estimates over the years. From 2002, when Fidelity first did an estimate, to its latest projection, the number is up 70%.

"It's the power of compounding," Mr. Stavisky said. "It's great for investing and brutal for healthcare costs."

… Health-care costs will likely keep climbing, so one of the best investments anyone can make is to work at staying healthy, if possible. For a sense of how much health care could cost you in retirement, and how staying healthy can lower those costs, try AARP's health-care costs calculator. It provides a rough cost estimate based on your height, weight, gender and state. Users can add in various health conditions to see how much they might add to projected health-care costs in retirement, or subtract from them if, for instance, an overweight person slimmed down.

Whether you're 60 or 25 or somewhere in between, the prospect of retirement should be more inspiring - cities to visit, languages to learn, books to read or to write - than the anxious business of war-gaming what your health will be like 10 or 20 or 30 years out. But if paying closer attention to your body and mind now means more money for travel and growth and relaxation after a long, hard working life, it's not a bad trade-off.

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