

Medicare Considerations

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Medicare Considerations Prior to Retirement

Health insurance tends to gain greater importance in our financial planning as we age, often because we experience more health issues than we did when we were younger. Many people are aware of Medicare as the health insurance available at age 65 but may not understand how it works. This white paper will provide an overview of Medicare and considerations for people who are approaching retirement.

Coverage Options

Medicare consists of multiple components that provide different types of healthcare coverage. Part A is often referred to as hospital insurance because it covers inpatient care in hospitals, skilled nursing facilities, hospice care, and home healthcare. Many people qualify for free Part A coverage, and those who do not qualify for it can pay to have the coverage. Part B can be thought of as medical insurance because it covers services from doctors, outpatient care, home healthcare, some preventative services, and durable medical equipment. Part D is drug coverage that covers some of the costs of prescription drugs.

Part C is more commonly known as Medicare Advantage. It is provided by a private company that is approved by Medicare. Medicare Advantage plans offer a bundle of Parts A and B, and they can include Part D. They may have different costs than Medicare, and they may cover additional services not covered by Medicare, such as vision, hearing, and dental care.

As an alternative to the additional coverage provided by Part C mentioned above, supplemental insurance plans are available that can be coupled with Medicare coverage; these plans are called Medigap plans or

Medicare Supplement Insurance. Medigap plans can help lower out-of-pocket costs for certain services included in Parts A and B of Medicare by covering some copayments, coinsurance, and deductibles. While provided by outside insurance companies, Medigap plans are standardized and, as of 2022, offer 10 options varying in price and overall coverage: Plan A, Plan B, Plan C, Plan D, Plan F, Plan G, Plan K, Plan L, Plan M, and Plan N. Of these plan options, Plans C and F are not available to those who are newly enrolled in Medicare, but those who already have those plans in place are allowed to keep them.

Enrollment Periods

As mentioned above, Medicare is available at age 65, but early enrollment might be possible for an individual with a disability or certain health conditions. We recommend visiting the Medicare website (<https://www.medicare.gov>) for more detailed information about when you may qualify for coverage. For most people, the window to enroll in Medicare begins three months before turning 65 and ends three months after turning 65. After that window has passed, the next opportunity to enroll in Medicare is typically during the annual enrollment period from January 1 to March 31.

If people work past age 65 and remain on their employer's health insurance, they can qualify for a special Medicare enrollment period outside of the initial enrollment window surrounding their 65th birthday. The special enrollment period is eight months long, and it starts once employment ends. The enrollment period is based on the end date of employment

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regardless of any continuing health insurance coverage or COBRA insurance. For more about COBRA insurance, which allows an individual to pay premiums to continue employer-based health coverage after the end of employment, see the U.S. Department of Labor's website (<https://www.dol.gov/general/topic/health-plans/cobra>) or contact your employer. Typically, it is not advantageous to elect COBRA coverage after ending employment when you are past the age of 65 and, thus, would qualify for Medicare.

Penalties

Missing the initial Medicare enrollment period results in a lifelong penalty when enrollment does occur. The penalty is an additional 10% added to premium charges per year of missed enrollment. In other words, if someone waits five years to file, that person will face a 50% premium increase penalty upon enrolling. The penalty is assessed on the Part B portion of the premiums and rounded to the nearest \$0.10. The standard Part B premium for 2022 is \$170.10, so putting off enrollment for five years would result in a total premium payment of \$255.20. Please note that premium payments are dependent on the prior year's income, so they could be higher than the standard amount.

To save money, some people are tempted to hold off on signing up for Part D until they need prescription drug coverage. However, they may find out too late that there is also a penalty for delayed enrollment in Part D. The penalty uses the national base beneficiary premium, which can change from year to year; it is \$33.37 in 2022. To begin calculating the penalty, multiply 1% by the number of months that the individual was eligible for Part D coverage but was unenrolled and didn't have drug coverage elsewhere that would count as a substitute. Then multiply that number by the national base beneficiary premium to determine the penalty. The penalty, which applies for life, is rounded to the nearest \$0.10 and added to the monthly Part D premium.

For example, if someone waits 50 months to enroll in Part D coverage, calculate $50 \times 0.01 = 0.50$, and then calculate $\$33.37 \times 0.50$ to determine that the monthly penalty is \$16.70.

Medicare enrollment penalties can be costly when added up over a retiree's remaining lifetime. Unfortunately, many people—either unaware of the penalties or assuming they're just one-time occurrences—end up locking in a permanent penalty on Part B, Part D, or both. The best way to avoid Medicare penalties is by understanding when they apply and making well-informed choices that secure access to necessary health coverage.

Summary

As we approach age 65, we need to decide when to file for Medicare. Filing within the initial window is the best way to avoid a penalty for late enrollment. Even people who are working past age 65 and utilizing insurance provided by their employer can file for Medicare and enroll only in Part A. Then they can enroll in Part B the month before retirement to ensure the coverage starts the month of retirement and coincides with the end of employer-provided insurance.

After deciding when to sign up for Medicare, people need to make elections from the combination of available options. Parts A and B are the standard options available to all Medicare recipients, but most people will also want Part D coverage for their medications and to avoid the penalty on future coverage. Medicare Advantage might be appealing because it is similar to the health insurance many people have while working. The option for a Medigap plan is also suitable in many circumstances. We encourage our readers to visit the Medicare website (<https://www.medicare.gov>) to learn more about their options and check on the current year's offerings, as Medicare and the Medigap plans undergo changes periodically.