



Coronavirus Update & Guide to Medicare Planning

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Coronavirus Update

Brad McMillan, Commonwealth's Chief Investment Officer, provides an update on the coronavirus, including the economic and market implications. On the medical front, the holiday infection surges have faded. Case growth remains high, but we saw improvements in positive testing rates, as well as a decline in hospitalizations. Absent a sudden appearance of the more infectious strain of the virus, we are likely to see more progress in the next couple of weeks as vaccine deployment accelerates. Despite the positive medical news, the economic data remains soft. Government shutdowns and changes in consumer behavior hit the economy hard in recent weeks. Job growth went negative for December, and layoffs remain very high. With the job market down, consumer confidence got even softer, and we saw a drop in retail spending. But with more stimulus likely and markets continuing to hit all-time highs, will the economic risks soon be moving behind us? Tune-in to find out.



Your Guide to Medicare Planning

Did you know that the total projected lifetime health care costs (excluding long-term care) for the average 65-year-old couple retiring this year are [expected to be \\$295,000](#) in today's dollars? This figure highlights how important it is for you to start planning to manage your health care expenses in retirement.

For many people, Medicare becomes the primary source of health care coverage in retirement. This guide to Medicare planning will help answer the many questions you may have about Medicare, including who is eligible, what services are covered, and how to avoid potential penalties and surcharges.

What Does Medicare Cover?

Let's start by defining the letters that make up the Medicare alphabet soup and what they mean in terms of coverage.

- **Part A:** Generally covers inpatient hospital services
- **Part B:** Usually covers doctor visits, outpatient services, and durable medical equipment
- **Part C:** Known as Medicare Advantage; an alternative to original Medicare Parts A and B plus D (This plan typically offers drug coverage, plus vision and dental care. Individuals must first enroll in original Medicare to be eligible for Part C Medicare Advantage. The cost of the plan may be the same as original Medicare, but there could be additional charges, depending on the plan selected.)
- **Part D:** Prescription coverage

Now that we've covered the building blocks, let's move on to eligibility and enrollment.

Who Is Eligible for Medicare?

Individuals who are 65 or older are eligible for Medicare. Medicare requires enrollment at particular triggering events and at specific times throughout the year. If you are receiving retirement benefits under the social security program, you will be automatically enrolled in Medicare Part B at age 65. If you are covered under a larger group health plan (20 or more employees), you can opt out of Part B and Part D coverage without a penalty.

A specific triggering event (e.g., when you lose group employer coverage) requires that you enroll during the special enrollment period. Enrolling within eight months of a triggering event will help avoid Part B penalties but may not prevent coverage gaps. You should start the enrollment process at least three months before a triggering event occurs to avoid gaps in coverage or the risk of missing a penalty deadline.

A key factor in determining a Medicare penalty is whether you have “creditable coverage.” Let’s take a closer look.

What Is Creditable Coverage?

COBRA coverage, group employer plans for businesses with fewer than 20 employees, and retiree health plans may not be considered creditable coverage for Medicare Part B. With one of these plans, you would not avoid the Part B enrollment penalty. Medicare would be the primary payer for health services, while these plans are secondary. These plans, however, may qualify as creditable coverage to avoid the Part D enrollment penalty. Here's a breakdown of those penalties:

- **Part B:** Individuals pay a surcharge of 10 percent of their Part B standard premium for each 12-month period they fail to enroll.
- **Part D:** The penalty is 1 percent of the “national base beneficiary premium” per month. In 2021, the national base beneficiary premium is \$33.06 per month. This 1 percent penalty is applied to the total number of months an individual is without creditable coverage. This surcharge is added to the Part D premiums.

Please note: You should verify that your current insurance is considered creditable coverage for Medicare purposes to avoid these permanent surcharges.

What Is Supplemental Coverage?

If you are covered under original Medicare Parts A and B plus D, you might consider purchasing Medigap coverage. Medigap, also known as Medicare Supplement Insurance, offers supplemental coverage for expenses that traditional Medicare doesn’t cover, including vision, dental, medical coverage during international travel, and copays.

Medigap plans (e.g., Plans A through D or Plans G, K, L, M, and N) are federally mandated to provide specific core coverage and are regulated under state law to offer additional supplemental coverage. The coverages and costs will vary between plans.

