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Financial Advisor

RETIREMENT SYMPOSIUM

**What's the
Damage?
*The Impact
of Medicare
on
Retirement
Planning***

Dr. Katy Votava



Your expert on healthcare costs

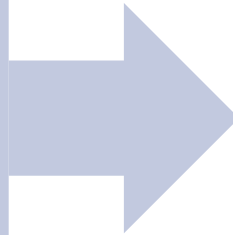


Agenda

- Strategies to deal with Medicare Modified Adjusted Gross Income (MAGI) “cliff brackets” in retirement planning
- Understand the application of new features within Medicare to retirement planning and budgets
- Methods to help your clients avoid lifelong Medicare penalties and minimize the cost of Medicare.
- **Simple solutions to incorporate into your retirement planning practice**
- Q & A

How this fits in advisors' business models

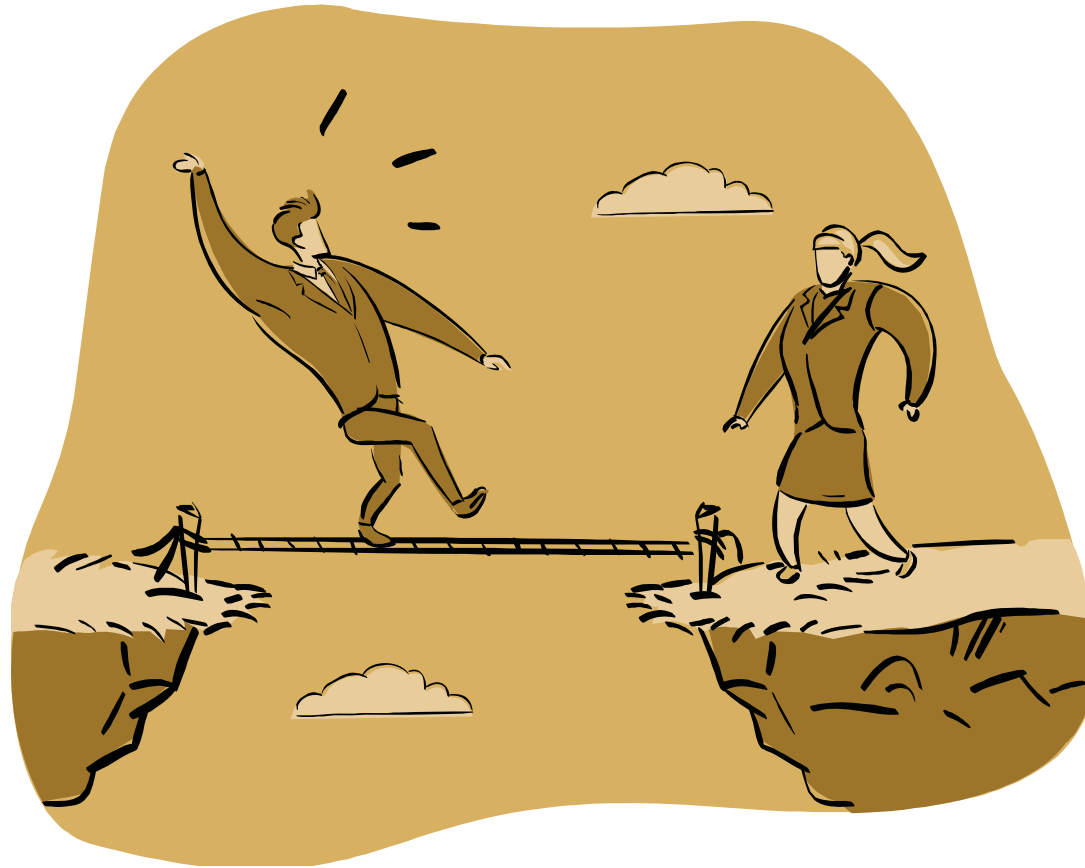
- ✓ Cut unnecessary healthcare costs
 - ☞ Minimize impact of MAGI brackets on Medicare
 - ☞ Minimize Medicare penalties
- ✓ Limit out-of-pocket exposure
 - ☞ Routine costs
 - ☞ Catastrophic:
 - ☞ Acute
 - ☞ Long Term



- ✓ Allow people to invest more with advisors
- ✓ Minimize unnecessary decumulation
- ✓ Create tremendous stock of good will



65 is the Great Divide



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What is Medicare?

