MARK MILLER: REMAKING RETIREMENT

# 5 Ways to Get the Most From Medicare

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Looking for ways to save money in retirement? Start with healthcare.

A healthy 65-year-old couple retiring this year can expect to spend $322,000 (today's dollars) on Medicare premiums and dental insurance, according to Healthview Services, a maker of healthcare cost projection software. Add in deductibles, copays, hearing, vision, and dental cost sharing, and that figure rises to $404,000.

And healthcare costs are expected to rise an average annual rate of 5.47% for the foreseeable future, according to Healthview. That is almost triple the recent historical U.S. inflation rate and more than double the annual projected Social Security cost-of-living-adjustments.

"Historically, healthcare always has been a multiplier of U.S. inflation," says Ron Mastrogiovanni, Healthview's CEO. "It's been fairly consistent."

Those figures leave little doubt that sharpening up your pencil (or its digital equivalent) makes sense. Let's consider five ways to optimize Medicare coverage, especially at initial enrollment--the point where many of the most costly mistakes occur.

### 1. Get Your Enrollment Timing Right

Most people need to enroll in Medicare during a seven-month initial enrollment period that begins three months before their 65th birthday and ends three months after.

If you already are receiving Social Security benefits at age 65, enrollment in Part A (hospitalization) and Part B (outpatient services) is automatic--you'll receive a Medicare card in the mail with instructions on how to decline Part B if you don't want it. Whether you should do so depends on what other insurance coverage you may have, and its source.

"We hear of a lot of mistakes about whether or not to take Part B at age 65," says Casey Schwarz, senior counsel for education and federal policy at the Medicare RIghts Center, a nonprofit consumer advocacy group. "That can be really costly."

Schwarz refers to the lifetime penalties seniors pay if they don't enroll at the right time. For each 12-month period that you should have been enrolled in Part B, you will pay a 10% premium penalty when you do enroll--and that is a lifetime penalty. So getting the timing right is important.

If you are working at age 65 and have health insurance on the job, your employer remains the primary payer if the firm employs 20 or more workers. In this situation, you can delay enrolling in Part B without penalty and continue without the coverage so long as you work. Be careful to document that you had this coverage in case of any dispute with Medicare later on over penalties. If you work for a smaller firm, Medicare is the primary payer and you should enroll in Part B.

If you are enrolled in a high-deductible health insurance plan at work and use a health savings account, note that contributions to the HSA must stop when you join Medicare.

The Affordable Care Act also has caused some confusion around Medicare sign-up. Some people with coverage through the ACA marketplace exchanges mistakenly thought they could keep that coverage rather than sign up for Medicare at age 65. Any premium subsidies on ACA policies end when enrollees become eligible for Medicare, and ACA enrollment does not protect you from Medicare late enrollment penalties.

Insurance companies selling policies on the exchanges are forbidden from canceling coverage for people in these situations, but have been issuing warnings via email. Recently, Medicare said it will temporarily waive late enrollment penalties for people in this situation.

**2. Prescription Drug Coverage--or Not?**

Medicare Part D (prescription drugs) also carries late enrollment penalties, but the math here is less onerous. The penalty is 1% per month of late enrollment tacked onto your drug plan premium. Seniors who don't have major prescription drug needs might be smart to wait to enroll, argues Philip Moeller, author of *Get What's Yours for Medicare: Maximize Your Coverage, Minimize Your Costs*.

"Right now the average drug plan costs $40 per month--even if you were five years late, the lifetime penalty wouldn't be too painful to bear," he says.

Moreover, Moeller notes that seniors using inexpensive generic drugs might do well to simply pay for them out of pocket and forego prescription drug insurance.

"In many cases you can get equal or better deals on drugs at the big retailers. Even some of the expensive drugs have manufacturer support programs that are not available to people enrolled in Part D," he said.

However, Moeller encourages enrollees to take the long view when making Medicare choices.

