

Understanding Medicare



Tim O'Mara

Vice President, Nationwide Retirement Institute[®]

Tim O'Mara is dedicated to educating advisors, clients, plan sponsors and plan participants about the latest in retirement income trends. He implements practical and comprehensive retirement income solutions. Tim is a graduate of Mercyhurst University, where he majored in Business Management. He is FINRA Series 63, 66 and 7 licensed. His areas of focus include retirement income planning, Medicare, Social Security and long-term care.

Summary

Many people enter their later years unaware that health care costs in retirement can be burdensome. To help members be better prepared, talk with them about Medicare and the inevitable out-of-pocket costs they may face. The many Medicare options available to individuals who are about to turn 65 can be daunting. To provide valuable assistance, you need to be prepared. This paper outlines the basics of Medicare, details the enrollment process and highlights some potential pitfalls. It also directs you to resources that will help you estimate your clients' likely health care and long-term care expenses.

As a advisor, knowing the health care costs people could face in retirement could affect the investment and income planning strategies you devise for them. Planning for these expenses will become even more important as costs rise and lifespans increase. You can provide extra value to people by helping them meet this challenge.

The looming costs of health care

Many older people may be under the impression that once they turn 65, Medicare will take care of their health care costs. That's true—up to a point. But what many don't realize is that Medicare is not free—even though they paid the Medicare payroll tax throughout their entire career. They may be surprised to learn that Medicare premiums and surcharges will be deducted from their Social Security checks.

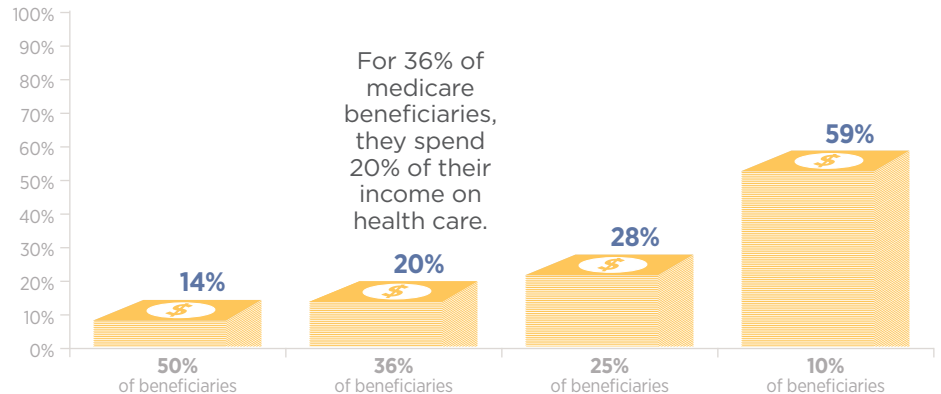
Out-of-pocket costs could be larger than expected

The magnitude of these and other out-of-pocket costs could be startling. Along with deductibles and co-payments, many retirees will have to pay for supplemental insurance and prescription drugs, and unlike employer-sponsored plans, Medicare imposes no cap on out-of-pocket expenses. All together, these costs could amount to hundreds of thousands of dollars over the course of retirement. According to the Employee Benefits Research Institute (EBRI), a 65 year old couple retiring now will need between \$296,000 and \$399,000 to cover out-of-pocket health care expenses.¹

The uncovered portion could be a significant percentage of a retiree's total health care costs. EBRI estimates that for beneficiaries aged 65 and older, 60% of their health care costs are paid by Medicare, and 20% are covered by supplemental insurance, leaving another 12% to be paid out of pocket.¹

But these estimates may still understate the actual expense because they leave out services not traditionally covered by Medicare, such as routine dental, hearing and vision care, as well as long-term care. Premiums for long-term care alone can be as much as \$130,000, or between \$2,000 and \$10,000 per month.² When considering all the health-related expenses a retiree is likely to face, the amount that Medicare covers may only be about 62% of health care costs.³

Medicare beneficiaries could spend a significant amount of their income on health care⁴



NOTE: Estimates are based on spending and income amounts from 2016 and exclude Medicare Advantage enrollees and beneficiaries enrolled in Part A or B only. Total out-of-pocket health care spending includes spending on services and premiums for Medicare and private health insurance premiums. Per capita income for married couples is income for the couple divided by two. SOURCE: Kaiser Family Foundation analysis based on CMS Medicare Current Beneficiary Survey 2013 Cost and Use file.

