Medicare

When the time comes to consider enrolling in Medicare, the choices of which parts to choose and what kind of coverage is needed can be complicated. People often look to tax advisors for advice on the issue.

Individuals approaching age 65 are responsible for signing up for Medicare even if they aren't qualified for Social Security benefits, are planning to delay collecting those benefits for whatever reason, or aren't planning to retire. Many people are unsure if they need to sign up, and the decision of which plan to sign up for can be very confusing—none of which is helped by the onslaught of unsolicited telephone messages and mail from peddlers of insurance supplements. Whether you're making the decision for yourself or providing advice and recommendations to a tax client, the choices when signing up for Medicare are varied and complex. Here's a look into the basic issues surrounding Medicare options and coverage.

Enrolling

Individuals approaching age 65 have a seven-month window to sign up for Medicare without waiting for open enrollment. The easiest way is to complete the application online at the Medicare website. The online application can be completed by a person who is 64 years and nine months old, doesn't currently have any Medicare coverage, and doesn't want to start receiving Social Security benefits. Although people can wait until after they attain age 65, it's best to complete this task during the three months prior to their 65th birthday. Filing early provides adequate time for the paperwork to be completed so that the benefits begin at the start of the month of an individual's 65th birthday. Otherwise, the start date will be later.

If you (or your tax client) are planning to enroll online, some information is needed in order to complete the process. The good news is once you begin, you can stop at any time, save the partially completed application, and return to it later for completion. The application process is relatively painless and involves answering a few questions on a series of screens.

Medicare Plans

Medicare has four parts to choose from—A, B, C, and D. Each provides a different healthcare service. You can elect to enroll in as few as one or as many as three parts depending on your situation, such as the existing health coverage from an employer.

Part A (Hospital Insurance) provides hospital insurance coverage that covers inpatient care in hospitals, skilled nursing facility care, hospice care, and home healthcare. Coverage under Part A is premium free for qualified individuals. If you already receive Social Security or Railroad Retirement Benefits, are eligible to collect these benefits but have elected not to do so yet, or if you or your spouse had Medicare-covered government employment, then you are a qualified individual. If you aren't qualified, you can purchase Part A for $441 per month in 2013.

If you are currently covered under your employer's group health plan, you can sign up for Part A any time during employment or up to eight months after the current employment ends or the group health plan coverage ends, whichever occurs first.

Part B (Medicare Insurance) provides coverage for certain services provided by a doctor, as well as outpatient care, medical supplies, and preventive services. Unlike Part A, Part B generally isn't free. The cost varies depending on your adjusted gross income (AGI) from

your federal income tax return from two years earlier. For example, the premium for Part B in 2013 is based on your AGI from your 2011 tax return. This two-year lag generally penalizes middle-income individuals during their first two years of retirement because their AGI reflects two years of gainful employment. The premium can be as low as $104.90 per month to as high as $335.70 per month (see www.medicare.gov for a breakdown of the premiums).

Although enrollment in Part A is mandatory, that isn't the case for Part B. So do you need to make the election? It depends. If you or your spouse are covered by an insurance plan from an employer or union, for example, check with the benefits department to see if you are required to elect Part B coverage. Some sponsored plans require participants to elect Part B coverage and thereby reduce the organization's costs for insurance coverage. If you elect Part B coverage, you'll be happy to know that this cost is a deductible medical insurance cost if you itemize on your tax return and have sufficient medical costs to itemize. Be aware that current employer coverage doesn't include COBRA and retiree health coverage. For additional insight on whether you should sign up for Part B, visit www.medicare.gov/sign-up-change-plans/get-parts-a-and-b/should-you-get-part-b/should-i-get-part-b.html.

A late enrollment penalty may apply if you don't elect Part A or Part B when first eligible. The penalty, if applicable, may be up to 10% for each part. Once you retire or leave employment permanently, you'll have eight months to enroll in Part B coverage without incurring a penalty or waiting for the next open enrollment period. This period is applicable whether or not you're eligible for COBRA coverage, which generally lasts for 18 months. By enrolling in Part B, your COBRA coverage becomes secondary.

Part C (Medicare Advantage Plans) is an alternative to enrolling in Parts A and B. Medicare Advantage Plans are private companies that offer coverage to individuals. In general, they include Health Maintenance Organizations (HMOs), Preferred Provider Organizations, Private Fee for Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans. When enrolled in Part C, you don't sign up for Part B, but you still pay the Part B premium. That should reduce the premium cost of Part C. Many Part C plans include prescription drug coverage, which means you might not need to seek additional coverage or be concerned about enrolling in Medicare Part D.

The key element in choosing a plan is that you need to select a primary care doctor. HMO plans are restrictive in the sense that you generally are able to seek services from only those healthcare providers and hospitals participating in or on the list of the HMO, and you usually need a referral from a primary care doctor when seeking specialist coverage. A downside to HMO coverage is if your primary care doctor leaves the HMO—you'll have to select another participating primary care doctor in the HMO.

There also are differences among HMOs. Some offer prescription drug coverage while others don't. Some also allow you to use out-of-network services. The cost for those services will be higher. The HMO will pay its prescribed reimbursement amount, and it will be your responsibility to pay the difference.

Prescription Drug Coverage

The final decision when signing up for Medicare is whether to sign up for prescription drug coverage under *Part D (Prescription Drug Coverage)* or get some other company-sponsored plan. As with the other plans, failing to sign up for Part D when first eligible will likely lead to a late enrollment penalty.

The specific drugs covered by a prescription drug plan vary from plan to plan. It's also common for companies to place a specific drug into different tier categories. A tier category is a class of drugs with a similar cost weighting. The cost of a drug in a lower tier category is less than a drug in a higher tier category. When deciding on which plan to get, check your current prescriptions against the different plans' lists. This makes for extra legwork, but the good news is that you can go to the "Find Health & Drug Plans" tab on the Medicare.gov website to calculate the cost of each plan, given your medication usage.

Part D coverage isn't free—it has a monthly premium that varies based on the company and plan selected. In addition to the monthly premium, you also may incur an income-related monthly adjustment amount (i.e., an additional premium) based on your AGI from two years ago.

Most prescription drug plans

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have a yearly deductible amount that needs to be reached before the plan begins to share the cost of drugs. The deductible is likely to vary among the companies, but no Medicare drug plan can have a deductible in excess of $325 for 2013.

Medicare Supplement Insurance (Medigap)

The final decision you will be left with is whether or not to purchase a supplemental plan to fill in the holes that Medicare doesn't cover. While employed, you might view your employer's insurance plan as a supplemental plan. Once you retire, however, your employer may or may not continue providing such supplemental coverage. Thus, you may need to check out the various insurance companies and the plans that they have. Be aware, you will receive a lot of mail from potential Medigap providers—in fact, it will be data overload.

Be Informed

For additional reading on this fascinating subject, you might check out "Medicare & You," available online at www.medicare.gov/pubs/pdf/10050.pdf. General and specific information about Medicare can also be found online at www.medicare.gov, or you can speak to a Medicare representative at 1 (800) MEDICARE. Even better, local volunteers of SHIP (state health insurance assistance programs) also are available to assist and answer questions.

There are a number of exceptions, caveats, and pitfalls to look out for when making these choices. While I've provided a general introduction, by no means has it been a thorough presentation. To be honest, this is one of the most challenging topics I've investigated. Now that's a scary thought. **SF**

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