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What You Don't Know About Medicare That Could Wreck Your Client's Retirement

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Agenda

- ◎ Impact of higher income Medicare premiums & Retirement Planning
- ◎ Strategies to avoid lifelong Medicare penalties
- ◎ How to minimize the cost of Medicare
- ◎ How to maximize Medicare coverage
- ◎ Simple solutions to incorporate into retirement planning
- ◎ Q & A



How This Fits Into Retirement Planning

Cut unnecessary healthcare costs

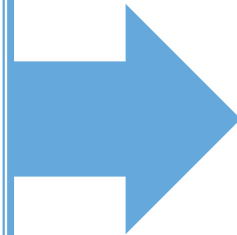
- ☞ Minimize impact of MAGI brackets on Medicare
- ☞ Minimize Medicare penalties

Limit out-of-pocket exposure

- ☞ Routine costs

Catastrophic:

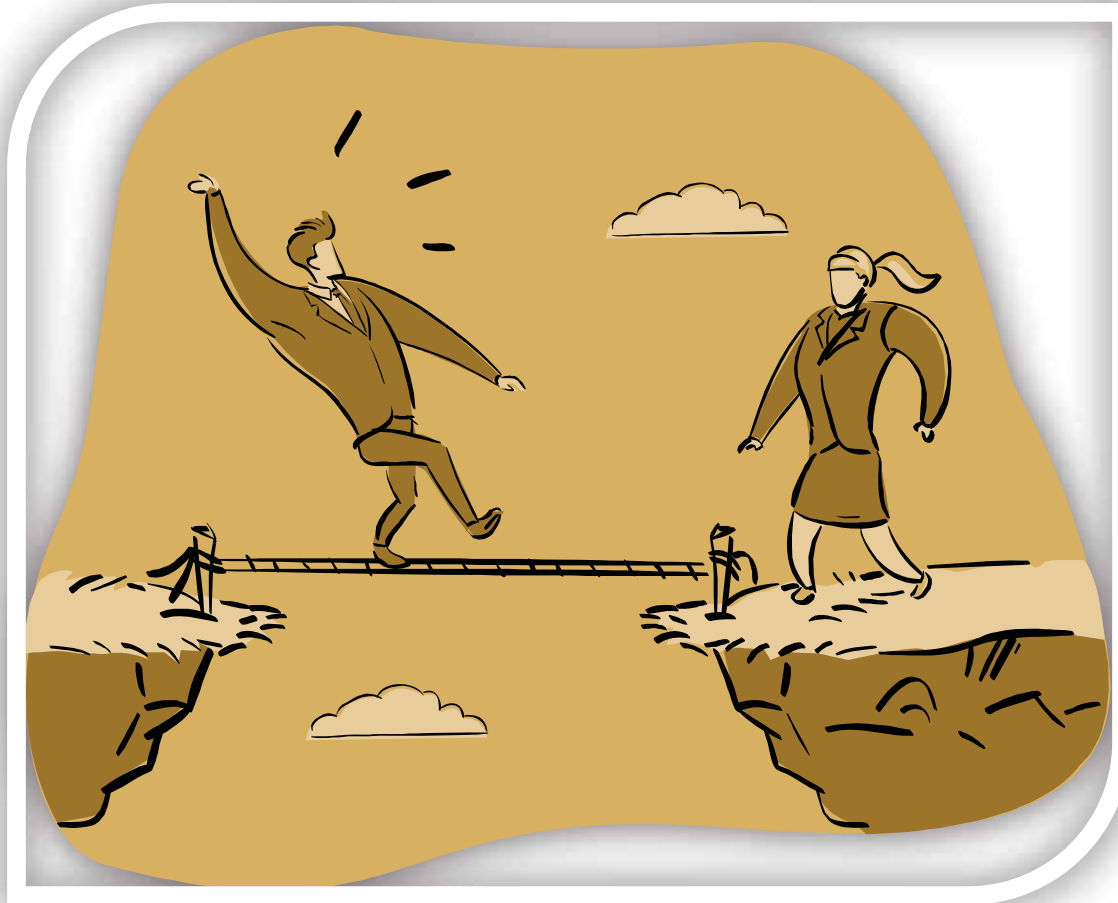
- ☞ Acute
- ☞ Long Term



- ✓ Allow your clients to invest more
- ✓ Minimize unnecessary decumulation
- ✓ Create tremendous sense of security



65 is the Great Divide



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 out-of-pocket payments.

