

Protecting your future



MEDICARE AND YOUR RETIREMENT PLAN

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Medicare and Your Retirement Plan

by David Silver

I find that people who are 65 or older are generally knowledgeable about Medicare. However, since health care and health insurance represent a significant percentage of our individual budgets, people under 65 need to understand how Medicare works in order to help prepare for our eventual retirements.

You must be 65 years old to be eligible for Medicare. There are exceptions to this age requirement for people with some diseases or for people who have been disabled for 24 months, but if you retire before that age, you will need to have a plan on where to obtain health insurance until you turn 65 and how to pay for it. Medicare offers no age-requirement exceptions for dependent spouses or families. Therefore, if your spouse and other dependents are covered under your current health insurance policy, they may lose coverage when you retire. If your spouse is only a few months younger than you, you could keep working until your spouse turns 65 or your spouse could pay to stay covered under your current health insurance plan (called "COBRA" – this is expensive and temporary). Some larger companies offer retiree health plans for spouses, but most of us will have to arrange to purchase private health insurance for our

younger spouses or else apply for a plan under Obamacare.

Currently, insurance companies may not deny someone coverage because they have a pre-existing condition. If this law changes and your younger spouse has a condition that might prevent him or her from obtaining health insurance, you may not be able to retire until your spouse turns 65. Also, if Obamacare is still in existence when you retire before the age of 65 or if your spouse is under 65 when you retire, you may be eligible for a subsidy to help pay for your health plan. Obamacare is not the focus of this article, but if your income is limited to social security, you are likely to be eligible for some kind of subsidy.

You can think of Medicare as a federally run health insurance program. Like most private health insurance policies, Medicare does not pay for long term care (i.e. nursing homes). The following is a very simplified overview of the different types of Medicare and their costs:

Medicare Part A is free for most people. Part A pays for medical bills for 60 days in a hospital after you meet a \$1,340 deductible. Please note that you must be "admitted" to the hospital in order to be covered under Part A. If you are in the hospital under "observation status," you will get stuck with a very large bill unless you also have Part B. Part A also covers 20 days of rehabilitation services after a hospital stay, a very little bit of home health care costs, and hospice care. Part A is the bare minimum, you really need more than this.

Medicare Part B currently costs about \$134/month. There is no family plan, so each spouse must pay this amount, and if your income is greater than \$85,000/year, you will have to pay more. After meeting a \$183 deductible, Part B pays about 80% of outpatient medical services (doctor visits outside of the hospital), some home health care and medical equipment, some preventive care, and an additional 80 days of rehabilitation services. The State of North Carolina provides assistance to help pay for Part B to individuals with low income and limited assets.

Medigap policies are Medicare-approved plans sold by private companies that cover deductibles, co-pays, and other items that are not covered by Part A or Part B. There are about 10 different plans (labeled A through N) that cover various proportions and services. These premiums will vary based upon the coverage desired, but a decent range estimate for these premiums is \$75 to \$175/month.

Medicare Part D is prescription drug insurance. You must have both Part A and Part B (or a qualified plan under Part C) in order to be eligible for Part D. Policies are approved by Medicare and sold through private companies for a monthly premium. The premium amount, deductible, co-pay and 'doughnut hole' all vary by each plan, and the premiums range from about \$15 to \$200/month depending upon the coverage desired. The federal government provides assistance to help pay for Part D to individuals with low income and limited assets.

Part A and Part B are often referred to as "Traditional Medicare" and are run by the federal government. Medicare Part C, or Medicare Advantage plans, are Medicare-approved private insurance companies that replace Part A, Part B, and Medigap plans (and sometimes Part D). Part C plans can offer more coverage, more flexibility and more cost certainty than Traditional Medicare, but access to physicians might be limited and coverage disputes are handled by a private for-profit insurance company.

Medicare does not provide coverage for you when you are abroad. Therefore, if you plan to travel after you retire, you will need to arrange for other coverage (travel insurance costs about \$200 and isn't a big hassle). Also, if you don't have other health insurance coverage and you don't sign up for Medicare when you turn 65, then you will have to pay a late enrollment penalty when you do eventually sign up for Medicare.

Paying for health care needs to be a part of our retirement plans. Therefore, in order to effectively plan for retirement, we need to understand how Medicare currently functions and be ready to adjust depending upon any changes to the law that might come.

David Silver teaches The Legal Environment of Business in ECU's Department of Finance. Dave is also a Partner with The Graham.Nuckolls.Conner Law Firm in Greenville, specializing in Elder Law.