CARSON PARTNERS

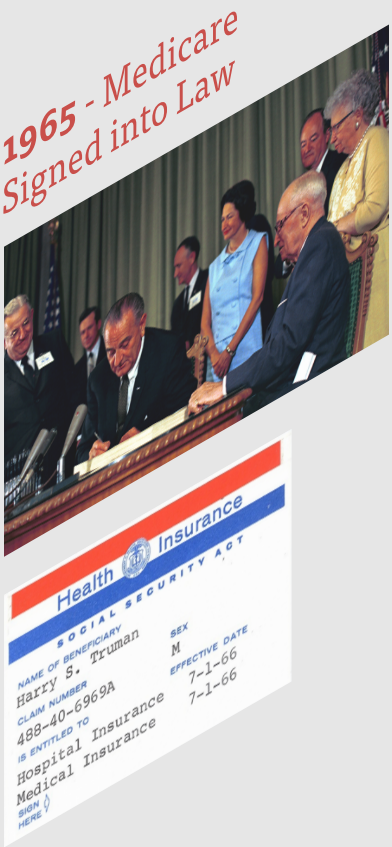
Health Care Costs in Retirement

Health care costs in retirement aren't going anywhere. Naturally, as our bodies get older, it costs more to keep them running. Retired couples will need something like $325,000[1] to cover medical expenses.

To put that in perspective, let's look at the numbers. Individuals older than 65 have an average account of $358,000[2], making the rough estimate for a couple around $716,000. Take $325,000 out of that, and it's over 40% of your retirement savings!

U.S. health care spending[3] is expected to rise at a rate 1.1% faster than the annual GDP, and is expected to hit 19.7% of the GDP by 2028. These large numbers will come home to our pockets, and with people living longer and therefore enjoying longer retirements, the cost of medical care will only go up.

It's statistics like this that make Medicare part of life for Americans and an extremely necessary program for humanitarian and economic reasons. Let's look at the parts of this vital program and how it plays a part in your financial plan.



Medicare

The first Medicare recipients[4] were Harry S. Truman and his wife, Bess, when President Lyndon B. Johnson signed it into law in 1965. The original idea was to provide health care coverage for Americans over age 65, but the benefits have since been expanded in several directions and developed to cover more complex needs.

Let's look at the structure of the program.

Parts of Medicare

PART A

This is the basic building block of Medicare[5] and covers inpatient care, skilled nursing facility care, nursing home care, hospice care and home health care – though certain types of care are only covered under certain circumstances. Most people get this part of the coverage for free because it's considered part of the taxes you paid during your working career.

PART B

Part B covers medically necessary services (services or supplies needed to diagnose/treat your medical condition) and preventative services (like flu shots), as well as things like clinical research, ambulance services, durable medical equipment[6], mental health needs and limited outpatient prescription drugs. The average Medicare B premium for 2021 is $148.50 per month, but this goes up commensurate with income.

Among the services not covered by Medicare Part A and Part B are:

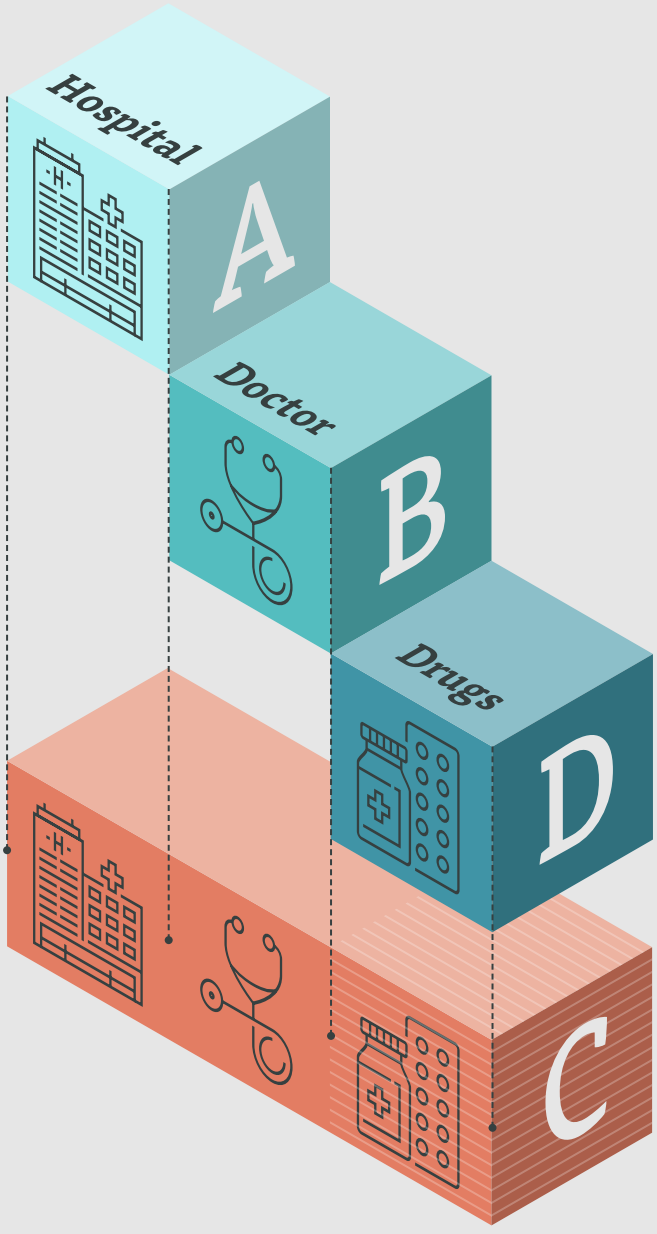
- X Long-term or custodial care
- X Most dental care
- X Eye exams related to prescribing glasses
- X Dentures
- X Cosmetic surgery
- X Acupuncture
- X Hearing aids and exams for fitting them
- X Routine foot care