- Federally administered health insurance plan
- Covers all United States Social Security recipients.
 - 65 years of age or older
 - < 65 yrs. if medically disabled.
- Benefits are financed by payroll taxes, general tax revenues and beneficiary premiums.
- Beneficiaries pay part of the cost for most care:
 - Deductibles
 - Co-payments
 - Premiums for some “parts” of Medicare

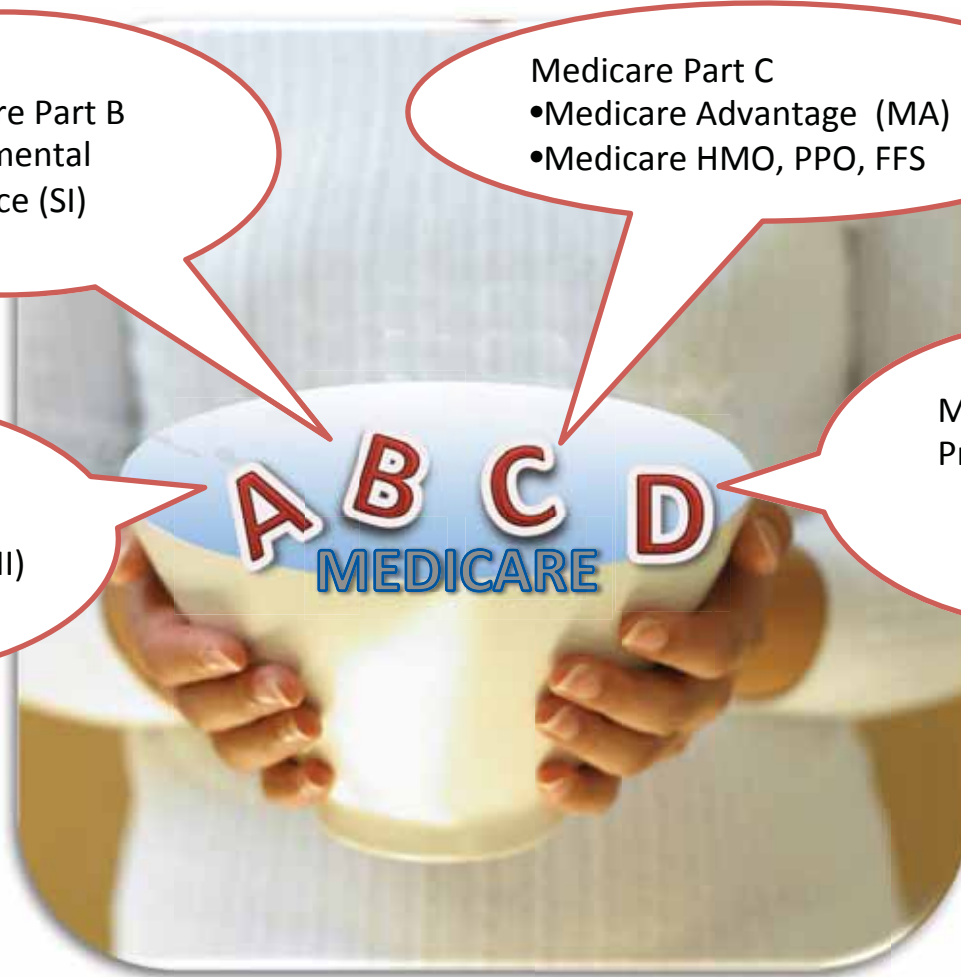
The “Alphabet Soup” of Medicare

Medicare Part B
Supplemental
Insurance (SI)

Medicare Part C
• Medicare Advantage (MA)
• Medicare HMO, PPO, FFS

Medicare Part A
Hospital Insurance (HI)

Medicare Part D
Prescription Drugs



How does Medicare use Modified Adjusted Gross Income?