For many retirees, the uncovered amount will make up a significant portion of their total income. According to the Kaiser Family Foundation, half of traditional Medicare beneficiaries spent 14% or more of their total income on out-of-pocket costs in 2013. For some, the burden was even larger. One in four beneficiaries of traditional Medicare spent 28% or more of their total income on out-of-pocket costs in 2013, and 10% spent 59% or more.⁴

The threat of inflation

Inflation compounds the problem—especially for individuals who may be on a fixed income. Health care costs are estimated to increase faster than other sectors, and Medicare premiums are expected to grow between 6% and 8% annually over the next 10 years.² But cost-of-living increases from Social Security are not likely to keep pace, so retirees could find it challenging to maintain their retirement lifestyle.⁵

Few retirees will be able to escape these costs. Eventually, most will experience health difficulties during some portion of their retirement. While just under half of those aged 50 to 64 will face one or more chronic conditions, this figure jumps to 80% for those aged 65 and up.⁶ And for many, long-term care is inevitable.

For most retirees, health care will be a significant part of their life. In fact, for a person who was 50 years old in 2015 and earned an average income, the cumulative Medicare benefit could amount to \$621,000, which approaches the average lifetime Social Security benefit of \$731,000.⁷

In other words, the Medicare benefit is substantial, so retirees should pay careful attention to how to enroll and choose an appropriate plan. Individuals who fail to enroll in Medicare during their initial enrollment period may have to pay a penalty in each year of retirement. Planning for Medicare and related health care costs should be a serious consideration for all retirees and their advisors.

¹ "Savings Medicare Beneficiaries Need for Health Expenses: Some Couples Could Need as Much as \$400,000, Up From \$370,000 in 2017" at age 65 assuming 90% chance of having enough savings, EBRI, October 8, 2018.

² "Starting the Health Care Conversation: How to Open a Key Discussion with Your Clients," Retirement Wire, ThinkAdvisor (June 14, 2017).

³ MedicareSolutions.com, May 23, 2017.

⁴ "Medicare Beneficiaries' Out-of-Pocket Health Care Spending as a Percentage of Total Income Now and Projections for the Future," Kaiser Family Foundation (January 2018).

⁵ "2018 Retirement Healthcare Costs Data Report," HealthView Services (2018)

⁶ Multiple Chronic Conditions Chartbook, Department of Health and Human Services (2010).

⁷ Social Security and Medicare Lifetime Benefits, Urban Institute, (Sept. 2015).