Beneficiaries pay part of the cost for most care:

- Premiums for some “parts” of Medicare
- Deductibles
- Co-payments, Co-insurance

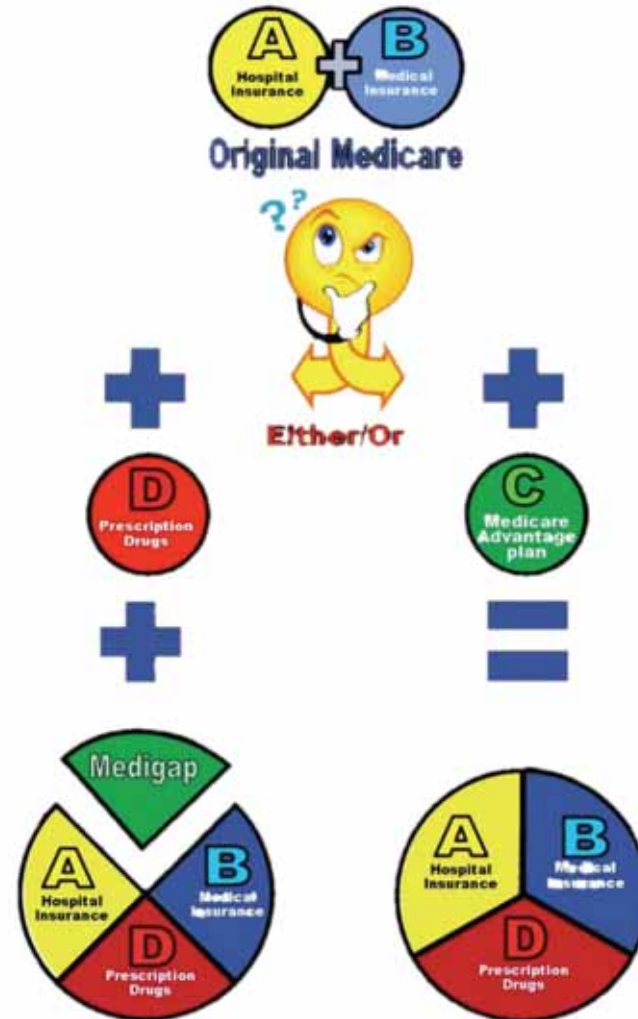


How to Put Medicare Coverage Together

A word about

“Supplemental” AKA:

- Medigap
- Medicare Part B
- Medicare Part C/
Advantage



Medicare Part C / Advantage Plans

usually works like an HMO or PPO, combines original Medicare + prescription drug plan into one plan, some do not include prescription drug plan.



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, Medicare A required | YES |
| Outpatient | | YES | | YES | | YES most require Medicare B | YES |
| Copays and Coinsurance | | | | MAYBE | SOME | MAYBE | MAYBE |
| Drug | | MAYBE | YES | MAYBE | | MAYBE | MAYBE |
| Drug copays | | | | | | MAYBE | MAYBE |
| Donut Hole | | | SOME | MAYBE | | MAYBE | MAYBE |



Impact of Higher Income on Medicare Premiums

How does Medicare use Modified Adjusted Gross Income?

Determine beneficiary's Medicare
"Cliff Bracket" tier

Cliff Bracket tiers determine "Adjustments"
aka additional premiums charged by
Social Security for Medicare B and D

Cliff Bracket tiers are fixed through 2019



How to Calculate Medicare Modified Adjusted Gross Income (MAGI)

Calculate using 1040 long form:

Medicare MAGI = Adjusted Gross Income (line 37)
+ Tax Exempt Interest (line 8b)



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 | >\$428,000 |



How does Social Security know your Medicare MAGI?

Social Security looks at the tax return from 2 years ago

Can apply for reconsideration “change in circumstance”:

- Marry, divorce or widowed
- Stop working or reduce work
- Lost income-property d/t disaster
- Employer pension plan termination/reorganization
- Employer base settlement d/t bankruptcy



Medicare Parts B & D Income Related Adjustments 2014

| 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 | \$504 | \$145 | \$649 |
| 3 | ≤ \$160,000 | ≤ \$320,000 | \$1,258.80 | \$373 | \$1,632 |
| 4 | ≤ \$213,000 | ≤ \$428,000 | \$2,013.60 | \$602 | \$2,616 |
| 5 | >\$213,000 | >\$428,000 | \$2,769.60 | \$832 | \$3,601 |

Note: Premiums are per person. Multiply x 2 per couple ^a CMS 2014 actual.