"You should insure your future self, not who you are now. Many people are very vigorous at age 65, but that won't be the case down the road. Ask yourself, if something adverse happens down the road, what kind of insurance should I have in place? You should make that decision now," he said.

**3. Traditional Medicare or Advantage?**

Another key decision at the point of initial enrollment is the choice between traditional fee-for-service Medicare and Medicare Advantage, the managed care alternative.

The traditional fee-for-service program remains the gold standard--it allows you to see any healthcare provider who accepts Medicare. But coverage is chosen from an a la carte menu of insurance choices (Part B, Part D prescription drug coverage, and a Medigap supplemental plan, which caps out-of-pocket costs and supplements Medicare's basic coverage).

Advantage is a managed care option that rolls the parts of Medicare into an all-in-one option. Enrollees often save some money with Advantage--many plans carry no additional prescription drug premium, and Medigap plans are not used by Advantage enrollees. The trade-off: you are limited to using the providers in the network assembled by the plan provider.

Medicare enrollees can shift between the options during the annual fall enrollment period. But if you're inclined to use the traditional program, you probably will want to add a Medigap policy, which covers deductibles, coinsurance, and copayments not paid by Parts A and B, and is available only to enrollees in the traditional program.

There are major advantages to buying a Medigap plan during the initial enrollment period. During this time, the private insurance companies that sell Medigap cannot turn you down or charge higher premiums due to your health status.

"When you first enroll, that may be your only shot at buying Medigap at the best price," says Schwarz. "If you enroll outside that protected period of time, insurance companies can create a personalized premium just for you based on your health status, or they can decline to write a policy for you at all."

Medicare Advantage is rising in popularity, but think carefully about the network restrictions before you choose this route.

Advantage enrollees can review lists of in-network providers before opting into a plan. However, a recent study by the Kaiser Family Foundation found that provider data often is very difficult to review, can be out of date, and frequently contains inaccurate information. Kaiser's review also found shortcomings in the quality of providers in some Medicare Advantage provider networks. One out of every five plans did not include a regional academic medical center--institutions which usually offer the highest quality care and top specialists.

"The network adequacy issue is huge," says Moeller. "If you are considering an Advantage plan, make sure that you will be satisfied with the providers and quality of care."

He adds that retirees who travel frequently, or who split their time between more than one location, may want to think twice about choosing Advantage.

"There usually are geographic restrictions on coverage, although some have started to include portability features," he says.

**4. Beware High Income Surcharges**

High-income seniors pay stiff premium surcharges for Part B and Part D. The surcharges are paid by individuals with modified adjusted gross income of more than $85,000 in annual income and joint filers above $170,000. This year, the monthly surcharge amounts start at $53.50 and top out at $294.60.

The Social Security Administration determines if you must pay the premium surcharge, using your most recent tax return. Eligibility is determined using a definition of modified adjusted gross income that includes the total of your adjusted gross income and tax-exempt interest income. If your modified adjusted gross income is higher than the income threshold in any given year, you'll get a letter from the SSA indicating your premium.

Exemptions are granted for "life-changing events," and Moeller notes that retirement qualifies under that definition.

"It's important to understand that the MAGI definition has a two-year lag time, so your 2016 W-2 form drives your 2018 premium. Let's say you have retired since 2016 and the government claims you owe a large surcharge. You can file an exception request." (You can find the exemption request form here.)

In some cases, avoiding the surcharges can fit into a broader plan for efficient drawdown of retirement income. The plan would take into account timing of your Social Security claim and when income is taken from taxable and tax-deferred accounts.

**5. Check and Recheck**

Once you're enrolled in Medicare, look for annual mailings from any private plan provider you use indicating changes in coverage. This is critical for Part D and Medicare Advantage enrollees; if coverage changes for the coming year will have an adverse effect on you, consider changing plans during the enrollment period.

What about saving and investing to pay for healthcare? I thought you'd never ask. That will be the subject of my next column.

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