Four Ways to Manage Your Medicare Costs

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Managing health care costs in retirement is often the number one concern for retirees. We don't know if or when we will face serious health issues, or how fast the costs of health services will rise over time. One upper-range estimate by HealthView Services suggests a 65-year old couple could spend nearly half a million dollars in health-related costs!

While it's important to plan ahead for a wide range of potential health care outcomes and costs, it's also challenging because there's only so much within our control. If we decide to focus on what we can control, it might make sense to start with decisions surrounding Medicare.

Being a savvy Medicare consumer can make a big difference in your retirement planning. The first step is to understand the general components and services of Medicare. From there, you can conduct a more in-depth analysis of the costs associated with Medicare.

To help in that latter step, we compiled the following four tips to help you manage your Medicare costs.

1. **Limit catastrophic costs by purchasing supplemental coverage:** When you are covered by Original Medicare (Parts A and B), there are a number of gaps that can expose you to additional costs. These are normally deductibles and coinsurance payments. In fact, you must pay 20 percent for the coinsurance on Medicare Part B services, and there is no limit to these costs. This is why it's so important to purchase supplemental coverage to put a cap on your annual out-of-pocket expenses.

   There are two options for purchasing supplemental coverage. You can buy a Medigap policy, which is the traditional supplement to Medicare's basic coverage. Otherwise, you can buy an Advantage plan, a managed care option that rolls all parts of Medicare into one. A number of considerations are necessary when making a decision between these two options, but either plan could be effective in limiting the financial impact of unforeseen medical costs.

2. **Avoid penalties by using the appropriate enrollment window:** Most people need to enroll in Medicare during the initial enrollment period. This is the seven-month period that begins three months before your 65th birthday and ends three months after. If you're already receiving Social Security benefits, this enrollment is usually automatic.

   Generally, if you do not sign up for Part B when you're first eligible, you will have to pay a 10 percent premium penalty for each 12-month period you could have had Part B, but didn't sign up. This is a *lifetime* penalty. The most notable exception is if you or your spouse is working past age 65 and have health insurance on the job. In this case, you can usually delay enrolling in Part B without penalty and continue without Medicare for as long as you work.

   There are also late enrollment penalties for Medicare Part D (prescription drug coverage) and special enrollment considerations for Medigap policies that should be reviewed carefully.

Beyond penalties, perhaps the worst consequence of missing your enrollment window is the risk of not having health insurance for a period of time.

3. **Save money during annual Open Enrollment:** While you're enrolled in Medicare, you should review your coverage on an annual basis. There's an Open Enrollment Period (OEP) every fall from October 15 through December 7. This is basically your "do over" period. If you make any changes during this time, your new coverage will go into effect the following January 1.

   Why should you consider making a change during the OEP? First, it's very possible costs have increased. This includes premiums, copays and deductibles. The prescription drugs you use may move from one pricing tier into another, and out-of-pocket maximums can change.

   Coverage can change too. If you're enrolled in a Medicare Advantage plan, keeping a close eye on your provider network is essential. Your preferred doctors, hospitals and other care providers could be removed from your network. Similarly, your preferred prescription drugs could be removed from your plan's formulary altogether.

   All this means that shopping around could be worth your while. To search online for Medicare Advantage and drug plans in your area, you can use the Medicare Plan Finder. For Medigap, use its separate Policy Search.

4. **Keep premiums lower by managing your taxable income:** If your income exceeds a certain level, you could be faced with a surcharge added to your Medicare Part B and D premiums. The Social Security Administration looks at your tax return from two years prior and compares the modified adjusted gross income (MAGI) to a threshold. In 2017, that threshold is $85,000 for an individual and $170,000 for married couples filing jointly. If you exceed this threshold, you could see surcharges anywhere from $53.50 per month up to $294.60 per month.

   Exemptions can be granted by filing the appropriate form with the Social Security Administration. It's notable that simply retiring can be a qualifying event for exemption.

   How you draw down your assets in retirement can affect your Medicare premiums. Those that can coordinate withdrawals from their taxable and tax-deferred accounts might be able to stay under applicable income thresholds and still meet spending objectives. The timing of when you start pensions and Social Security can also affect this. Your advisor can help design a strategy with these considerations in mind.

This serves as a primer for learning ways to control your Medicare costs. If much of it sounds complex, you're not alone. Your advisor can guide you to find the right answers for your unique situation. There are also a number of resources available for more information. The official Medicare website is a good starting point, and you may also want to read the Medicare & You handbook.

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