Personal Financial Planning

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Into the Medicare Maze: Decisions Facing Seniors

Because health care costs can have serious detrimental effects on savings and lifestyle, understanding what Medicare covers and the difference between Medicare supplements and Medicare Advantage plans is an essential part of helping clients with retirement planning.

Medicare Basics

Medicare allocates coverage into Parts A, B, C, and D. It is useful to think of Part A as covering hospitalization, Part B as covering physicians and other out-of-hospital fees, and Part D as covering drug prescription plans. Part C covers what are called Medicare Advantage plans. Participants in Advantage plans sign up to have all of their Part A and Part B coverage handled by one company. Advantage plans frequently include some sort of prescription coverage.

Medicare, like most insurance, does not cover everything. As a result, insurance policies, called Medigap policies or Medicare supplement policies, are available to cover required coinsurance payments, copayments, and deductibles.

Caution: It is important to underscore that Medicare Advantage plans and Medigap insurance policies are mutually exclusive. There is no situation in which a senior would be covered by both. A careful evaluation of client needs—including what plans their doctors accept and what medications they take—is invaluable in the decision process.

Understanding Supplemental or Medigap Policies

Throughout the 1980s, insurance companies sold a variety of plans that were confusing and difficult to compare. Consequently, seniors were often sold multiple, redundant policies. Congress stepped in and had the National Association of Insurance Commissioners (NAIC) develop a set of standardized plans. These standardized plans became the model for state law, which has been adopted by all but three states (Wisconsin, Massachusetts, and Minnesota). The NAIC categorized the supplement plans based on the coverage and gave each category a letter. They labeled the plans A–J, with plans in the later letters generally including more coverage. Currently, there are 12 plans (A–L). The government puts out an excellent document describing the coverage provided by the various plans currently in place. (See Centers for Medicare and Medicaid Services and NAIC, "Choosing a Medigap Policy: A Guide to Health Insurance for People with Medicare," www.medicare.gov/publications/pubs/pdf/02110.pdf.)

Just to throw a wrench into the works, one more important factor must be

considered: Not all plans are available in all areas. Depending on where a person lives, he or she may or may not be able to sign up for the desired supplemental coverage.

Pricing Supplemental Policies

Pricing of comparable plans will vary. The cost for the plans will be different for each company depending on the efficiencies and motives of the company. Medicare permits insurance companies to use one of three pricing methods. How the pricing methods work is determined by the state.

How Does a Senior Enroll in a Medigap Policy?

Seniors benefit by signing up for Medigap insurance during the first open enrollment period, which occurs for six months after they turn 65. In order to enroll, they must also be already enrolled in Medicare Part B. Enrollment in Part B can occur starting three months before the senior turns 65. Subsequent open enrollment periods occur every year. Seniors will want to enroll in the first enrollment period because during this period an insurance company cannot:

- Deny a person any Medigap policy it sells;
- Make a person wait for coverage to start; or
- Charge a person more for a policy because of health problems.

Long-Term Care

This column started by mentioning the devastating effect uncovered health costs can have on retirement savings. Remarkably, seniors seem to be primarily concerned about having sufficient acute care hospitalization coverage. However, the chances of needing longer-term acute care hospitalization are far less than those of long-term care/extended care/custodial care. Based on statistics, one writer has calculated that a 90-day custodial care stay is 1,200 times more likely than a 90-day stay in an acute care hospital. The same writer also calculates that long-term care expenditures are six times more expensive than the average annual amount a senior spends on medical care (Day, "Medicare Supplements, Advantage Plans and Part D Prescription Drug Plans," National Care Planning Council, www.longtermcarelink.net/eldercare/medicare_supplements.htm).

It should be pointed out that long-term care coverage is not included with group or employer-paid plans, so Medicare is not unique in not covering it. In addition, many think that by buying a Medicare supplement, they will be protected from anything Medicare does not cover. However, if Medicare is not involved, the supplemental policies do not provide any coverage either. In other words, if Medicare does not cover any portion, neither does the supplement. Medicare Advantage plans, while frequently adding in extras, would not be expected to include coverage of anything beyond what basic Medicare would include.