Individual Medicare Premiums 2014

| MAGI Tier | Med. B & D Adj. Total | Med. Part B prem.^a | Part D^b plan prem. | Total Medicare Premiums |
|------------------|----------------------------------|--------------------------------------|--------------------------------------|--------------------------------|
| 1 | \$0 | \$1,259 | \$396 | \$1,655 |
| 2 | \$649 | \$1,259 | \$396 | \$2,304 |
| 3 | \$1,632 | \$1,259 | \$396 | \$3,287 |
| 4 | \$2,616 | \$1,259 | \$396 | \$4,271 |
| 5 | \$3,601 | \$1,259 | \$396 | \$5,256 |

^a Based on 2015 \$104.90/month Medicare B premium.

^b CMS national average Medicare D plan premium projection \$33/month

Note: Premiums are per person. Multiply x 2 per couple.



> 65 yrs. Individual Estimated Healthcare Costs 2014

| MAGI Tier | Total Medicare | Medigap F^a | Out-of-Pocket^b | Total |
|------------------|-----------------------|------------------------------|----------------------------------|--------------|
| 1 | \$1,655 | \$2,196 | \$4,852 | \$8,703 |
| 2 | \$2,304 | \$2,196 | \$4,852 | \$9,352 |
| 3 | \$3,287 | \$2,196 | \$4,852 | \$10,335 |
| 4 | \$4,271 | \$2,196 | \$4,852 | \$11,319 |
| 5 | \$5,256 | \$2,196 | \$4,852 | \$12,304 |

^a National average Plan F. ^b Kaiser Foundation 2006 estimate Note: Premiums are per person. Multiply x 2 per couple.



What am I supposed to do?



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



Strategies to Limit 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 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” = 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



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



Strategies to Limit Impact of Healthcare Cost Sink Holes

Include healthcare cost & coverage in annual client review agenda!

Included separate retirement budget line item 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