PART C (ALSO CALLED MEDICARE ADVANTAGE PLAN)

Medicare Advantage Plans are an "all-in-one" alternative to Medicare Part A and Part B (sometimes called "original Medicare") that sometimes offers lower out-of-pocket costs. The plans are offered by private companies approved by Medicare, and your premiums are then paid by your Medicare coverage.

These plans cover the traditional Medicare costs, and also often include drug, dental, vision and fit-

> "The average Medicare B premium for 2024 is $174.70 per month."

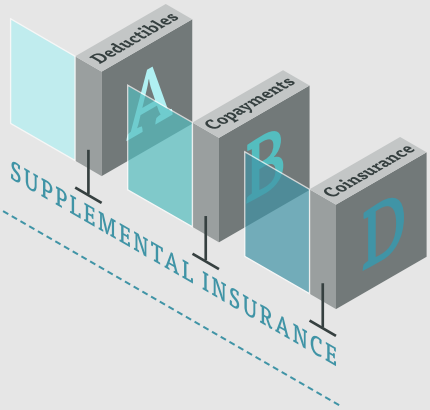


ness programs like gym memberships. You may also usually need to see "in-network" physicians and practitioners for non-emergency care. And like health insurance, Medicare Advantage Plans can have different out-of-pocket costs and different rules for how you get services (like needing a referral to see a specialist). Still, depending on your situation, Part C can be a cost-effective alternative to original Medicare.

PART D

Part D plans help to cover outpatient prescription drugs. They cover a wide range of prescriptions along with some protected cases, like medications for treating cancer and HIV/AIDS. The plans have a list of drugs they cover, called a formulary, which can be broken into tiers from the least to the most expensive. Part D plans also offer coverage for generic drugs.

MEDICARE SUPPLEMENT INSURANCE



Medicare Supplement Insurance, also known as Medigap, helps to fill in "gaps" not covered by original Medicare. Medigap policies – which are sold by private companies and have monthly premiums – can help cover health care costs like copayments, coinsurance and deductibles. Some Medigap policies also cover medical care for when you travel outside the U.S.

In order to have a Medigap policy, you must have Medicare Part A and Part B. Also, a Medigap policy only covers one person — if you're married, you and your spouse each need your own policy.

Medicare MSA Plans

A Medicare Medical Savings Account[7] functions similarly to a Health Savings Account. For an MSA plan, you would need to sign up for a high-deductible health plan through Medicare Part C and set up an MSA with a bank the plan selects. Medicare then deposits money into the MSA, which can be used to pay for health care costs before you meet your deductible.

> "MSA plans function like a Health Savings Account (HSA) for Medicare Part C."

Money in an MSA can also be used to pay for health care costs not covered by Medicare, and any unspent money at the end of the year will stay in the account for future use. If you use all of the money in your account and have additional health care costs, you'll have to pay out of pocket until you reach your plan's deductible, though doctors and other providers can't charge you more than the Medicare-approved amount.

Enrollment

The enrollment age for Medicare is 65, but your enrollment period is a seven-month window. The three months before and the four months following your 65th birthday make up your enrollment window, after which you

may have to pay a late enrollment fee. The idea is to give you three months previous, then your birthday month, then three months after.