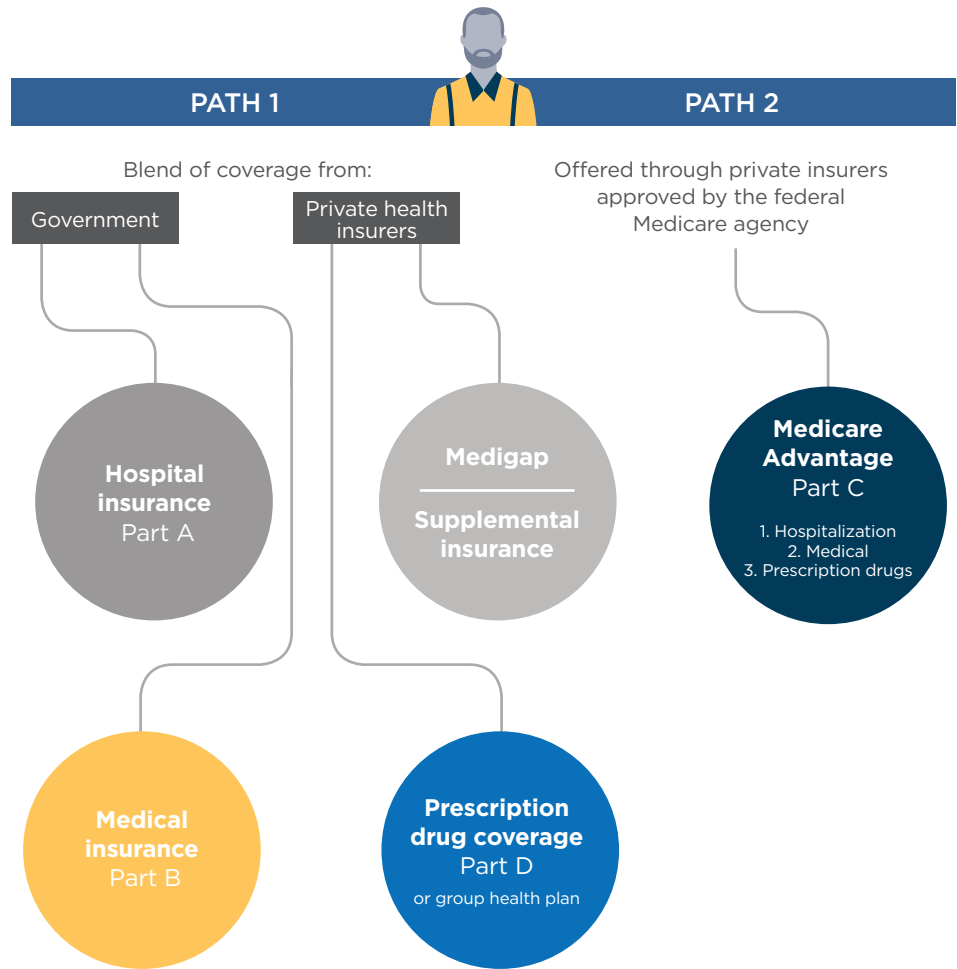
The basics of Medicare

Eligibility

As retirement approaches, signing up for Medicare is one of the first major decisions a person will face. Eligibility begins the month a person turns 65. All U.S. citizens or permanent legal residents are eligible if they have lived in the country for at least five years and are eligible to receive Social Security benefits or are married to someone who is eligible. Eligibility for Social Security benefits is earned by working in the country at least 10 years.

Choosing a path to coverage

Retirees must choose one of two paths to Medicare coverage. Both offer coverage for the same services—hospitalization, physician care and prescription drugs—and both come with deductibles, co-pays and premiums for coverage.



PATH 1: Original Medicare

This path consists of:

- **Part A**—hospitalization
- **Part B**—outpatient care
- **Medigap**—supplemental insurance provided by private insurers to pay for what's not covered
- **Part D**—prescription drug coverage, which is also provided by private insurers

Beneficiaries may visit any doctor or facility that accepts Medicare patients.

Medigap is private insurance that covers most out-of-pocket costs, including deductibles and co-payments required under Parts A and B. However, it does not include prescription drugs or certain other services offered by Medicare Advantage. All 10 Medigap policies are standardized by law, but rates differ among providers.⁸ Medigap insurance can also provide coverage for routine vision, hearing and dental care.

Advisors should know that Part B now also covers preventive care and screening, including an annual wellness visit, mammograms, bone mass testing and screenings for cancer, cardiovascular disease and diabetes.

PATH 2: Medicare Advantage

Also known as Part C, this path consists primarily of private health maintenance organizations (HMO) and preferred provider organizations (PPO) approved by the government. Private fee-for-service plans (PFFS), special-needs plans and medical savings account plans are also accommodated. Hospitalization, outpatient care and prescription drugs are covered, and many plans also offer coverage for routine vision, hearing and dental care.⁹ In many cases, premiums and co-payments are lower under Medicare Advantage than they are under Original Medicare.¹⁰

⁸ "Medigap or Medicare Advantage?" AARP Bulletin, American Association of Retired Persons (April 2014).

⁹ "How to get vision, hearing and dental care that is not covered by Medicare," PBS Newshour (April 13, 2016).

¹⁰ "Medicare Part C — Medicare Advantage Plans Explained," Medicare Consumer (June 2018).