Medicare Part D: Prescription Drug Plans

Wisconsin Insurance Commissioner Sean Dilweg testified before the House Ways and Means Subcommittee on Health about "bait and switch" abuses (Testimony of Sean Dilweg, Wisconsin Insurance Commissioner, Before the United States Ways and Means Subcommittee on Health Regarding: Medicare Advantage Private Fee-for-Service Plans, http://oci.wi.gov/srissues/testimony_05_22_2007.pdf). He testified that insurance agents persuaded seniors to sign up for Medicare Advantage plans when in fact they thought they were signing up for Medicare Part D, the drug prescription coverage. Prescription drug plans (PDPs), like Medigap plans in the 1980s, simply confused seniors. It is not clear what the different plans cover.

Consequently, seniors cannot accurately decide which plan will work best for them. According to AARP, "There are big differences in premiums and deductibles, the drugs that plans cover, the copays they charge and the pharmacies they use. Those differences are important to know when choosing a plan" (Barry, "Medicare Prescription Drug Coverage: Part I," *AARP Bulletin Today* (October 24, 2008)).

While region, drug coverage, and pharmacy access all enter into a senior's decision, perhaps the most notable and most publicized problem with the PDPs is that of the "doughnut hole," a gap in coverage that occurs when a person's drug expenditures reach a certain level. In 2006 that level was $2,250. Once the person reaches that level, there is no additional coverage until the drug expenditures have reached $5,100, considered the "catastrophic" phase of coverage. This can be a huge surprise to a person, though Medicare does try to help families caught in the doughnut hole and has some suggestions on how to lower drug costs during the coverage gap (Department of Health and Human Services, "5 Ways to Lower Your Costs During the Coverage Gap," www.medicare.gov/bridging-the-gap.asp). Seniors with diabetes or those who have multiple chronic illnesses are most likely to find themselves caught in the doughnut hole (Zhang et al., "The Effects of the Coverage Gap on Drug Spending: A Closer Look at Medicare Part D," 28 *Health Affairs* w317 (March/April 2009)).

Medicare Advantage Plans

Medicare Advantage Plans, or Medicare Part C, generally cover a senior for all Medicare-covered health care, with some including prescription drug coverage. Such plans can be:

Who Is Eligible for Medicare?

Generally, you are eligible for Medicare if you or your spouse worked for at least 10 years in Medicare-covered employment and you are 65 years or older and a citizen or permanent resident of the United States. If you are not yet 65, you might also qualify for coverage if you have a disability or end-stage renal disease (permanent kidney failure requiring dialysis or transplant).

Source: www.medicare.gov/MedicareEligibility/

- Medicare health maintenance organizations;
- Preferred provider organizations;
- Private fee-for-service plans; or
- Medicare special needs plans.

While these plans can often offer extra benefits and lower copayments than the original Medicare plan, the participant may have to see the doctors that belong to the plan and use specific hospitals.

What Other Medicare Issues Need to Be Considered?

With both Medicare Part D and Medicare Advantage Plans, there is considerable confusion in the market. In fact, Sean Dilweg compared the current confusion and abuse in the marketing of Advantage plans with the marketing of Medigap plans in the 1980s (Testimony of Sean Dilweg Before the United States Ways and Means Subcommittee on Health at 9). He pointed out that this also seems to be the experience of many other state insurance commissioners. These are the same kinds of abuses that brought about the standardization of the Medigap plans.

Dilweg also pointed out that the Medicare Modernization Act of 2003, P.L. 108-173, significantly set back the ability of state insurance regulators to regulate marketing and sales standards for both Medicare Advantage plans and Medicare Part D plans. The standardization of the Medigap plans was a good thing, making comparisons easier; unfortunately no such protection exists for seniors when it comes to Medicare Advantage or Medicare prescription drug plans.

What Is a Senior to Do?

President Obama has stated that health care reform is not just a moral imperative but also a fiscal one (Shear and Vargas, "A Pitch on Health Care to Virginia and Beyond," *Washington Post* A3 (July 2, 2009)). Medicare coverage will be part of that reform. In the meantime, more baby boomers are turning 65 and facing a maze of choices. Many are unaware of all the programs available and how to compare them effectively, and they can become victims of unscrupulous insurance companies.

This column simply begins to explore issues that seniors face. The Medicare, Medicare supplements, Medicare Advantage, and prescription drug plans are complicated enough. With the added financial risks of extended care, it is easy to see why seniors need to weigh their choices very carefully.

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EditorNotes

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