

Medicare 101

A look at what's in store for baby boomers



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With the baby boomers reaching retirement, Medicare education has become a necessary part of employee benefits communication. Medicare is a complicated, yet vital part, of the retirement discussion. WGA can help employers provide guidance on this topic.

What is Medicare and who qualifies?

Medicare was created by the Federal government in 1965 to address the growing need for health insurance protection, primarily for those reaching the retirement age of 65 in the US. To qualify for Medicare, individuals have to be age 65 or older, Social Security disabled, or be diagnosed with End Stage Renal Disease. Medicare is comprised of four separate parts that have different costs and benefits associated with them.

Individuals can contact their local Social Security office several months prior to their 65th birthday to enroll in Medicare Part A. Medicare Part A is free to most individuals. If an individual is enrolled in an employer-sponsored group health plan, they do not need to sign up for Medicare since the group plan would pay on a primary basis.

Medicare Part B requires monthly premiums. Eligible employees can enroll for this coverage when they enroll for Part A. Timely enrollment is important since there are penalties associated with not enrolling in Medicare when an individual becomes initially eligible.

Since there is a cost to it, individuals who participate in an employer-sponsored group health plan may choose to waive Part B coverage until they retire and lose eligibility under the group plan. Losing coverage under a group plan allows an individual to enroll for Part B coverage without incurring the penalty.

For individuals age 65 or older that are employed at small employers (those with less than 20 eligible employees), Medicare is the primary payer and the group plan is secondary. These individuals will, therefore, need to sign up for Medicare Parts A and B on their 65th birthday and maintain both Medicare and employer-sponsored group coverage.

Each year, any person who qualifies for Medicare can enroll or change plans during the specific, government-regulated Medicare open enrollment period. This time period takes place from January 1 to March 31 of each year.

William Gallagher Associates is a leading provider of employee benefits services, insurance brokerage and risk management to firms with complex risks, within industries that include high technology, life sciences, financial risks, healthcare, aviation, energy, and environmental services. WGA has offices in Boston, MA; New York, NY; Princeton, NJ; Columbia, MD; Atlanta, GA; and Paris, France.

The components of Medicare

Medicare Part A (Hospital Insurance) covers hospital-related expenses. This portion includes inpatient care, skilled nursing facilities, hospice care and some home health care. Individuals who have over 10 years of employment during which they pay into the Medicare system (through FICA taxes) will not pay a premium for this portion of Medicare. Individuals who do not are still eligible for Part A, but will have to pay a premium for this coverage. Other costs associated with Medicare Part A include; a deductible and a per day out-of-pocket costs for all services covered by this insurance.

Medicare Part B (Medical Insurance) covers Medicare-eligible physician related services, outpatient services, certain home health services, diabetic supplies and durable medical equipment. Medicare eligible physician services include NON-ROUTINE doctor visits, labs, X-rays, emergency room services, ambulance, physical therapy, speech therapy and occupational therapy. Medicare Part B has a monthly premium associated with it for all of those electing it along with an annual deductible and coinsurance.

Medicare Part C (Medicare Advantage) is one product that offers Parts A and B and a Supplement plan altogether. These policies are offered through private vendors that have contracted with the government to deliver Parts A and B, in addition to covering out-of-pocket costs associated with these plans and routine care. These plans tend to use smaller, local networks of providers to deliver care to their members. Individuals will remain enrolled in Parts A and B through the government, but only need to use their Medicare Advantage card to receive care through the contracted vendors. These plans can be purchased with or without prescription coverage. These plans have different costs associated with them according to the vendor and coverage levels chosen.

Medicare Supplemental Plans are private vendor products, also known as “Medigap” plans cover out-of-pocket costs that are associated with Parts A and B. They only cover Medicare-eligible services, but coverage is honored at any provider accepting Medicare payment. Routine care is not covered by these plans and prescription coverage has to be purchased separately. Cost varies according to vendor on these supplemental plans.

Medicare Part D (Prescription Drug Coverage) is the newest piece of Medicare coverage that began on January 1, 2006. Medicare Part D is offered through private vendors, but there is minimum plan design requirements set by the government. Costs for Medicare Part D plans vary according to vendor and formulary levels chosen. Some Medicare Advantage plans (described above) include prescription coverage, however, Medicare Supplement plans do not, but it can be purchased as a separate rider.

How do individuals enroll in the different parts of Medicare?

Part A: Individuals should contact their local Social Security office starting three months prior to their 65th birthday to enroll in Part A coverage.

Part B: Individuals are eligible for Part B at age 65, but may not be offered this coverage until they begin to collect Social Security benefits. The Social Security Normal Retirement Age for individuals turning 65 in 2007 is 65 and 10 months. Individuals can contact their local Social Security office three months prior to their expected effective date to enroll in Part B coverage.

Part C and Medicare Supplement Plans: Individuals are initially eligible for Medicare Advantage and Medicare Supplement plans when they are no longer covered by an employer-sponsored group health plan. The effective date for the Medicare Advantage or Supplement plans should be the day they are no longer covered by the group plan. Individuals should contact the private vendor of choice to fill out the appropriate paperwork for these plans. Individuals will have to submit proof of Medicare Parts A and B coverage to the private vendor.

Part D: Individuals are initially eligible for Part D plans when they are no longer covered by an employer-sponsored group health plan. Individuals who have been covered by a group plan after age 65 will have to provide proof of creditable coverage to the private vendor to avoid paying penalties on these premiums. Creditable coverage can be obtained directly from the insurer or from the employer. The effective date for prescription coverage should be the day they are no longer covered by an employer-sponsored group health plan. Individuals can contact a private vendor to obtain this coverage.

Are there any penalties for opting out of Medicare coverage?

If you qualify for Medicare and do not enroll, there are penalties for not enrolling in the Medicare program unless you have active coverage through an employer-sponsored group health plan. The penalty is equal to 1% of each year's national average monthly premium multiplied by every month the individual does not have coverage. This penalty applies to medical coverage as well as Part D prescription drug coverage. There are also regulations regarding not enrolling into prescription coverage when eligible. It is important to review all penalties and options carefully before enrolling in or declining any Medicare program.

How do individuals know which type of Medicare coverage to choose?

Medicare-eligible individuals will need to enroll in Parts A and B regardless of which additional coverage they decide to purchase. Two of the key pieces to look at when deciding whether to purchase a Medicare Advantage plan or Medicare Supplement plan are network availability and the need for routine care.

- Medicare Advantage plans have small, local networks that must be used for care, and policies DO cover routine care.
- Medicare Supplement plans can be used at any national provider who accepts Medicare payments from the government, but do NOT cover routine care.

Individuals should look carefully at the out-of-pocket costs associated with each plan and decide which better fits their needs.

Can individuals switch between Advantage and Supplemental plans?

Most carriers have an open enrollment period when individuals can switch plans to better suit their needs. This is important since as individuals get older, more coverage may be required. These open enrollment periods are the only opportunity for individuals to switch plans and they generally occur at the end of each calendar year.

Individuals should research options carefully before choosing their final Medicare arrangement. As an employer, you are in a good position to be a resource for your employees about Medicare. For the latest information on Medicare programs and how we can help you educate your employees, please contact your Account Executive at William Gallagher Associates.