PATH 1

WHAT IT'S CALLED	WHAT'S COVERED	WHAT YOU PAY FOR
<p>Part A Hospital insurance</p>	<ul style="list-style-type: none"> • Hospital care • Skilled care coverage for 100 days following a 3-night or more admittance to a hospital • Hospice • Home care coverage only when certified by a physician, because Medicare typically will not cover the expense of long-term care in your home 	<p>Each benefit period:</p> <ul style="list-style-type: none"> • Monthly premium: \$0 • Deductible: \$1,364 • Co-insurance: <ul style="list-style-type: none"> - Days 1-60: \$0 - Days 61-90: \$341 - Days 91-150: \$682 co-insurance per each lifetime reserve day (up to 60 lifetime reserve days, after which you are responsible for all costs)
<p>Part B Medical insurance</p>	<ul style="list-style-type: none"> • Doctor and physician services • Preventive benefits • Durable medical equipment • Outpatient services 	<ul style="list-style-type: none"> • Monthly premium: Ranges from \$135.50–\$460.50 (if protected by the hold harmless provision; it's \$130, on average) • Yearly deductible: \$185 • Co-insurance: 20% on doctors' services and outpatient care
<p>Part D Prescription drug coverage Available two ways:</p> <ul style="list-style-type: none"> • Stand-alone prescription drug plans (PDPs) • Medicare Advantage plans (MAPDs) 	<ul style="list-style-type: none"> • Covered drugs vary by plan 	<ul style="list-style-type: none"> • Monthly premium: Varies by plan • Yearly deductible: Up to \$415 • Co-pay: 25% or flat co-pay amounts based on formulary • Coverage gap (donut hole)*: \$3,820 to \$8,906 in total drug costs • Coverage gap the insured pays: 25% of the cost on brand name medications and 37% of the cost on generic medications during coverage gap • Catastrophic coverage is reached after \$5,100 is spent out of pocket: 5% minimum co-pay after coverage gap, \$3.40 generic or \$8.50 brand medication costs
<p>Part C Medicare advantage</p>	<ul style="list-style-type: none"> • Covers the services that Original Medicare** covers, except hospice care • May cover hearing, dental and vision treatment 	<p>Costs vary by plan. Visit Medicare.gov or call the plan(s) you're interested in for more details.</p> <p><i>Each year, plans establish the amount they charge for premiums, deductibles and services.*** The plan (rather than Medicare) decides how much you pay for the covered services. What you pay the plan may change only once a year on January 1.</i></p>

PATH 2

Source: Medicare.gov, October 2018. Numbers reflect 2019 rates.

* The coverage gap, or donut hole, is a temporary limit on what your plan will pay for prescription drug costs. While you're in the coverage gap, you'll pay higher costs until you reach the yearly out-of-pocket spending limit.

** Original Medicare, offered directly through the federal government, is the traditional fee-for-service program. It can also be called Traditional Medicare or Fee-for-Service Medicare. It includes Part A and Part B coverage.

*** If you purchase a Medicare Advantage Plan, you still need (in addition to the premium) to pay Medicare Part B premiums.

Enrollment

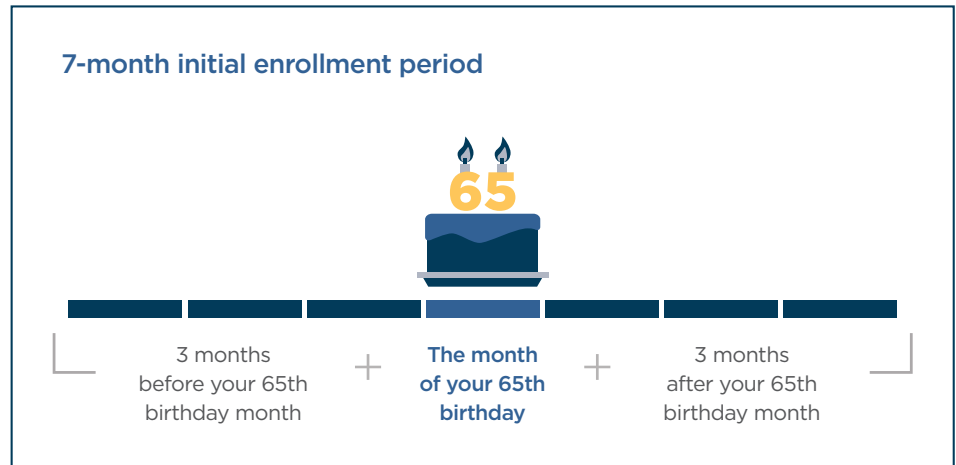
For people to avoid permanent penalties on their Medicare premiums, it's important that they enroll during the initial enrollment period. People who are already receiving Social Security benefits will automatically be signed up for Medicare Part A. Otherwise, a person will have to sign up within the required enrollment period. It is recommended that seniors enroll in Part A even if they are already covered by an employer plan. There are no premiums for Part A, and the enrollee has already paid for it via payroll taxes.

