Retirement Income
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When You're 64

By Kerry Pechter *Wed, Jan 4, 2017*

Six months after reaching age 64, Americans are showered with Medicare supplement pitches. While the path of least resistance leads to a Medicare Advantage plan, a Medigap plan might be better. Here's how to find a good one.

Paul McCartney wrote the music for "When I'm 64" in the late 1950s, several years before Medicare was invented. The Liverpool lad couldn't have foreseen the wave of junk-mailings and robo-calls that health insurers would eventually be sending older Americans as they approach age 65 and try to choose a Medicare supplement provider.

But the song's lyrics, added later, were prescient nonetheless. "Give me your answer, fill in a form," indeed.

Sixty-four year-old Americans aren't obligated to buy "supplemental" medical and drug insurance, but they'd be pound-foolish not to. The limitations of Medicare Part A (hospital insurance) and Part B (for doctors' bills) coverage can expose patients to liability for potentially substantial deductibles and coinsurance.

Signing up for Medicare online is fairly easy. Signing up for a Medicare supplement is harder. Americans usually don't get much help in choosing a Medicare Advantage or "Medigap" provider. If you specialize in retirement counseling—maybe you've earned the **RMA** or the **RICP** designation—you'll be in a position to help them.

Budgeting for health care costs is an essential part of retirement income planning. With widely publicized estimates of out-of-pocket costs for couples' health care in retirement in the mid-six figures (see sidebar, 'Yours Sincerely, Wasting Away,' in today's edition of *RIJ*) and with Medicare spending in the crosshairs of Congressional deficit hawks, health insurance advice is becoming an essential part of retirement income advice.

'Indicate precisely what you mean to say'

A lot of questions face Americans who are about to turn 65, including:

- How do I sign up for Medicare?
- How much does it cost and how do I pay for it?
- For supplemental insurance, should I buy a Medicare Advantage plan or a Medigap

plan?
- How can I evaluate and compare these plans?
- How much do they cost and how do I pay for them?
- Can I be denied coverage?
- How much should I budget for health insurance or health care in retirement?

Let's address the items on this punch list one by one (The first few are easy):

How do I sign up for Medicare? Medicare eligibility begins a year or two before full Social Security retirement age (FRA); let's assume that your clients want to enroll in the program before claiming Social Security benefits. They can do so **online** if they are at least age 64 and nine months, have no current Medicare coverage, and aren't currently receiving an OASI benefits (Social Security, disability or survivors benefits). Exceptions to this process may apply—some people still have employer-provided coverage, others need financial assistance from Medicaid—but let's assume the base case.

How much does Medicare cost and how do I pay for it? Medicare Part A is free (paid for in advance through payroll taxes). The standard Part B premium is $134 per month but most people who have earned their benefits while working will pay $109 in 2017. Individuals earning more than $85,000 (spouses with combined earnings of more than $170,000) will pay anywhere from $187.50 to $428.60 per month. Since our hypothetical clients aren't yet receiving monthly Social Security checks (and having the premium deducted from it), Medicare will bill them directly. They can pay by check or electronic bank transfer.

For supplemental insurance, should I buy a Medicare Advantage plan? The path of least resistance will usually lead your client to a Medicare Advantage plan. These are HMO or PPO plans ("managed care") that involve a commitment to a certain network of providers, usually concentrated geographically. Because Advantage plans tend to be local and advertise locally, your clients may already know who they are. Their brands may be familiar; they may have been the provider of your client's employer's health plan. An Advantage plan, in fact, resembles an employer plan: policyholders interact with the insurer, not Medicare, and the plans typically include prescription drug coverage. Many also offer optional vision, dental and hearing coverage. Aside from their network limitations, a limitation of Advantage plans is uncertainty: they may eliminate providers or drugs from coverage in order to manage their costs from year to year.

Or should I buy a Medigap plan? If so, which type? In contrast to Advantage plans, Medigap plans are traditional fee-for-service insurance contracts. Confusingly, they come in up to a dozen flavors: A, B, C, D, F, F–high deductible, G, H, K, L, M, and N. Of these, the "F" plans are the most comprehensive. There are dozens of Medigap providers, including giants like Aetna, Transamerica and USAA and many relatively small, niche insurers whose names you may never have heard before. The benefits are standardized by the government: i.e., every "F" plan will offer the same benefits. To find out which ones are available in your area, you can search **here**. Medigap plans are more flexible than Advantage plans; they don't restrict access to network providers. Policyholders who get sick while traveling don't have to worry much about violating network restrictions. On the downside, Medigap plans usually don't include prescription drug coverage.

How much do supplemental plans cost? With Advantage plans, your clients pay as little as zero per month in premiums—an offer that many people find difficult to refuse. But they could face up to $6,700 a year in deductibles and co-pays, assuming they don't go out of network. With Medigap plans, your clients might pay $150 per month for the most comprehensive type of plan (Plan "F") from a highly rated company. Less comprehensive "A" or "B" plans cost as little as $45 a month, but may not cover the deductibles or co-pays that can be incurred under Medicare Parts A or B coverage.

How can I learn about, evaluate and compare these plans? You can find out which plans are offered in your area by using one of the zip code locators at Medicare.gov. For information on specific companies, Weiss Ratings publishes a pdf **report** on Medigap plans that we purchased online for $79 a few months ago. Weiss rates companies for "safety" on a scale of A+ through D and "Unrated." The prices for each type of plan from each company are also listed, and they varied widely.

A senior financial analyst at Weiss Ratings, Gavin Magor, told *RIJ* this week that financial safe Medigap providers tend to offer better service. They're usually quick to pay doctors, which makes doctors more confident about ordering services and billing for them. "It's not necessarily about denial of claims. A financially stressed insurer might be less likely to pay a claim immediately. If a doctor has a poor experience with receiving payments, he or she might be less inclined to order something to be done for a patient," Magor said.

Among "F" plans rated B or higher, annual premiums for "F" plans ranged from a low of $1,558 for a B+ plan from Aetna Health & Life to $3,887 for a B+ plan. The only A+ plan on the list comes from Physicians Mutual Insurance, a direct provider. The annual premium for its "F" plan was $1,817 per year.

Descriptions of Medicare Advantage plans that are offered within a particular zip code can also be found on **Medicare.gov**. There's information about co-pays, typical annual out-of-pocket costs, and "star ratings" that describe each plan's "overall quality and performance." Some plans charge a monthly premium for medical care or drug coverage or both. When there's a premium, the limit on annual out-of-pocket spending tends to be lower. A zero-premium plan might cap out-of-pocket spending at $10,000 per year. A plan with a $49.50 monthly premium might have a cap of only $4,800.

What's better, Medicare Advantage or Medigap? This choice presents the kind of dilemma that behavioral economists love. With many Advantage plans, retirees accept the risk that they might pay $5,000 to $10,000 out-of-pocket each year in return for the chance of paying zero. With Medigap plans, retirees are willing to commit to paying about $1,800 a year if it means a strong probability of paying no more than that.

In keeping with the precepts of behavioral finance, most people prefer a possible loss (or expense) to a sure loss. Health professionals frequently recommend a Medigap "F" plan, however. The reason: Down the road, when your clients get sick, they might wish they had a more comprehensive plan with lower out-of-pocket expenses. But if they try to switch to such a plan during the annual enrollment window, insurers don't have to accept their applications. Only during the initial enrollment, at age 65, are insurers required to accept you.