

The Cost of Medicare During Retirement

This document takes a deeper dive into the potential costs of Medicare under various income scenarios. It also provides some additional detail on the various enrollment periods available and how they apply to the various parts of Medicare.

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There are two primary influences on the cost of Medicare for an individual. The first of these is when the retiree applies for coverage. Eligible Medicare participants can apply for coverage during any of their specific enrollment periods. Enrollment periods are available at different times and are based on a person's age, health and employment (for either the person or the person's spouse). There are 4 different enrollment periods:

- Initial Enrollment Period
- General Enrollment Period
- Fall Open Enrollment Period
- Special Enrollment Period

The primary influence on the cost of Medicare is a variety of demographic information. This information includes their work history, current income level, age, health status, the specific Medicare plan(s) selected and the year in which an individual applies for Medicare. When looking at the total cost of Medicare, there are three main components of expense:

- Premiums
- Deductibles
- Co-Insurance Charges

In addition to the core costs, a person may also incur a late enrollment penalty that will increase the costs of Medicare for either a limited period (Part A) or for the person's lifetime (Parts B and/or D). Late enrollment penalties occur when a person fails to enroll in Medicare during their initial enrollment period and does not qualify for a Special Enrollment Period, or they fail to enroll during their Special Enrollment Period, if eligible.

Below is a summary of the three core costs, the late enrollment penalties and the four enrollment periods for original Medicare, which is comprised of Parts A, B, and D. It should be noted that the costs, enrollment periods and late enrollment penalties for Medicare Advantage plans, an alternative to traditional Medicare, and Medicare Supplement plans, also known as Medigap, are not discussed below. Medicare Advantage Plans and Medigap plans should be evaluated to see how they might be of value to you. Because costs vary so widely based on each state's offerings and your personal circumstances, it is very difficult to analyze them on an "average" basis, which is why they are ignored in this piece.

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2019 Monthly Medicare Premiums (Part A, B and D) per Person							
2017 Adjusted Gross Income (AGI) + Tax Exempt Income			Quarters of Medicare Covered Employment	Part A Premium	Part B Premium	Part D Premium	Total Monthly Premium
Single	Married Filing Jointly	Married Filing Separately					
≤ \$85,000	≤ \$170,000	≤ \$85,000	< 30	\$437.00	\$135.50 ^{1,2}	\$41.21 ³	\$613.71 ⁴
			≥ 30 < 40	\$240.00			\$416.71 ⁴
			≥ 40	\$0.00			\$176.71 ⁴
\$85,001 \$107,000	\$170,001 \$214,000	n/a	< 30	\$437.00	\$189.60	\$53.61	\$680.21
			≥ 30 < 40	\$240.00			\$483.21
			≥ 40	\$0.00			\$243.21
\$107,001 \$133,500	\$214,001 \$267,000	n/a	< 30	\$437.00	\$270.90	\$73.11	\$781.01
			≥ 30 < 40	\$240.00			\$584.01
			≥ 40	\$0.00			\$344.01
\$133,501 \$160,000	\$267,001 \$320,000	n/a	< 30	\$437.00	\$352.20	\$92.61	\$881.81
			≥ 30 < 40	\$240.00			\$684.81
			≥ 40	\$0.00			\$444.81
\$160,000 \$500,000	\$320,000 \$750,000	\$85,000 \$415,000	< 30	\$437.00	\$433.40	\$112.11	\$982.51
			≥ 30 < 40	\$240.00			\$785.51
			≥ 40	\$0.00			\$545.51
>\$500,000	>\$750,000	> \$415,000	< 30	\$437.00	\$460.50	\$118.61	\$1,016.11
			≥ 30 < 40	\$240.00			\$819.11
			≥ 40	\$0.00			\$579.11

Note: In addition to the above, a Medicare Supplement or Advantage plan should also be purchased to cover other out of pocket costs. The potential premium cost will vary widely, depending on where you live and the plan you chose.

¹ Assumes person is not benefiting from the Hold Harmless provision in 2019. Only about 3.5% of Part B enrollees are subject to the hold harmless provision in 2019 and will pay less than the full monthly premium of \$135.50.

² Premium if not held harmless in 2019.

³ US weighted average premium, Source: The Kaiser Family Foundation's *Medicare Part D: A First Look at Prescription Drug Plans in 2019 (Appendix)*. Premiums can vary widely depending on the plan selected.

⁴ Assumes individual is NOT held harmless in 2019.

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2019 Annual Medicare Deductibles (Part A, B and D) per Person

Part A Deductible	Part B Deductible	Part D Deductible	Total Annual Deductible
\$1,364 ¹	\$185	\$415	\$1,964 ²

¹ The Part A deductible applies to each benefit period. A benefit period begins on the day you're admitted to the hospital and ends when you've been out of the hospital for 60 days in a row. It is possible to pay multiple deductibles in a single calendar year.

² The total annual deductible assumes only one Part A deductible is incurred for the year. The maximum annual deductible a person could pay in any given year is \$8,184. Hitting this amount would require payment of six Part A deductibles due to having six different benefit periods.