If you are signed up for Social Security, you will automatically be signed up for Medicare A and B at the beginning of your enrollment window (three months before your 65th birthday), at which time they'll send you signup instructions. **If you decide to go with a Medicare Advantage Plan, you have to sign up yourself. You also have to sign yourself up for Part D.**

If you are not taking Social Security benefits – for example, if you are still working and delaying benefits – you will not receive automatic enrollment and will have to go through the process yourself. This means enrolling online[8] or calling your local Social Security office.[9]

If you miss your initial enrollment period for Part A, Part B or Part C, you can sign up during Medicare's General Enrollment Period (January 1 to March 31), and your coverage will start July 1. For Part D, the enrollment period is October 15 to December 7, and Part D – as well as Part C, if you opt for that coverage – must be renewed annually.

"Three months before and the four months following your **65th birthday** make up your enrollment window."

Late Enrollment Fees

Late enrollment fees in Medicare are more than a simple penalty and should be avoided. Generally, penalties for late enrollment in Part A can be avoided because it's free for most people. The other parts you pay for regularly can collect penalty fees that may seem small, but can add up over time.

PART B

If you miss your window for signing up for Medicare Part B, your cost for Part B goes up by 10% for each 12-month period you don't sign up. If you delayed signing up (and therefore paying) for Part B for two years, then when you went to sign up, it would cost 20% more. **This penalty is permanent, and you'll have to pay it each time you pay your premiums.**

The idea here is that because the program is universal, you shouldn't be able to opt out and so are penalized for doing so, and the program recoups its losses by penalizing you.

SPECIAL ENROLLMENT PERIOD

You can avoid the late enrollment fees associated with Medicare Part B if you or your spouse are still working and covered by a health plan offered through the employer once your initial enrollment period has expired. Under those circumstances, you can enroll in Medicare Part A, Part B or both at any time without penalty.

Once you or your spouse stop working or are no longer covered by employer-provided health insurance, you have an eight-month window[10] to enroll in Medicare Part A, Part B or both before you'll be subject to late enrollment penalties.

You may also qualify for a Special Enrollment Period if you're a volunteer serving in a foreign country.

PART D

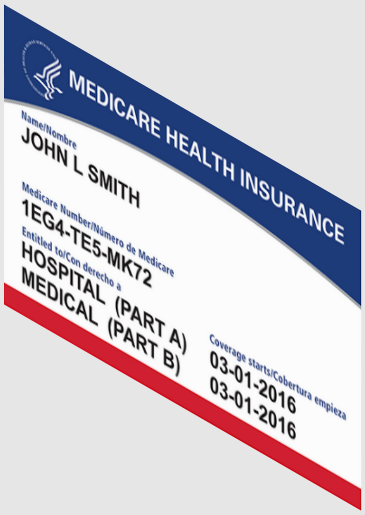
You may owe a late enrollment penalty if, after your initial enrollment period has ended, there's a period of 63 or more days in a row when you don't have Medicare drug coverage or other creditable prescription drug coverage.[11] You'll usually have to pay that penalty for as long as you have Medicare drug coverage.

This penalty is calculated by multiplying 1% of the "national base beneficiary premium" ($34.70 in 2024) times the number of full, uncovered months you didn't have Part D or creditable coverage. The penalty charge is then rounded to the nearest $0.10 and added to your monthly premium. The national base beneficiary premium changes each year, so this penalty amount may also change.

Medicare Card

Whether you enroll or are automatically enrolled, you'll receive your Medicare card in the mail. The card includes whether you have Part A, Part B or both, and when your coverage began. It will also list if you're part of a Medicare Advantage Plan.

This is essentially your new insurance card, and should be carried with you and shared with providers, doctors and others.



IRMAA Planning as Part of Your Medicare Strategy

As an effort to equalize and fund the program, higher Medicare costs for higher income are built into the financial structure. These surcharges, called Income Related Monthly Adjustment Amounts (IRMAA), can substantially increase your monthly and annual Medicare payments.

And you can get into a higher IRMAA bracket if you are even one dollar over the threshold!

For example, if you are a single person or or married filing separately in 2024, the IRMAA threshold[12] is $103,000 in Modified Adjusted Gross Income (MAGI), which combines your adjusted gross income with tax-exempt interest. (For a married couple filing jointly, the threshold is

$206,000.) If you're under that threshold, your monthly premium for Medicare Part B in 2024 would be the standard amount of $174.70.

But go just one dollar above that threshold and your premium jumps to $244.60. Premiums keep rising from there based on higher incomes, all the way to $594.00 a month for single filers making $397,000 or above ($750,000 or above for married filing jointly).

