

THE NEW FINANCIAL LONGEVITY BUNDLE®



Universal Wealth Management, LLC

Karen Emma

945 Reservoir Avenue

Cranston, RI 02910

401.331.7600

401.331.7800

www.universalwm.com

info@universalwm.com

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Understanding the Medicare Tangle Part VII: What Medicare Costs Do To Your Retirement Cash Flow

As we approach the 2018 Medicare Open Enrollment Period on October 15th, it is critical in managing retirement cash flow to summarize and recognize the true cost of Medicare and keep in mind two things about healthcare costs in general:

- They are continuing to rise significantly.
- A confusing variety of possible cost changes are discussed daily.

Cash flow from your retirement financial plan can be significantly affected positively or negatively. Accordingly, you need to be fully aware of the cost of Medicare's four basic moving parts summarized here:

Part A – Hospital and Hospice Services

This is what you paid toward in payroll taxes throughout your working lifetime. But there will be additional costs.

- You may have to pay a monthly premium -- \$413 if you paid Medicare taxes less than 30 quarters; \$227 if you worked more than 30 to 39 quarters.
- You pay a deductible of \$ 1,316 each time you are admitted to a hospital.
- You also pay coinsurance as a hospital patient after 60 days - the costs are \$329 a day; the costs after 90 days -- \$658; and the costs after 60 more days, all costs are paid by you.

❖ Be Aware:

- Part A only covers you for in-patient benefits if you are admitted to the hospital. You are not eligible just by being seen in an Emergency Room. That falls under Part B and includes its own copays and coinsurance.

❖ Be Aware:

- Your premium can go up 10 percent if you do not enroll in Medicare when you are first eligible at 65.

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Part B – Medical Provider Services

- You pay a monthly premium -- \$134 (or higher depending on income but most people receiving Social Security pay \$ 109 on average).
- You pay an annual deductible - \$183.
- You pay coinsurance – 20 percent (typically) of Medicare approved charges.

Part C – Medicare Supplemental and Advantage Plans

- You pay an additional premium for Supplemental Plans that can be purchased from insurance companies to cover many of the costs of Original Medicare. The amount of the premium depends on the coverage purchased.
- Medicare Advantage Plans provided by private insurance companies under contract to the Federal Government include all parts in one plan (One card can include your combined coverage of Medicare Parts A, B, C and Part D); coverage of Original Medicare coinsurance, and the option to obtain additional coverage benefits. You still pay your costs for Parts A and B premiums and you pay another premium to the insurance company depending on which Advantage Plan you choose for the additional benefits provided for Part C and Part D.

Part D – Prescription Drugs

- You pay a monthly premium – \$34 average (increases depending on income).
- You pay deductibles for higher tier drugs.
- You pay copays depending on the tier level of the drugs prescribed

❖ Be Aware:

- There are significant price penalties if you do not enroll in Part D for any continuous 63-day period after your Medicare Initial Enrollment Period (a seven-month period that begins three months before you turn 65).

If you are lucky enough to require no healthcare services in 2017 and you paid Medicare payroll taxes for at least 10 years, your Original Medicare insurance plan (Parts A, B and D) for a single person will cost you annually approximately \$2,016.

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Add approximately \$4,000 if you paid no payroll taxes. Also add premiums for Supplemental Plans or any premiums for Advantage Plans if you purchased one.

Wise retirement planning should not count on continuing good health. To give you some idea of how the complex array of multiple costs can significantly affect your retirement cash flow, here, as an example, is the real health care story of someone we will call Joe.

When Joe retired, he promptly signed up for Medicare (Parts A, B and D) to avoid penalties. Having paid Medicare payroll taxes for more than 40 years, he paid no premium for Part A; only for Part B at the time. Since he was in reasonably good health, Joe enrolled in a Medicare Advantage Plan, which included Part D and in turn he paid only a few copays for routine doctor visits and low tier pharmaceuticals.

Then, two years later, he developed a back problem. He repeatedly saw his primary care doctor and an orthopedic specialist, had numerous x-rays, an MRI and physical therapy. Throughout this period Joe was responsible for many co-pays, but at the rate of \$20-\$50 per visit, that didn't seem so bad. The most expensive charge that he faced was for an MRI for which he was surprised to be charged an additional \$200.

Throughout the first six months of the year Joe's total out-of-pocket medical expenses (deductibles, coinsurance and copays) were \$2,000. – less than half of his so-called annual in-network out-of-pocket maximum of \$5,000.

This was reported to him by his provider, but like many, Joe unfortunately ignored the report. Therefore, he had a costly surprise after he had extensive back surgery with overall costs of approximately \$ 50,000. Based on his Medicare plan, Joe, as expected, was responsible for 20% of the costs -- \$10,000 in coinsurance. Panic set in as the assumption was that all would be covered. Joe was surprised to learn that he was personally responsible for the unpaid remaining \$3,000 of his \$10,000 bill, the difference of his maximum out of pocket that had not been met prior to the surgery. Joe quickly learned that if he needed to have the surgery in another state, he would be responsible for the unpaid balance of his out-of-network maximum of \$5,000. This was separate from his in-network maximum.

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Furthermore, because of his back surgery and related problems, Joe's doctors prescribed a number of high tier pharmaceuticals. That triggered a deductible under Part D along with many high copays.

Joe's total Medicare costs, at least for that year, more than tripled. From then on, they always would be higher than when he initially turned 65 and was in reasonably good health.

It is imperative to determine the best healthcare plan for your current and future healthcare needs. Each individual is different and you must evaluate your specific health concerns. Annually, Medicare plans and costs vary and continue to be on the rise. You must be aware of your healthcare needs to determine the best plan for you. These significant healthcare costs over many years will affect your cash flow during your retirement.

Take some time to review our Medicare Overview information and follow the complete series of our UWM Financial Longevity Newsletter which will include more important information you need to know about Social Security and Medicare:

Health Care Unscrambled Part I: Social Security and Medicare Simplified

Understanding the Medicare Tangle Part II: Medicare Overview Made Simple

Understanding the Medicare Tangle Part III: Medicare Enrollment Periods Made Simple

Understanding the Medicare Tangle Part IV: Medicare Part A & Part B Costs and Penalties

Understanding the Medicare Tangle Part V: Medicare Part C –Costs, Medicare Advantage vs. Supplemental Plans

Understanding the Medicare Tangle Part VI: Medicare Part D – Costs and Penalties of Prescription Drug Coverage

Understanding the Medicare Tangle Part VII: How Health Care Costs Impact Your Retirement Cash Flow

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