

# PERSONAL INVESTMENT MANAGEMENT, INC

## White Paper # 3

### Medicare

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#### **Background**

The Social Security Act of 1935 did not include Medicare but did include provisions for health insurance studies. Thirty years later, in 1965 Medicare was enacted and after many revisions, today includes four separate programs.

Part A:	Hospital and Skilled Nursing Care
Part B:	Physician and Outpatient Hospital Care
Part C:	Medicare Advantage Plans
Part D:	Outpatient Prescription Drug Plan

#### **Sources of Funding**

Medicare Part A is funded by a 2.9% tax on earnings. As alluded to in White Paper #2, there is no compensation cap or limit after which the HI (Hospital Insurance) tax stops. Participation in Medicare Part A is compulsory.

Medicare Part B (not mandatory), the Supplemental Medical Insurance (SMI) program is funded two ways: Government spending, and with premiums paid by subscribers. The cost schedule for SMI is progressive; the greater the income level of the participant, the higher the monthly SMI premium, as follows:

<u>Individual Income</u>	<u>Joint Income</u>	<u>Part B Monthly Premium</u>
\$85,000 or less	\$170,000 or less	\$96.40 / \$115.40*
\$85,001-107,000	\$170,001-214,000	\$161.50
\$107,000-160,000	\$214,001-320,000	\$230.70
\$160,001-214,000	\$320,001-428,000	\$299.90
Greater than \$214,000	Greater than \$428,000	\$369.10

\*For those starting Medicare in 2011, the minimum monthly premium is \$115.40 per month. For those already on Medicare, 2010 rates are unchanged for this year, as there was no Social Security Cost of Living Adjustment for 2010.

Medicare Part D is partly financed by premiums paid by participants. Estimated monthly premium for 2011 is \$40.72 for those with income above 150% of the poverty income index but varies among plan administrators.

## **Enrollment and Timing**

There is a seven-month enrollment window for Part A that begins three months before turning age 65 (not Full Retirement Age, as described in White Paper #2 on Social Security). A person already receiving SS Retirement Benefits, on their own work history, three months before turning 65 is automatically enrolled in Medicare Part A and does not have to make a separate application. Otherwise, an application is required. Part A is provided at no cost.

Enrollment for Part B is automatic upon enrollment in Part A. To elect not to participate in Part B, you must complete and submit a specific form.

You must proactively enroll in Part D coinciding with enrollment in Part A, and there is a penalty for delayed enrollment.

## **Benefits**

### **Medicare Part A – Hospital Insurance**

Generally, Part A provides certain benefits for services rendered by a Medicare-approved hospital, hospice, home health care agency or skilled nursing facility:

1. Inpatient Costs
  - a. Room and board (2-4 bed room)
  - b. Nursing (not private duty)
  - c. Diagnostic/therapeutic
  - d. Medications
  - e. Operating room and recovery room
  - f. Intensive Care
  - g. Lab, x-rays etc
  
2. Post-hospitalization skilled nursing facility
  - a. If patient spent 3 or more consecutive days in the hospital for the same condition
  - b. Admission generally must occur within 30 days of that hospitalization

3. Post-hospitalization home health care
  - a. Doctor ordered
  - b. Therapy (speech, physical, occupational, etc)
  - c. Periodic skilled nursing care
  - d. Home health aid
  - e. Supplied and equipment (not drugs and 20% copay for durable equipment)
  
4. Hospice care for terminally ill patients (life expectancy < 6 months) must be selected by the patient (or legal surrogate) and includes
  - a. Miscellaneous therapy
  - b. Medical supplies and drugs
  - c. Nursing care
  - d. Physician's services
  - e. Limited inpatient care, respite care
  
5. Blood – in excess of 3 pints

**This table is a summary illustration of the cost share arrangement for the 5 categories of Medicare Part A:**

<b>Category</b>	<b>Duration</b>	<b>Patient Cost</b>	<b>Medicare A Cost</b>
<b>Hospital Stay</b>	First 60 Days Days 61-90 Days 91-150	First \$1,132 of Cost \$283 per day \$566 per day	100% after \$1,132 100% after \$283 100% after \$566
<b>Skilled Nursing Facility</b>	First 20 Days Days 21-100 Days 101+	\$0.00 \$141.50 per day 100%	100% 100% after \$141.50 \$0.00
<b>Home Health Care</b>	No limit	\$0.00	100% of Cost
<b>Hospice</b>	240 day limit or as extended by doctor	Lesser of 5% or \$5 for prescriptions; \$5 per day co-pay on respite care	In and out-patient drugs; nursing care, counseling, inpatient care, drugs, medical supplies, therapy etc
<b>Blood</b>	As necessary	First 3 pints	Excess of first 3 pints

## Medicare Part B – Supplemental Medical Insurance

Generally, there are four categories of coverage included in Medicare Part B: Medical Services, Home Health Care, Outpatient Hospital Care and Blood.

Medical Services includes items such as: doctor's services, outpatient care, diagnostic / lab tests, mammography and pap screening, therapy (physical / speech etc), durable medical equipment and supplies, ambulance and other services such as home health care not covered by Part A. The last three categories are self explanatory.