If your yearly income in 2022 (for what you pay in 2024) was			You pay each month (in 2023)
File individual tax return	**File joint tax return**	**File married & separate tax return**	
$103,000 or less	$206,000 or less	$103,000 or less	**$174.70**
above $103,000 up to $129,000	above $206,000 up to $258,000	N/A	**$244.60**
above $129,000 up to $161,000	above $258,000 up to $322,000	N/A	**$349.40**
above $161,000 up to $193,000	above $322,000 up to $386,000	N/A	**$454.20**
above $193,000 and less than $500,000	above $386,000 and less than $750,000	above $103,000 and less than $397,000	**$559.00**
$500,000 or above	$750,000 and above	$397,000 and above	**$594.00**

Source: https://www.medicare.gov/your-medicare-costs/part-b-costs

> "Going from $103,000 to just $103,001 adds **a 40% increase in premium per month.**"

There are several ways to help lower your income so you avoid landing in a higher IRMAA threshold. For instance, if you've had a life-changing event[13] that lowered your income, you can file Form SSA-44[14] to Medicare, which may qualify you for reduction in IRMAA. **Some examples of eligible events include:**

- A change in marital status.
- You or your spouse stop working or reduce your work hours.
- Loss of income-producing property because of a disaster or other event beyond your control.
- A scheduled cessation, termination or reorganization of an employer's pension plan.
- A settlement from an employer or former employer because of the employer's closure, bankruptcy or reorganization.

You can also lower your income in retirement by managing the money you're required to withdraw from your retirement accounts. One way to do this is by using that money to make charitable donations, which means the money won't be counted as income for IRMAA purposes. If you're still employed but already on Medicare, contributing to your 401(k) would also lower your income for the year.

If you believe that your IRMAA for a given year is incorrect, you have the right to appeal it with the Social Security Administration.[15]

Covering Long-Term Care

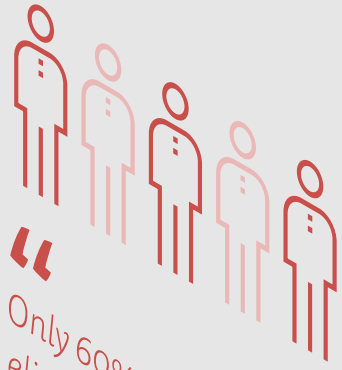
While Medicare will cover most of your health expenses in retirement, it does not typically cover long-term care[16], such as stays in a nursing home. If you're in a nursing home, Medicare will still cover any health care you require while there, but it won't cover the day-to-day activities a nursing home would help with, like bathing, dressing, etc.

But there are still several ways to get nursing home care covered in retirement. Most nursing homes accept Medicaid payments, though eligibility for that program varies by state. If you don't qualify for Medicaid, you could instead purchase long-term care insurance, but be aware that not all policies will cover nursing home care.

Some insurance companies have life insurance policies that also cover long-term care[17], though these policies typically come with reduced death benefits. The idea behind these policies is that you pay a lump-sum premium (or a few large annual premiums), and then the policy provides money for your long-term care. The policy's death benefit will then be reduced based on how much was spent on long-term care, though some policies have a guaranteed minimum payout.

Medicaid

Medicaid, like Medicare, was signed into law in 1965 and is a government-backed health insurance plan, but with different eligibility requirements[18]. While requirements and coverage vary from state to state, Medicaid typically benefits low-income and disabled Americans, regardless of age.



"Only 60% of those eligible for Medicare and Medicaid **are enrolled in both** programs."

More than 12 million people are "dually eligible" for both Medicare and Medicaid, though only 7.2 million Americans[19] are enrolled in both programs. In those instances, Medicaid helps to cover services not already covered by Medicare, such as long-term care, prescription drugs (which would otherwise be covered under Medicare Part D), eyeglasses and hearing aids.

Depending on your income level and countable resources, Medicaid can also help cover your Medicare premiums – and possibly related deductibles, coinsurance and copayments – through Medicare Savings Programs.[20]

Resources to consider when qualifying for Medicaid	
Countable	**Not Countable**
Money in a checking or savings account	Your Home
Stocks	One Car
Bonds	Furniture and other household and personal items
	A burial plot and up to $1,500 set aside for burial expenses

Make Sure You're Prepared

While you can't be prepared for everything that will happen in retirement, having a plan in place for your health care can help ease some of the uncertainty. Medicare is essential for covering your health care in retirement, but it shouldn't be the only piece you rely on – your retirement plans, supplemental insurance and Medicaid could all be pieces of the puzzle.

If you have questions about how comprehensive retirement planning may benefit you and your family, schedule a meeting with your advisor today to discuss your concerns and wishes.

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