Part B is optional. If a person is still working and receiving health insurance from an employer or a spouse's employer (and the employer has at least 20 workers), that person may choose not to sign up for Part B. However, if the person enrolls later, it may result in a permanent 10% penalty on the premium. In fact, the premium can increase 10% for every 12-month period that a person is eligible but remains unenrolled.

Part D is also optional. If a person already has prescription drug coverage but later loses it, they may sign up for Part D later without a penalty.

Initial enrollment: When a person is initially eligible for Medicare, they have a seven-month period to sign up, also known as the Initial Enrollment Period (IEP), which includes the three months before the birth month through the three months after the birth month.

If a person misses the IEP, he or she can sign up between January 1 and March 31 of each year, and coverage will begin on July 1. Individuals who miss the IEP may have to pay a permanent 10% penalty in addition to their premium.



Special enrollment: Of people who are covered by group health insurance when they turn 65, most do not need to sign up for Medicare Part B upon turning 65. When a person or their spouse retires, is laid off or leaves their employer, an eight-month Special Enrollment Period (SEP) goes into effect after employee coverage stops. This allows a person to enroll without facing the 10% penalty on those who enroll after the IEP.

Annual election: A person can change their Medicare health or prescription drug coverage from October 15 through December 7 each year.

Enrollment if living overseas: Americans living abroad should also sign up for Part A, which covers hospitalization, 100 days of skilled nursing services following a three-night (or longer) stay in a hospital, and limited home health care if certified by a physician. Although doctor and hospital costs incurred in foreign countries are not reimbursed, enrollees will receive Part A coverage if they visit the United States or move back permanently.

Otherwise, retirees living outside the country should either buy a private policy, buy into the government program in the country where they reside or self-insure. Expatriates should check the website of the U.S. Department of State for a list of insurance companies that pay for overseas health services.

What's still uncovered: long-term care

As already noted, Medicare Parts A and B fall far short of providing complete coverage of health care expenses. The retiree must not only cover premiums and deductibles but also co-insurance and other expenses. However, these can be largely covered with Medigap insurance or by opting for Medicare Part C (Medicare Advantage).

The real threat to a retiree's portfolio, however, is long-term care. And for most retirees, some form of long-term care is inevitable. According to the Center for Medicare and Medicaid Services, a 65-year-old has a 70% chance of needing this service at some time.¹¹

Long-term care is a progression of care options ranging from informal assistance provided by friends and family members to full-time

professional care in a residential facility. Today, more than half of all long-term care is informal and unpaid.¹²

Costs for long-term care can be substantial. Nursing home care can exceed \$92,000 annually, but even in-home care can cost more than

\$24,000 a year. Although 43% of care lasts for one year or less, individuals who needed it for more than one year averaged 3.9 years, and 15% needed care for more than five years.¹³ With proper planning, you can ensure that your clients have options for long-term care.

Long-term care costs are substantial

<i>Adult day health care</i>	\$18,379
<i>Assisted living facility</i>	\$46,350
<i>Home health aide services (6.5 hours/day)</i>	\$50,668
<i>Nursing home (Semiprivate)</i>	\$88,348
<i>Nursing home (Private)</i>	\$100,379

Source: "Long-term Care Insurance Statistics," LTC Tree (June 12, 2018).

Covering the uncovered costs

By taking advantage of Medigap insurance and Medicare Part D (drug coverage) or by enrolling in Medicare Advantage, a retiree can cover the bulk of his or her health care costs. But as we have seen, some costs may still be uncovered. Fortunately, advisors can take steps to address this.

¹¹ U.S. Department of Health & Human Services, Administration on Aging, October 10, 2017.

¹² Institute on Aging, 2016.

¹³ "Long-term Care Insurance Statistics," LTC Tree (June 12, 2018).