- ✓ Determine beneficiary's Medicare "Cliff Bracket" tier
- ✓ Cliff Bracket tiers determine "Adjustments" aka additional costs charged by Social Security for Medicare B and D
- ✓ Cliff Bracket tiers are fixed through 2019

Medicare MAGI “Cliff Brackets”

| Tier | Modified Adjusted Gross Income | |
|------|--------------------------------|------------------------|
| | Single | Married Filing Jointly |
| 1 | ≤ \$85,000 | ≤ \$170,000 |
| 2 | \$85,001 ≤ \$107,000 | \$171,000 ≤ \$214,000 |
| 3 | \$107,001 ≤ \$160,000 | \$214,001 ≤ \$320,000 |
| 4 | \$160,001 ≤ \$213,000 | \$320,001 ≤ \$428,000 |
| 5 | ≥ \$213,000 | ≥ \$428,001 |

How to Calculate MAGI for Medicare

✓ Calculate using 1040 long form:

Medicare MAGI =

Adjusted Gross Income (line 37) + tax exempt
interest (line 8b)

Medicare Parts B & D Adjustments 2012

| MAGI Cliff Brackets | | | Part B ^a | Part D ^a | Total |
|---------------------|-------------|---------------------------|------------------------|------------------------|---------|
| Tier | Single | Married Filing Jointly | | | |
| 1 | ≤ \$85,000 | ≤ \$170,000 | \$0 | \$0 | \$0 |
| 2 | ≤ \$107,000 | ≤ \$214,000 | \$546 | \$139 | \$685 |
| 3 | ≤ \$160,000 | ≤ \$320,000 | \$1,366 | \$358 | \$1,724 |
| 4 | ≤ \$213,000 | ≤ \$428,000 | \$2,185 | \$577 | \$2,762 |
| 5 | ≥ \$213,000 | ≥ \$428,001 | \$3,245 | \$796 | \$4,041 |

^a CMS 2012 actual.

Individual Medicare Premiums 2012

| MAGI Tier | Med. B & D Adj. Total | Med. Part B prem.^a | Part D^b plan prem. | Total Medicare |
|------------------|----------------------------------|--------------------------------------|--------------------------------------|-----------------------|
| 1 | \$0 | \$1,199 | \$384 | \$1,583 |
| 2 | \$685 | \$1,199 | \$384 | \$2,268 |
| 3 | \$1,724 | \$1,199 | \$384 | \$3,307 |
| 4 | \$2,762 | \$1,199 | \$384 | \$4,345 |
| 5 | \$4,041 | \$1,199 | \$384 | \$5,624 |

^a Based on 2012 \$99.90/month Med. B premium.

^b CMS national average Med D plan premium projection \$32/mn.

> 65 yrs. Individual Estimated Healthcare Costs 2012

| MAGI Tier | Total Medicare | Medigap Fa | Out-of-Pocket^b | Total |
|------------------|-----------------------|-------------------|----------------------------------|--------------|
| 1 | \$1,583 | \$2,160 | \$4,852 | \$8,595 |
| 2 | \$2,268 | \$2,160 | \$4,852 | \$9,280 |
| 3 | \$3,307 | \$2,160 | \$4,852 | \$10,319 |
| 4 | \$4,345 | \$2,160 | \$4,852 | \$11,357 |
| 5 | \$5,624 | \$2,160 | \$4,852 | \$12,636 |

^a National average Plan F. ^b Kaiser Foundation 2006 estimate.

Medicare MAGI

Case Study

- ✓ Couple, retiring, both eligible for Medicare
 - ✓ MAGI 2 yrs. Ago: \$335,000
 - ✓ MAGI now:\$120,000
- ✓ Eligible for “*change in circumstance*” :
 - ✓ Stop working or reduce work
 - ✓ Marry, divorce or widowed
 - ✓ Lost income-property d/t disaster
 - ✓ Employer pension plan major change
 - ✓ Employer base settlement d/t bankruptcy

Medicare MAGI

Case Study

- ✓ How?
 - ✓ Responded to SSA notice within 10 days with former employer support letter
- ✓ Result Medicare Parts B & D Adjustments :
 - ✓ Old MAGI @ Tier 4:
 - ✓ $\$2,762 * 2 = \$5,524$
 - ✓ New MAGI @ Tier 2:
 - ✓ $\$685 * 2 = \$1,370$
 - ✓ Savings = $\$4,154$ in year 1

Impact of the “Investment Income Medicare Tax”

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Investment Income Medicare Tax

- Effective 2013
- Tax on investment income:
 - Dividends
 - Capital gains
 - Annuities
 - Rental Income

Investment Income Medicare Tax

continued

- Applies only to income over:
 - \$250,000 couple
 - \$200,000 single
- 3.8% new tax on investment income

Investment Income Medicare Tax Example

- ✓ Couple with MAGI \$300,000 income in 2013
 - ✓ \$300,000
 - ✓ <\$250,000>
 - ✓ \$50,000 amount subject to 3.8% Medicare tax
 - ✓ <\$1,900> 3.8% Medicare tax
 - ✓ \$48,100 net of \$50,000

Strategies to blunt

Investment Income Medicare Tax

- Advisors need to review client's tax projections and returns
- Consider rebalancing the portfolio in 2012 taking the financial and tax implications into account
- If the advisor does not usually provide tax services:
 - Bring the client's tax advisor into the loop

What am I supposed to do?