**This table is a summary illustration of the cost share arrangement for the categories of Medicare Part B:**

Category	Duration	Patient Cost	Medicare B Cost
Medical Services	As Necessary	First \$162 (deductible) and 20% copayment on approved charges	80% of approved amount after \$162
Home Health Care	As Necessary	20% of cost of medical equipment	100% cost of services – 80% cost of medical equipment
Outpatient Hospital Care	As Necessary	First \$162 (deductible) plus 20% of remaining approved amount	80% of approved amount after \$162
Hospice	240 day limit or as extended by doctor	Lesser of 5% or \$5 for prescriptions; \$5 per day co-pay on respite care	In and out-patient drugs; nursing care, counseling, inpatient care, drugs, medical supplies, therapy etc

## Medicare Part C: Medicare Advantage

Here is a brief summary of Medicare Advantage plans. Though seemingly out of place, I am including here because Advantage plans are often referred to as Medicare Part C. Therefore, alphabetical order dictates.

Medicare Advantage plans are offered by private companies approved by Medicare and are a different way to access Medicare benefits. In this arrangement, Medicare pays the Medicare Advantage plan provider a monthly amount on your behalf and the

Advantage plan effectively replaces your Medicare Parts A and B coverage; most also include prescription drug benefits (Part D) and may offer additional coverage for dental, vision etc. Advantage plans structure their own procedures for how medical care is accessed and have their own deductibles and co-pays.

Generally, Part C Medicare Advantage plans are of the following familiar types: PPO, HMO, PFFS and SNP.

For more information about these plans and for links to plan providers and ratings, see:

<http://www.medicare.gov/navigation/medicare-basics/medicare-benefits/part-c.aspx>

### **Medicare Part D – Prescription Drug Assistance**

Effective January 2006, individuals with Medicare are eligible to enroll in Part D. Part D drug plans are administered by private companies so plan specifics and costs may vary by provider. Generally however, for 2011 the plan works as follows:

- ✓ The approximate monthly premium one may expect to pay is \$40.72
- ✓ The Annual Deductible is \$310.00
- ✓ After the deductible, Medicare covers 75% of prescription costs up to \$2,840.
- ✓ At \$2,840 total cost, the participant will have paid \$942.50 (\$310 + 25%)
- ✓ After total cost = \$2,840, there is a gap in coverage until the participant has paid another \$4,550 out of pocket; this gap is called the “donut hole”
- ✓ Participants without other specific subsidies receive a 50% discount on brand-name drugs while in the “donut hole”, but the total price applies towards achieving the \$4,550 required to get out of the donut hole. True additional out of pocket expense through this gap in coverage is \$2,275
- ✓ Once out of the donut hole, Medicare resumes coverage at 95% of drug costs
- ✓ The participant must pay the greater of \$2.50 for generics, \$6.30 for brand-names or 5%.

- ✓ As mentioned earlier, there is a penalty for late enrollment into Part D of 1% of the premium for each month of delayed enrollment

### **Services Not Covered by Medicare**

Medicare Part A does not pay for certain items that may be considered normal conveniences such as a private hospital room or even television or telephone and does not pay for private nursing care.

Medicare Part B does not cover routine physical exams, many vaccines, eyeglasses or eye exams, hearing aids or exams and does not pay for dental, foot care or orthopedic shoes.

There are gaps in the cost coverage provided by both Medicare parts A and B, as indicated in the tables presented earlier herein. In summary:

- Deductibles for A and B: \$1,132 per illness for inpatient hospital stays and the annual deductible for Part B of \$162
- Part A cost of extended hospitalization: \$283 per day for days 61-90, \$566 per day for days 91-150 and no coverage (100% cost to the patient) beyond 150 days
- Part B coinsurance of 20% on physician services and outpatient care
- Any costs that exceed Medicare-approved charges for services
- Part D annual deductible of \$310 – coinsurance of 25% initially – the “donut hole” cost of \$2,275 and the smaller coinsurance following the donut hole
- The cost of custodial nursing home care

### **Medigap Plans**

Generically referred to as Medicare Supplement policies, these are designed to provide coverage to alleviate the out of pocket expenses identified in the previous section. Medigap plans are mandated to be standardized and are titled with letters: A, B, C, D, F, G, K, L, M, and N. In the past, plans labeled E, H, I and J were available but are no longer sold (if you have one, you may maintain it). Standardization assists with comparisons between plans offered by different insurance companies. Therefore, all

plan B, C, D etc policies will provide generally the same coverage regardless of the issuing insurance company.

As with most types of insurance, the scope of coverage can vary depending on premium cost. The following is a list of the items that may be covered by a Medigap policy:

- Part A Coinsurance and hospital costs up to an additional year after Medicare
- Part B Coinsurance or Copayment
- Blood (first 3 pints)
- Part A Hospice Care coinsurance or copayment
- Skilled Nursing Care coinsurance
- Part A Deductible
- Part B Deductible
- Part B Excess Charges
- Foreign Travel Emergency

For example, while we presume the most expensive of the options, Medigap Plan F provides coverage for every one of the items listed above (and may come in either a standard version or a high-deductible version).

For more information on Medigap (Medicare Supplement Insurance) policies, see:

<http://www.medicare.gov/Publications/Pubs/pdf/02110.pdf>

### **Closing Remarks**

Medicare is one of the more complicated programs that our clients deal with. The purpose of this White Paper is to provide a broad and general understanding of the elements of Medicare, how it works, what it pays, what it does not pay and alternatives and methods for hedging against possibly high out-of-pocket expenses.

In preparing this, I often referred to [www.medicare.gov](http://www.medicare.gov) to validate our understanding and gather additional information. This is a very helpful web site indeed, and we encourage you to access this resource as you consider your options.