2018 Co-Insurance Charges (Part A, B and D) per Person

Part A Hospital Co-Insurance		Part A Skilled Nursing Co-Insurance		Part B Co-Insurance		Part D Co-Insurance ¹	
Days	Paid by Insured	Days	Paid by Insured	Assigned*	Unassigned**	Paid by Insured	Dollar Amount
1-60	\$0	1-20	\$0	20% of Medicare Approved Rate	20% of Medicare Approved Rate plus the balance of actual charge, additional maximum of 15%	25% All Drugs	On the first \$3,820 of drug expenses (not out of pocket costs) after the deductible
61-90	\$341	21-100	\$167.50	* Assignment means that your doctor, provider or supplier agrees to accept the Medicare-approved amount as full payment for covered services.		25% Brand Name Drugs 37% Generic Drugs	Until out of pocket costs reach \$5,100 (including deductible)
91-150	\$682	101+	100%	** If assignment is not accepted, costs could be higher. You may have to pay the entire charge at the time of service. Medicare will then bill you for your share of the charge. The provider can charge you more than the Medicare-approved amount, but there's a limit called "the limiting charge." The provider can only charge you up to 15% over the amount that non-participating providers are paid. Non-participating providers are paid 95% of the Medicare-approved fee schedule amount. The limiting charge applies only to certain Medicare-covered services and doesn't apply to some supplies and durable medical equipment.		Greater of 5% of the drug costs or \$8.50 co-pay for Brand Name drugs and \$3.40 co-pay for Generic drugs	On all out of pocket costs in excess of \$5,100
151+	100%						

¹ Varies depending on plan selected. Amounts shown are federally-mandated maximum amounts.

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Premium Penalties (Part A, Part B and Part D)

Medicare	Percentage	Period	Calculated On	Penalty Length
Part A ¹	10%	Per Year ²	Base Premium Amount	Two times the # of years someone was eligible but did not enroll ³
Part B	10%	Per Year **	Base Premium Amount (pre-income test)	Lifetime
Part D	1%	Per Month	Base Premium Amount (pre-income test)	Lifetime

¹ Only applies to individuals that are not eligible for premium-free Part A.

² The Penalty applies for every full year. Months in excess of a full 12 month period are not counted. For example, if a person enrolls in Part B after 32 months, the penalty period will be two years because there are two full 12-month cycles. The remaining 6 months falls off and are not considered in the penalty calculation. If late enrollment occurs within one year of eligibility, there is no penalty.

³ For example, if a person enrolls in Part A after 2 years of eligibility, then the premium penalty will last for 4 years.

Initial Enrollment Period (Part A, Part B and Part D)

Enrollment Month	Coverage Start Date ^{1, 2, 3, 4}
3 Months Prior to 65 th Birthday Month	The Month of 65 th Birthday
2 Months Prior to 65 th Birthday Month	The Month of 65 th Birthday
1 Month Prior to 65 th Birthday Month	The Month of 65 th Birthday
Month of 65 th Birthday	1 Month After 65 th Birthday Month
1 Month After 65 th Birthday Month	3 Months After 65 th Birthday Month
2 Months After 65 th Birthday Month	5 Months After 65 th Birthday Month
3 Months After 65 th Birthday Month	6 Months After 65 th Birthday Month

¹ Coverage starts on the first day of the month.

² Special rule: If a person's birthday is on 1st of the month, then the Initial Enrollment Period is moved up one month and the Coverage Start Date is 1st day of previous month.

³ Part B Exemption: Current workers and spouses of current workers who are covered by a comprehensive employer group health plan through an employer with 20 or more employees may not need to enroll in Medicare during the Initial Enrollment Period and may be eligible for a Special Enrollment Period.

⁴ Part D Exemption: Individuals who have a prescription drug plan that is considered creditable may be eligible for a Special Enrollment Period.

General Enrollment Period (Part A and Part B)

Enrollment Months	Coverage Start Date ^{1, 2}
January 1 st – March 31 st	July 1 st

¹ Enrollment during the General Enrollment Period may lead to late enrollment penalties, resulting in higher premium payments. The late enrollment penalties vary, depending on which part of Medicare someone is enrolling in.

² These rules may not apply if you are switching *from* Medicare Advantage or *to* Medicare Advantage.

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Fall Open Enrollment Period (Part D)

Enrollment Date	Coverage Start Date ^{1, 2}
October 15 th – December 7 th	January 1 st

¹ Enrollment during the Fall Open Enrollment Period may lead to late enrollment penalties, resulting in higher premium payments. The late enrollment penalties vary by Medicare Part.

² These rules may not apply if you are switching from a Medicare Advantage Drug Plan or to Medicare Advantage Drug Plan.

Special Enrollment Period (Part A, Part B and Part D)

Eligible Applicants			Enrollment		Coverage Start Date
Part A	Part B	Part D	Begins	Ends	
				Parts A & B	Part D
		Individuals who have purchased prescription drug coverage that is considered "creditable".	The month the coverage ends		
		A person chooses to enroll in an employer or union sponsored Medicare Drug Plan.	The same period of time when the employer allows the employee to make changes to the employee's group health care coverage	8 months after the month in which coverage ends	63 days after the month coverage ends

* The table above is reflective of the most common reasons for a Special Enrollment Period (SEP).

** This list is not a complete list. There are 18 reasons that establish a SEP for Medicare Advantage and Part D plans. For a complete list and breakdown of the reasons an individual might qualify for a Special Enrollment Period (SEP) for Part D and Advantage plans, please go to http://www.medicareinteractive.org/uploadedDocuments/mi_extra/SEP-Chart.pdf. For additional information on Part B SEPs, please go to <http://www.medicarerights.org/PartB-Enrollment-Toolkit/PartB-Special-Enrollment-Period.pdf>.

*** The length of the Special Enrollment Period (SEP) and the coverage start date depend on the reason for the SEP.

Baird does not offer tax or legal advice. Please consult your tax professional or attorney to discuss your individual situation.