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Strategies

Limit client's exposure to the Medicare "cliff brackets" & other cost sink holes



Strategies to limit the effect of Healthcare Cost Sink Holes

- ✓ **Include healthcare cost and coverage in your annual client review agenda!**
- ✓ Included a separate line item in the retirement budget for routine healthcare costs
 - ✓ Use a healthcare inflation rate approx. 8%
- ✓ When retirement is on the foreseeable horizon – explore retiree health coverage options
- ✓ When clients are 64 – get focused on coverage @ 65

Strategies to limit the effect of Medicare MAGI

- ✓ **Look at your client's tax returns!**
- ✓ Calculate their Medicare MAGI
- ✓ Incorporate into retirement budget & plan
- ✓ Consider impact of Cliff Bracket tier & portfolio:
 - ✓ Tax exempt investments
 - ✓ Deferred compensation payouts
 - ✓ Capital gains

Strategies to limit the effect of Medicare MAGI

- ✓ Remain in work force with employer insurance
 - ✓ **Caveat:** If not required to have Med. Part B
- ✓ Apply for reconsideration if change in circumstance moves you to lower bracket
 - ✓ Respond timely to initial Social Security notice
 - ✓ Formal Reconsideration
 - ✓ Appeal
- ✓ If move to higher bracket – set aside funds to pay increased “Adjustment” in 2 years

Medicare Parts B & D Adjustments 2012

| MAGI Cliff Brackets | | | Part B ^a | Part D ^a | Total |
|---------------------|-------------|---------------------------|------------------------|------------------------|---------|
| Tier | Single | Married Filing Jointly | | | |
| 1 | ≤ \$85,000 | ≤ \$170,000 | \$0 | \$0 | \$0 |
| 2 | ≤ \$107,000 | ≤ \$214,000 | \$546 | \$139 | \$685 |
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^a CMS 2012 actual.

Construct Realistic

Retirement Healthcare Budgets

- ✓ Include expected insurance costs:
 - premiums, co-payments, deductibles
- ✓ Other expected out-of pocket costs:
 - Pharmaceuticals, medical equipment and supplies, eye ware, hearing aides, home modification, etc, etc
- ✓ Long-term care cost risk



GOODCARE Tool Kit

Healthcare Expense Spreadsheet

| GOODcare.com [®] Your expert on healthcare costs | Health Care Out-of-Pocket Expense Worksheet | | | | | | | | | | | | |
|--|---|---------|---------|---------|---------|---------|---------|---------|---------|----------|----------|----------|-------|
| | Month 1 | Month 2 | Month 3 | Month 4 | Month 5 | Month 6 | Month 7 | Month 8 | Month 9 | Month 10 | Month 11 | Month 12 | TOTAL |
| Health Care Insurance Premiums | | | | | | | | | | | | | |
| Medicare B | | | | | | | | | | | | | \$0 |
| Medicare C / Medicare Advantage | | | | | | | | | | | | | \$0 |
| Medicare D | | | | | | | | | | | | | \$0 |
| Co-Insurance Premiums (such as Medigap Ins.) | | | | | | | | | | | | | \$0 |
| Health Care Co-payments | | | | | | | | | | | | | \$0 |
| Insurance Deductibles | | | | | | | | | | | | | \$0 |
| Other Insurance Expenses | | | | | | | | | | | | | \$0 |
| Subtotal | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Prescriptions, Equipment, and Supplies | | | | | | | | | | | | | |
| Prescriptions, Equipment, and Supplies Co-Payments | | | | | | | | | | | | | \$0 |
| Non-Covered Prescriptions | | | | | | | | | | | | | \$0 |
| Over-the-Counter Medications | | | | | | | | | | | | | \$0 |
| Non-Covered Supplies | | | | | | | | | | | | | \$0 |
| Non-Covered Equipment | | | | | | | | | | | | | \$0 |
| Subtotal | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other Routine Health Care Expenses | | | | | | | | | | | | | |
| Dental Care | | | | | | | | | | | | | \$0 |
| Eyewear | | | | | | | | | | | | | \$0 |
| Hearing Services | | | | | | | | | | | | | \$0 |
| Complementary Health Care | | | | | | | | | | | | | \$0 |
| Other Health Care Expenses | | | | | | | | | | | | | \$0 |
| Subtotal | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

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Applying for Medicare on a timely basis or pay penalties forever!