Please note: Effective January 1, 2020, Medigap Plans C and F are generally no longer available for new enrollees.

Who Pays First?

The coordination of claim payments between Medicare and other health insurance coverage can directly affect your health care costs. [Your Guide to Who Pays First](#) outlines the coordination of benefits for Medicare-eligible individuals. Let’s review some common scenarios and how Medicare coordinates payments.

Employer health plans. If an employer has fewer than 20 employees, Medicare may be the primary payer and the employer coverage is secondary. So, if you are 65 and

covered under a smaller employer plan through your spouse's employer or are still working and covered under this type of employer plan, you should verify with the provider whether the plan is creditable to avoid a penalty for Part B and/or Part D. If the plan is not considered creditable coverage for either Part B and/or Part D, you should enroll in Medicare.

If the employer has 20 or more employees, the employer plan is the primary payer and Medicare is the secondary payer.

TRICARE. If you are 65 and inactive duty military covered under TRICARE, Medicare is the primary payer for Medicare-covered services and TRICARE is generally secondary (unless services are received in a military hospital).

There are special rules for TRICARE-insured military members who are enrolled in specific plan types. Generally, if you are retired, you should enroll in Part B to remain eligible for TRICARE (including drug coverage).

Federal employee health benefits (FEHB) plan. If you are 65 and covered under an FEHB plan and are an active employee, the FEHB plan is the primary payer and Medicare is secondary. Once you are no longer an active employee, the FEHB plan for Part B is not considered creditable coverage. At that point, Medicare is the primary payer. On the other hand, FEHB may be creditable coverage to avoid the Part D prescription plan penalty. FEHB may also serve as your supplemental gap plan.

Retiree employer health plan. Medicare is the primary payer and the retiree health plan is secondary when you are 65 and covered under a retiree employer health plan.

Once you are no longer an active employee, the retiree health plan for Part B is not considered creditable coverage. Medicare is the primary payer. This plan may be creditable coverage to avoid the Part D prescription plan penalty and may serve as your supplemental gap plan.

What About Health Savings Accounts?

Once you enroll in any part of Medicare, including Part A, you can no longer contribute to a health savings account. If you are considering collecting social security benefits, in general, you should stop making contributions six months before enrolling in Medicare to avoid a potential health savings account contribution penalty.

What Is the Cost for Medicare?

Medicare premiums are means tested. The higher your modified adjusted gross income (MAGI), the higher your monthly premium costs. If you have a higher MAGI, you will pay a surcharge, known as the income-related monthly adjustment amount (IRMAA).

In the case of IRMAA for Medicare, your MAGI is generally your adjusted gross income, which includes all taxable income (e.g., retirement account distributions, capital gains, and interest), plus dividends from tax-free bonds, interest from savings bonds used to pay higher education tuition and fees, and foreign earned income excluded from gross income. For 2021, the premium cost will be based on your 2019 MAGI.

Hold harmless rule. This rule protects current social security beneficiaries from increasing Medicare costs in a year when there is no or a very low cost-of-living adjustment. When this rule applies, the cost of any increase in premiums for Medicare are absorbed by a smaller group of recipients: new enrollees and current beneficiaries subject to IRMAA.

- In 2021, the standard Part B cost is \$148.50 per person per month. The top Part B IRMAA threshold for a married couple filing jointly is a MAGI of \$750,000 or greater. The monthly premium, including the IRMAA surcharge per person, for these enrollees is estimated to be \$504.90 per month.
- In 2021, the top Part D IRMAA threshold for a married couple filing jointly is a MAGI of \$750,000 or greater. In addition to the monthly premium, an IRMAA surcharge per person for enrollees is \$77.10 per month.

You can appeal the IRMAA surcharge amount for specific life-changing events, which include death, divorce, loss of pension, loss of income-producing property, work stoppage, or an error in the determination records. Further information on the appeal process is available on the [U.S. Department of Health & Human Services website](#).

Need Additional Information?

If have any questions about the information shared in this guide, please contact me. Medicare planning is a complex topic, and I am happy to talk through the available options and help guide you to appropriate decisions.

My staff and I deeply appreciate the continuing opportunity to work with you. Please let me know if you have any questions or requests. Thank you.

Sincerely,

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