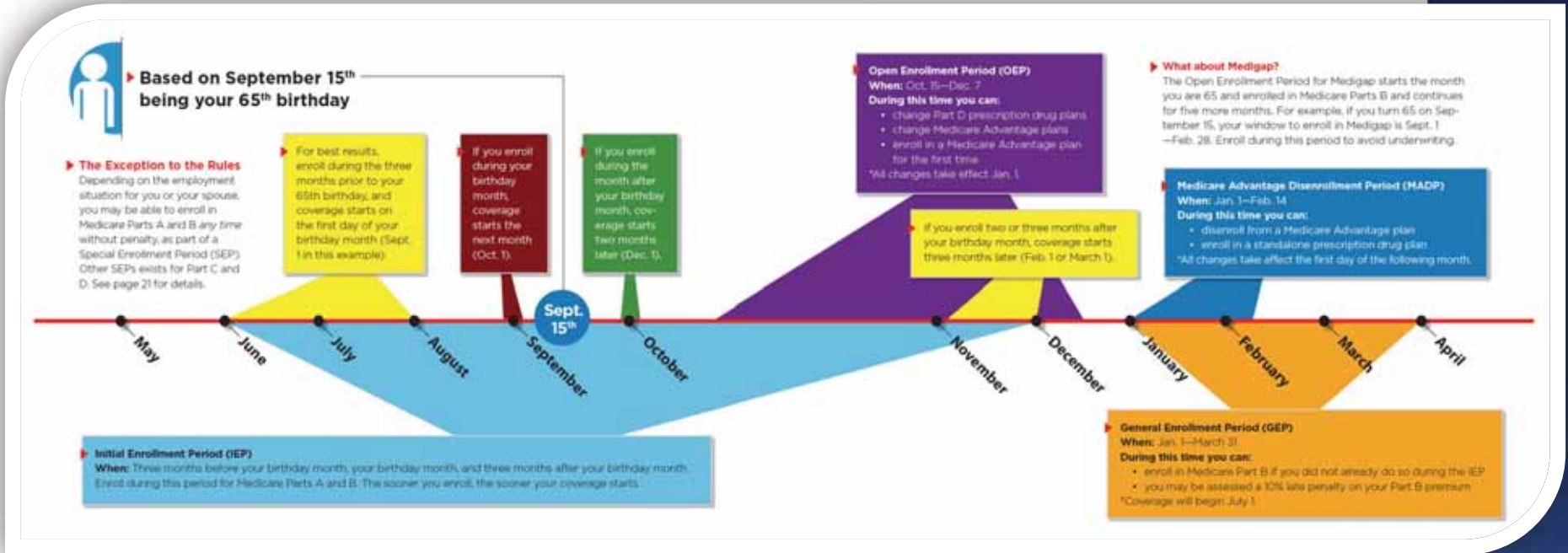


Understanding Medicare Enrollment Periods

Dr. Katy Votava

Journal of Financial Planning

August 2014



<http://goo.gl/C9FDpa>



The year you turn 65 Medicare Window of Opportunity

If you enroll 1 to 3 months before your 65th birthday, coverage starts on the month you reach 65.

If you enroll 1 month after you reach 65, coverage starts 2 months after the month of enrollment.










Your can enroll in Medicare 3 months before your Birthday month.

If you enroll 2 or 3 months after you reach 65, coverage starts 3 months after the month of enrollment.

If you do not enroll before your birthday month your coverage will be delayed

If your birthday falls on the **1st** of the month your coverage starts the month before you turn 65.

Fill-in the time-line below with your birthday month, then the 3 months before your birthday to see when you should apply for Medicare.

| NO DELAY | | | YOUR BIRTHDAY | DELAYED START | | | TOO LATE | | |
|---|---|---|---------------|---|---|---|---|---|---|
|  |  |  | |  |  |  |  |  |  |



Medicare Initial Enrollment Period

First Medicare Window of Opportunity

| Month & year of birth | 1st month can enroll in Medicare | Enroll 1st - 3rd month before birth month | Enroll during birth month | Enroll 1 month after birth month | Enroll 2 months after birth month | Enroll 3 months after birth month |
|-----------------------|----------------------------------|---|---------------------------|----------------------------------|-----------------------------------|-----------------------------------|
| January 1950 | October 2014 | January 2015 | February 2015 | April 2015 | June 2015 | July 2015 |

Exception: If a birthday is on the first of the month, Medicare starts the month prior to the birth month.



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

Decide which “Parts” are needed:

- Medicare Part A only
- Medicare Parts A + B + D
- coverage: Medicare Part D + Medigap, or Medicare Part C (aka Medicare Advantage)



- If not applying for Medicare during “Initial Enrollment Period” make sure of eligibility for “Special Enrollment Period” later:
 - **If not have to wait for next General Enrollment Period:**
 - **January 1st – March 31st; coverage effective following July 1st**
 - ***And, pay life long penalties!***



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

- Eligible the 1st day of month of 65th birthday month
- Start the application process 3 months prior to coverage start!
- Contact Social Security:
 - Online, phone, in person @ any Social Security office
- **Remember without coverage:**
 - **assume 100% cost risk!**



What are Medicare Penalties



- Medicare B Penalty = 10% per year
- Medicare D Penalty = 12% per year
- Case Study:
 - Didn't not sign up for Medicare @ age 65, doesn't 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



Case Study Impact of Penalties on Medicare Premiums 2014

| MAGI Tier | Total Medicare Premiums No Penalty | Medicare B & D Penalties | Total Medicare Premiums With Penalties |
|------------------|---|-------------------------------------|---|
| 1 | \$1,655 | \$520 | \$1,779 |
| 2 | \$2,304 | \$724 | \$2,632 |
| 3 | \$3,287 | \$1,032 | \$3,923 |
| 4 | \$4,271 | \$1,341 | \$5,216 |
| 5 | \$5,256 | \$1,651 | \$6,511 |



Open Enrollment for 2015

Dos & Don'ts

Do:

- Shop for Medicare coverage every year
- Open enrollment for Medicare Advantage (Part C) & Medicare Part D:
 - 10/15/14 – 12/7/14

Don't:

- Wait till the last minute to shop – it's too important a purchase!
- Assume you can't find a more effective plan