- ✓ Decide which “Parts” you need:

- ✓ Medicare Part A only

- ✓ Medicare Parts A + B + D

- ✓ coverage: Medicare Part D + Medigap, or

Medicare Part C (aka Medicare Advantage)

- ✓ If you do not apply for Medicare Parts B or D during your initial enrollment period make sure your will be eligible for a “special enrollment” period later



Medicare Coverage Builder

| Service Type | Coverage Type | | | | | | |
|----------------------------------|---------------|------------|------------|---------------------------------|---------|---------------------------|-------------------|
| | Medicare A | Medicare B | Medicare D | Medicare Advantage (Medicare C) | Medigap | Employer Retiree Coverage | Employer Coverage |
| Hospital, Rehab, Acute Home Care | YES | | | YES | | YES, most require Med A | YES |
| Outpatient | | | | YES | | YES may require Med B | YES |
| Gap Coverage | | YES | | MAYBE | | MAYBE | MAYBE |
| Drug | | | YES | MAYBE | MAYBE | MAYBE | MAYBE |
| Drug OOP | | MAYBE | | | | MAYBE | MAYBE |
| Donut Hole | | | MAYBE | MAYBE | | MAYBE | MAYBE |

What are Medicare Penalties

- ✓ Medicare B Penalty = 10% per year
- ✓ Medicare D Penalty = 12% per year
- ✓ Case Study:
 - ✓ Client who does not sign up for Medicare @ age 65 and does not have “Medicare creditable” coverage for 3 years
 - ✓ Med B 10% penalty * 3 years = 30% ↑ Med B Premiums
 - ✓ Med D 12% penalty * 3 years = 36% ↑ Med D Premiums



Impact of Penalties on Medicare Premiums 2012 Case Study

| MAGI Tier | No Penalty | Penalty | Total With Penalty |
|------------------|-------------------|----------------|---------------------------|
| 1 | \$1,199 | \$498 | \$1,697 |
| 2 | \$1,884 | \$712 | \$2,596 |
| 3 | \$2,923 | \$1,037 | \$3,960 |
| 4 | \$3,961 | \$1,361 | \$5,322 |
| 5 | \$5,240 | \$1,758 | \$6,998 |

Open Enrollment for 2013

Do's & Don'ts

- ✓ **Do:**
 - ✓ **Enroll in Medicare on time**
 - ✓ Encourage your clients to shop for Medicare coverage every year
 - ✓ Open enrollment for Medicare Advantage (Part C) & Medicare Part D:
 - ✓ 10/15/12 – 12/7/12
- ✓ **Don't wait** till the last minute to shop – it's too important a purchase!

Annual Health Insurance Check- up

- Particularly if:
 - Medications changed
 - Out-of-Pocket cost high
 - Poor customer service
 - Uncomfortable Premium increases
 - Insurance plan no longer offered
- Making the wrong choice may end up costing \$\$\$\$\$!



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Tools you can use

- Health on the Net Certified  
- Check out the *Financial Advisors* section
- **GOODCARE Newsletter:**
 - Tips: how to save money on healthcare & Medicare
 - **Sign up free on line**
- The **free** *GOODCARE Toolkit*



Please stay in touch!

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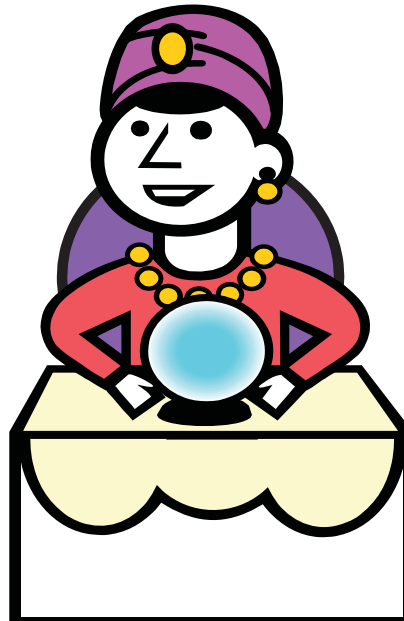
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Questions & Answers with Dr. Katy



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