Estimating the costs for health care and long-term care

Health care and long-term care expenses pose a significant risk to a retiree's portfolio, and planning for them can be a challenge. So it's not surprising that

consideration your clients' current health conditions and family medical background as well as their retirement plans, including where they plan to live. It will also show how your clients' health care spending is likely to change throughout their retirement and estimate their potential costs for long-term care.

them develop a plan that addresses their specific needs. It begins with a fact finder that collects medical and financial information. By taking these factors and life expectancy into account, the assessment can provide an estimate of annual costs for Medicare, out-of-pocket expenses and long-term care.



4 OUT OF **5** PEOPLE

cannot accurately estimate how much they expect to pay for health care in retirement.¹⁴

Nationwide's Health Care/LTC Cost Assessment can help you with this challenge. The assessment will provide a personalized estimate, taking into

The Nationwide Health Care Cost Assessment uses research from one of the world's leading actuarial firms. This helps align anticipated costs with trends in health care spending.

The personalized assessment can help you and your clients better understand how expected health care costs can affect retirement and help

The assessment also provides a listing of estimated expenses by year, including Part B or private premiums, Part D and supplemental insurance premiums, as well as additional costs. A detailed analysis is also provided for three types of long-term care—home health care, assisted living and nursing home care—including an estimate of the age when this care will be needed.

Complete this form and return to the Participant Solutions Center:
INVESTNW@nationwide.com
 Fax: 1-888-807-2140 • Phone: 1-866-975-6363

Health Care/LTC Cost Assessment Fact Finder

Retirement Specialist: _____ Plan Sponsor/Employer: _____
Report type requested: Medicare costs only Long-term care costs only Both

PARTICIPANT CONTACT INFORMATION						
First Name:			Last Name:			
Email:			Phone:		Fax:	
I would like to review the Health Care/LTC Cost Assessment results with a licensed Nationwide representative: <input type="checkbox"/> Yes <input type="checkbox"/> No						

Participant and spouse/partner information								
<small>Couples and partners sharing a household should complete all of the fields below, even if you are planning for only one spouse or partner. The assessment considers the availability of receiving care from a spouse or partner in determining the health care and long-term care cost estimate.</small>								
	First Name	Last Name	Gender	Current Age	Retirement Age	Retirement Location(s)		
						State(s)	City* (Cities)	County
Client								
Spouse/ Partner								

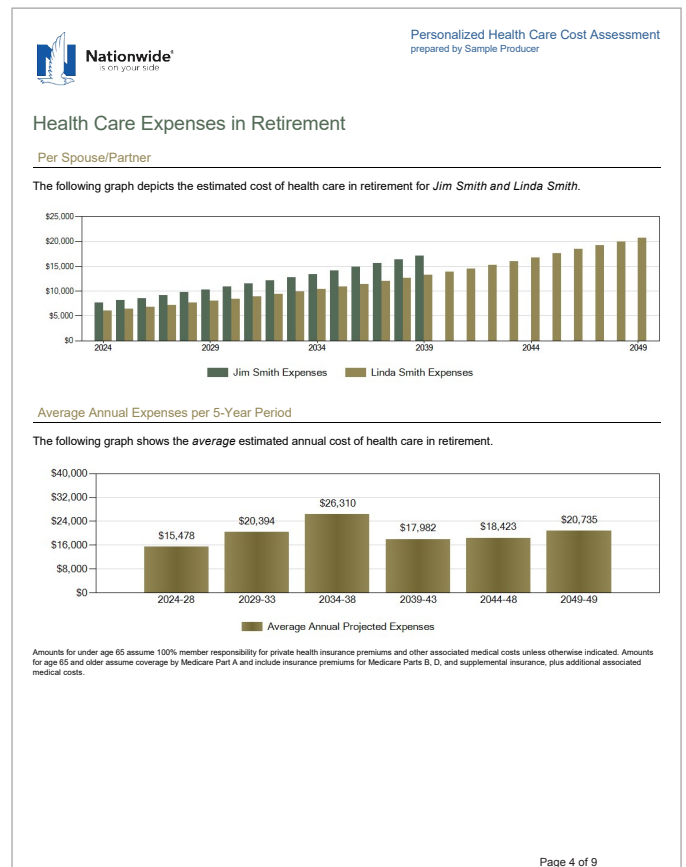
Assessment questions <small>Check Yes or No</small>	Client's response	Spouse's/partner's response
<small>If you plan to retire prior to age 65, will you need to purchase private health insurance?</small>	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
CURRENT HEALTH <small>Assessment is not designed for persons already diagnosed with Alzheimer's, Parkinson's or other disqualifying conditions.</small>		
Diagnosed with high blood pressure?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
Diagnosed with high cholesterol?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
Diagnosed with type 1 diabetes?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
Diagnosed with type 2 diabetes?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
Diagnosed with cardiovascular disease?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
Diagnosed with cancer?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
Diagnosed with multiple sclerosis?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
LIFESTYLE & HEALTH HISTORY		
Currently a tobacco user?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
Dependent on cane, walker or wheelchair?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
Family history of diabetes or cardiovascular disease?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No