Annual Health Insurance Check- up

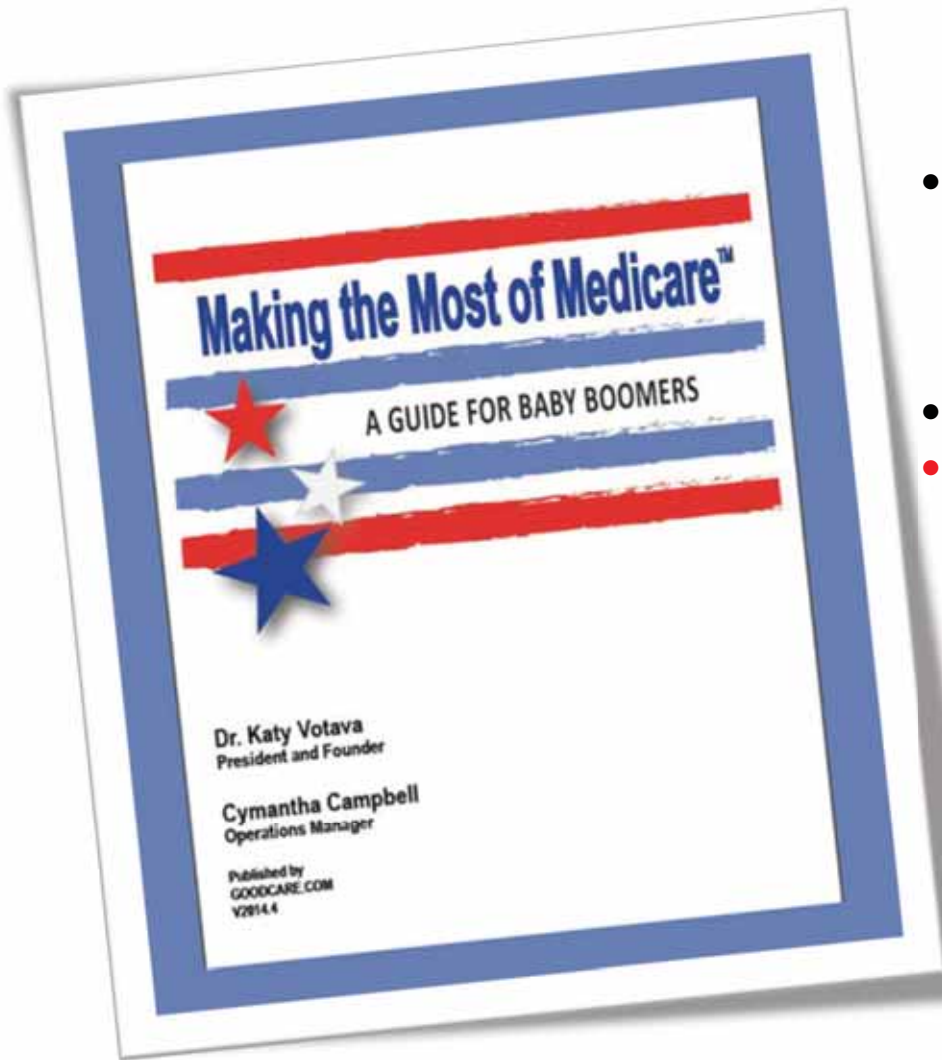


◎ Particularly if:

- Medications changed
- Out-of-Pocket costs high
- Poor customer service
- Uncomfortable premium increases
- Insurance plan no longer offered

◎ Making the wrong choice will cost \$\$\$\$\$!





- This guide highlights the most important factors that will help you plan for & manage Medicare.
- Easy to use eBook format
- **Order:**
 - <http://goo.gl/c9Eguq>



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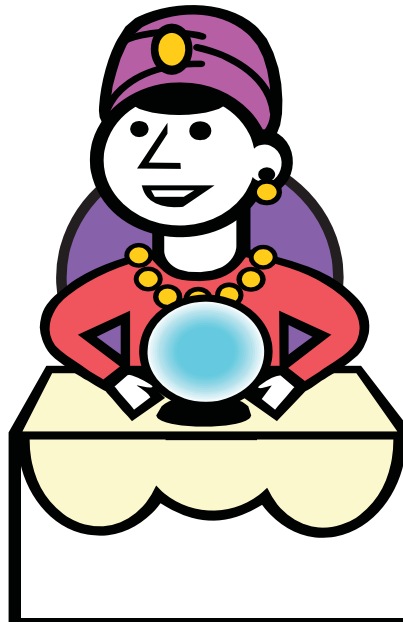
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Questions & Answers with Dr. Katy



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