Annual income in retirement		
<small>Select the range that best fits your actual or estimated post-retirement income (not your income level before retirement). Use your modified adjusted gross income (MAGI) and assume today's dollars. Your retirement income helps determine the cost for Medicare Parts B & D.</small>		
Married filing jointly: married couples filing a joint tax return	Individual: for single persons filing an individual tax return	
<input type="checkbox"/> \$170,000 or less	<input type="checkbox"/> Individual 1	<input type="checkbox"/> Individual 2
<input type="checkbox"/> \$170,001 to \$214,000	<input type="checkbox"/>	<input type="checkbox"/> \$85,000 or less
<input type="checkbox"/> \$214,001 to \$267,000	<input type="checkbox"/>	<input type="checkbox"/> \$85,001 to \$107,000
<input type="checkbox"/> \$267,001 to \$320,000	<input type="checkbox"/>	<input type="checkbox"/> \$107,001 to \$133,500
<input type="checkbox"/> \$320,001 to \$749,999	<input type="checkbox"/>	<input type="checkbox"/> \$133,501 to \$160,000
<input type="checkbox"/> more than \$750,000	<input type="checkbox"/>	<input type="checkbox"/> \$160,001 to \$499,999
		<input type="checkbox"/> more than \$500,000

Medicare coverage <small>(select only one option)</small>	
<small>All Medicare premiums plus additional medical costs will be used as the default option if no other option is selected. Not required for LTC-only reports.</small>	
Include Medicare parts A, B, & D plus supplemental insurance premiums and out-of-pocket expenses.	<input type="checkbox"/>
Include Medicare parts A, B & D plus supplemental insurance premiums only.	<input type="checkbox"/>
Include Medicare parts A, B & D only.	<input type="checkbox"/>

* City/metro data will be used if available, if unavailable state-wide averages will be used.

Fact Finder



Sample page from Personalized Health Care Cost Assessment Report

¹⁴ Nationwide Financial/Harris Poll survey, November 2016.

Additional health care planning resources

Social Security Administration: Call 1-800-772-1213 for help with Medicare eligibility and enrollment, Part B premiums, Part D Extra Help or Medicare Savings Programs.

Centers for Medicare & Medicaid Services: Call Medicare's customer service line at 1-800-633-4227 for help with Medicare coverage issues and to compare Medicare options and plans.

State Health Insurance Assistance Program (SHIP): Trained counselors in every state offer free, personal help with all Medicare and Medicaid issues. To find the toll-free phone number for your SHIP office, visit the shiptacenter.org or call 1-877-839-2675.

Benefitscheckup.org

Eldercare.gov



Talk to a Nationwide Retirement Specialist to obtain a personalized Health Care/LTC Cost Assessment at 866-975-6363.



• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution • Not insured by any federal government agency • May lose value

This material is not a recommendation to buy, sell, hold or roll over any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. Investors should discuss their specific situation with their financial professional.

Federal income tax laws are complex and subject to change. The information in this memorandum is based on current interpretations of the law and is not guaranteed. Neither Nationwide, nor its employees, its agents, brokers or registered representatives give legal or tax advice.

Nationwide Investment Services Corporation (NISC), Columbus, OH, member FINRA. Nationwide Retirement Institute is a division of NISC.

Nationwide, Nationwide Retirement Institute, the Nationwide N and Eagle and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company. © 2019 Nationwide

NRM-17189AO.1 (01/19)